

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2010.

or

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 33-16531-D

INTERNATIONAL AUTOMATED SYSTEMS, INC.

(Name of small business issuer in its charter)

Utah

State or other jurisdiction of incorporation or organization

87-0447580

I.R.S. Employer Identification No.

326 North SR 198, Salem, Utah 84653

(Address of principal executive offices)

Registrant's telephone number, including area code: (801) 423-8132

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class

N/A

Name of each exchange on which registered

N/A

Securities to be registered under section 12(g) of the Act: None

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Check if disclosure of delinquent filers in response to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No



State the registrant's net revenue for its most recent fiscal year: \$0.00. The aggregate market value of voting stock held by non-affiliates of the registrant on June 30, 2010, was approximately \$10,567,900

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of September 30, 2010, there were 42,075,271 outstanding shares of registrant's Common stock, no par value per share.

Documents incorporated by reference: Exhibits

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**PART I****Forward-Looking Statements**

In this report, references to "International Automated Systems," the "Company," "we," "us," and "our" refer to International Automated Systems, Inc.

This annual report on Form 10-K contains certain forward-looking statements and for this purpose any statements contained in this annual report that are not statements of historical fact are intended to be "forward-looking statements" with the meaning of the Private Securities Litigation Reform Act of 1995. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within our control. These factors include but are not limited to economic conditions generally and in the markets in which we may participate, competition within our chosen industry, technological advances and failure by us to successfully develop business relationships.

We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, are based on certain assumptions and expectations which may or may not be valid or actually occur and which involve various risks and uncertainties.

Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

**ITEM 1. DESCRIPTION OF BUSINESS****THE COMPANY**

Exact corporate name:	International Automated Systems, Inc.
State and date of incorporation:	Utah- September 26, 1986.
Street address of principal office:	326 North SR 198 Salem, Utah 84653
Company telephone number:	(801) 423-8132
Fiscal year:	June 30

International Automated Systems, Inc. ("the Company"), was organized under the laws of the State of Utah on September 26, 1986. In April 1988 the Company filed a registration statement for a public offering under the provisions of the Securities Act of 1933 ("1933 Act") to sell a maximum of 1,074,000 units at a price of \$.50 per unit. Each unit was comprised of one share of common stock and one common stock purchase warrant. The Company sold approximately 200,000 units at the offering price of \$.50 per unit realizing total proceeds of approximately \$100,000. All warrants expired without exercise.

Over time, the Company, for the most part, has acquired its technologies from its president.

**OVERVIEW**

International Automated Systems, Inc., a Utah corporation (hereinafter "Registrant" or "Company") based in Salem, Utah, seeks to design, produce and market leading edge technology products. The Company has a production model of a patented turbine which uses the expansion of steam to generate a rotational force. This force can then be used to generate power. The Company feels the turbine could be used in, but not limited to, the production of electricity, hydrogen or in the transportation industry. Though some testing has been done using pure steam and geothermal steam, more testing will be done. There are risks that a commercial turbine may never be accepted.

The Company has an Alternate Solar Energy Thermal System ("System") which can be used in conjunction with the Company's bladeless turbine to generate power. The system tracks the sun as it concentrates the solar energy onto a receiver and this energy is captured and used to propel the bladeless turbine. A typical System will use multiple concentrators to supply a single turbine.



The Company has developed an automated self-service check-out system and management software. This system allows retail customers to ring up their purchases without a cashier or clerk. The system is primarily designed for grocery stores, but may be applicable in other retail establishments.

The Company has an Automated Fingerprint Identification Machine ("AFIM") which has the capability of verifying the identity of individuals. Potential AFIM applications include products for employee time-keeping and security, access control, and check, debit or credit card verification. The Registrant purports that its identity verification system has a variety of uses and applications for both commercial and governmental users. The Company also purports that it has developed technology that transmits information and data using different wave patterns, configurations and timing in the electromagnetic spectrum. The Company refers to this technology as digital wave modulation ("DWM"). The Company believes that if the technology is implemented and applied commercially, the technology has the capability to significantly increase the amount of information which can be transmitted. The Company is continuing the development of this technology and the commercial feasibility of the technology has not been demonstrated. The Company believes it has many competitors in the communications, information data transfer and data storage industries which have greater capital resources, more experienced personnel and technology which is more established and accepted in the market place.

The first anticipated product using this technology for commercialization is a high-speed modem. The modem is projected to be faster than modems currently in use. Generally modems are used for purposes of transmitting data over telephone lines, on telecommunications systems and over wireless mediums such as satellite transmissions and other line- of-sight transmission mediums. The Company has a modem prototype. Additional development to achieve a commercial product is on going. In addition, the Company intends to apply the digital wave modulation technology in other areas. The Company has not established a plan or order of priorities for any future commercial product development. Because this technology is sophisticated and new, the Company may not be successful in its efforts to have commercial exploitable products because of difficulties and problems associated with development. Possible problems could be inability to design, construct and manufacture commercial products; and the Company's lack of funding and financial resources and experienced personnel. Competitors may develop technologies which are superior and will make the DWM technology obsolete even before the Company has completed its development of any commercial products. Cost will also be a factor in both the development and the commercialization of any new product. It is anticipated that if a commercially viable modem is developed, the Company will have to expend funds to develop a marketing plan and introduce the product into the market. Costs to offer new products and to establish the proper marketing strategy will be significant. The Company has not made any projections regarding any anticipated costs.

There are risks that no commercially viable products will be developed from the technologies and any products developed may not be accepted or successful in the marketplace. In addition, the Company may not have sufficient funds to develop, manufacture and market any products.

#### Propulsion Steam Turbine

The Company has a new patented bladeless turbine production model. It uses the expansion of steam, through propulsion, to create a rotational force.

The production model has been tested using pure steam created by a gas heat exchanger. The Company feels their propulsion design has many advantages over current bladed turbines. The Company believes their turbine is at least as efficient as traditional turbines, is smaller in size, requires less maintenance, is mass producible and therefore less expensive to manufacture. It also doesn't require cooling towers, thus making it more mobile, more economical and water conserving.

The Company believes that the turbine will be marketable in the utility power industry, hydrogen production and transportation. There are also risks that the Company will not be able to manufacture a commercially marketable turbine because of lack of financing, government interference, industry non-acceptance or many other conditions not under the Company's control.

The Company has a model of a System which can be used to produce steam to drive the Company's bladeless turbine. The Company believes that the possible advantage over other similar systems is the Systems ability to be mass produced, thus reducing its overall cost as compared to other systems. The Company has developed proprietary structural and lens designs in preparation for mass production of the System.

#### Automated Self-Service Check-Out System

In 1988 a patent was granted for the automated self-service check-out system (hereinafter referred to as the "Self-Check System"). In





### Description of the Self-Check System.

The Self-Check System is an automated check-out system for customers of retail establishments and provides for self-service check-out lines, stations or lanes. The Self-Check System has a scanner to read the bar codes of items purchased and a scale to weigh the items scanned and placed in the receiving basket. As each item is scanned by the bar code reader, the scale verifies the accuracy of the item scanned and placed in the basket by comparing the weight of the item scanned with the weight change recorded in the receiving basket. If the weights differ or if other problems arise, a clerk is summoned to assist the customer and resolve any problem.

The Self-Check System is designed to replace clerk operated cashier registers that are used in retail and grocery stores. In addition, the Self-Check System, when fully and completely implemented, is intended to allow a store manager to maintain accurate inventory on a contemporaneous basis. The contemporaneous inventory assists in reordering and restocking. It is believed that the System may simplify price verification and may provide customers with better and faster service.

### *Operation of Self-Check System*

The Self-Check System operates as follows. Customers make their selections for purchase. A customer places the grocery cart at the head of the System, removes the products from the grocery basket and scans the bar codes on the products across the reader. The bar code provides, as a data base index, the product description, weight and price. This information is then relayed on an item by item basis to the computer and the computer transmits the data in its memory to the check-out terminal. The product information, item description and price, are then displayed on the screen. A running subtotal for all items purchased is also shown. Each item scanned is placed into a receiving basket or cart on a sensitive scale. The weight of the item scanned and placed in the receiving basket is compared to the weight for that item as recorded in the computer. The computer compares the weight of the scanned item with the weight for that item in the database. If the weight differs, an error code is displayed and an attendant is summoned to assist the customer or to override the System. Once all the items are scanned, a final tally is made. Payment is then made to the attendant either through a debit or credit card, check or cash. A payment may also be made without an attendant through the use of the "AFIM" which will verify the identity of the person making the transaction and automatically debit their account electronically.

The Self-Check System interfaces with computers and data is transferred back and forth between the check-out terminals and the main computer. The interface may be compatible with various scanners and scales so the Self-Check System may be adaptable to equipment already from other manufacturers. The System allows one clerk to handle simultaneously multiple check-out stations or lanes.

### *Possible Advantages.*

Management believes the Self-Check System may have several possible advantages over conventional retail check-out systems to operators and customers. For operators the advantages are: reduced labor costs, more accurate inventory, theft reduction, theft deterrence, decreased check fraud, and decreased transaction costs. Also, the retailer can serve more customers during peak traffic. For customers the advantages are: faster service, greater convenience, less time waiting in line and more privacy. A retail establishment may not need as many cashiers with the Self-Check System.

Management believes that the market for the Self-Check System may include several types of retail establishments, including grocery stores, drug stores, discount stores and fast food restaurants. If operating properly the Self-Check system lessens the impact of having too many attendants or cashiers available. Customer traffic volume is difficult to predict and retail operators wanting to reduce the time customers wait in line must have sufficient clerks or cashiers available.

The Self-Check System uses proprietary software developed by the Company. The Self-Check System also offers a hand-held unit to be used for price verification and taking physical inventory counts. The hand-held unit reads the bar codes and verifies the price in the database. This hand-held unit also is used to take physical counts for inventory control. The System may also include a check-in station at the loading dock. Items delivered are checked and the prices verified against purchase orders allowing greater control. Price verification can be done using the hand-held unit while the products are on the shelf.

For the Self-Check System to operate efficiently at least 95% of the items offered for sale must have bar codes. In the past few years virtually all packaged goods have bar codes. Items purchased across the counter, such as bakery, meat and deli products usually have no bar code. Grocery stores or other retail operations using the Self-Check System may have to install scales and labelers to place barcodes on items with no bar code. As an option the Company offers scales and labelers for produce and delicatessen items which interface with the Self-Check System. Management believes that the Self-Check System may help reduce theft. For instance, one clerk cannot check-

out another clerk's or friend's purchases using incorrect and understated prices. A portion of the theft in supermarkets is attributable to employees doing what is called "sweet-hearting" by checking out the purchases of other employees or friends at reduced prices.

Another market being tested is automatic ordering and payment for use in restaurants and fast-food establishments. Where the customer would use a touch screen, connected to a computer, to place an order, pay for the order with cash, check, credit, or debit card using the Company's technologies including AFIM and then have the order automatically sent to the cook for preparation.

### *Competition*

Competitors offer a similar Self-Check System. The success of these other entities and the system used may, individually or collectively, significantly affect the Company's attempt to commercialize its Self-Check System. The Company has no market studies to determine its relative position with its competitors in the market place. Some competitors have been in business longer, have more experienced personnel, have greater financial resources and better name recognition in the marketplace.

### Automatic Fingerprint Identification Machine.

The company has an Automated Fingerprint Identification Machine ("AFIM") which verifies an individual's identity. The AFIM digitizes the unique characteristics of a person's fingerprint and then stores the information on a magnetic strip similar to the strip on the back of a credit card or on other storage medium. The identity verification process is simple, quick, easy, and reliable. AFIM connects to and operates with a personal computer. AFIM has unique software. Management believes that AFIM is better than other bio-metric and fingerprint based identification systems. The Company is continuing to make modifications to the AFIM technology to increase the speed and to reduce the cost and size of the units.

### *Operation.*

To use the AFIM the person whose identity will be verified has the fingerprint read by the AFIM. The finger is placed on the lens and AFIM reads the print, digitizes, and stores the digitized fingerprint. To verify a person's identity AFIM reads the fingerprint and compares it to the digitized fingerprint on the magnetic strip or other storage medium. A match verifies the person's identity. The AFIM is connected to a personal computer which processes the information read by the AFIM and makes the comparison to the digitized fingerprint on the magnetic strip or other storage medium. The Company believes that it has the ability to connect AFIMs in series so that multiple stations or readers can be connected and operated by a single personal computer.

### *Possible Commercial Applications.*

Different commercial applications of the AFIM are under development. One application is a time clock. The digitized fingerprint stored on the magnetic strip on the back of a card like a credit card must match the person's fingerprint that is recording his arrival at or departure from the workplace. Because the AFIM system validates the identity of the person using the time clock, fellow workers can not make in or out entries for other workers.

Also, AFIM with appropriate software may be used with a database of fingerprints. The fingerprint is read by the AFIM and then verified against the database for identification and, where appropriate or required, for access control purposes. Searching the database requires additional time to verify the identity of the individual using the fingerprint stored in the database. To date the full marketing of the AFIM time clock has been delayed as development of the product is continuing and modifications to the AFIM are made.

The Company has no comprehensive study or evaluation to determine the reliability of the AFIM or the frequency of false positives. A false positive is where a verification is sought and the person is identified as correct when it is not the person claimed. Management believes, based on the limited experience available, that AFIM does not yield false positives or false negatives at unsatisfactory levels.

Another application of the AFIM technology is door or entry security. The AFIM would read a card on which the fingerprint of the person seeking entry would be encoded. The fingerprint of the person seeking entry as read by the AFIM would have to match the fingerprint digitized and encoded on the card. To be successful the Company believes that the door security adaptation must be compatible with or adaptable to other door entry security systems already in place.

Another application of the AFIM technology is a vending machine which will allow items to be purchased which now require age and identity verification.

Another product based on AFIM technology is identity verification on computer networks or identification when data is transmitted or accessed. The AFIM would read the fingerprint to validate the identity of the user. Depending on the system protocols the person would then be allowed access to data, files, information or programs. Also, the identity verification, if development is completed, may validate the identity of the person either receiving or sending information.

Another application of the AFIM technology is fingerprint secured financial transactions. A card user designates which personal account he/she would like to use. Upon positive AFIM verification, the Company's software sends the transaction information via ACH protocols to the Company's bank and the Company's bank debits the customer's bank account. The funds are then deposited into the participating retailer's account.

For future development and possible commercialization of the AFIM technology and the possible application the Company may attempt to enter into licensing agreements or joint ventures. Presently the Company is merely considering the possibility of licensing agreements or joint venture agreement. At this time there are no agreements to which the Company is a party for licensing, royalties or joint venture projects.

#### *Competition.*

The AFIM based products compete with a broad spectrum of products which verify identity. Competitors offer products based on some form of bio-metrics. Some competitors offer fingerprint based systems. The success of these other entities and the system used may, individually or collectively, significantly affect the Company's attempt to commercialize AFIM. The Company has no market studies to determine its relative position with its competitors in the market place. Some competitors have been in business longer, have more experienced personnel, have greater financial resources and better name recognition in the marketplace.

#### *Possible Advantages.*

The Company believes that the AFIM products will be quicker, more reliable, and more cost-effective than other identification systems. The Company has no empirical data or statistics to support its belief.

#### Digital Wave Modulation Technology.

Digital Wave Modulation ("DWM") technology may provide a new way of transmitting data. Basically different wave patterns are generated on the magnetic spectrum which may increase flows of data and information transmission and communication. More data will be transmitted in a shorter time period and speed may be increased.

DWM technology is based on the transmission of symmetrical, asymmetrical, and reference waves that are combined and separated. The Company has a modem prototype that has the capability of sending and separating combined multiple waves. Depending upon frequencies and other factors, the Company believes it can achieve transmission rates in excess of modems currently in use. Data transmission speed will depend on such factors as the transmission medium, frequencies used and wave combinations. The rate of data transmission varies significantly depending on the communication medium used. When using plain old telephone system commonly known as "POTS", transmission rates will be slower. DWM is not compatible with the technology used in other modems.

DWM can be used to transmit over any analog media including wireless. Because wave frequencies may be higher when sent through the air, wireless data transmission using DWM technology may transmit information at higher rates.

Preliminary evaluations indicate that DWM technology may be used for data storage media which are magnetic based, such as floppy disks, hard drives, video cassettes, tapes etc. Because various forms of magnetic media store in analog format, DWM may increase the storage capacity of some magnetic based devices. DWM storage enhancement applications have not been fully developed and tested and may ultimately prove infeasible and impractical.

DWM must be developed from a prototype to a commercially viable product. Even though the Company has a prototype, the Company makes no assurance that the DWM technology can be developed into a commercially viable product or products.

If the research and development of the modem is successful and the Company then has a commercially viable product, the Company will consider various alternatives. It may seek a joint venture partner or it may license the technology to another company and attempt to structure a royalty payment to the Company in the licensing agreement. No plan has been adopted regarding the manufacturing,

marketing, or distributing of the modem, when and if commercialization is achieved. No assurance can be given that the commercialization efforts for the modem will be successful or that the Company will be able to effectively penetrate and capture a share of the modem market. Any possible ventures are predicated on the Company developing a commercially viable product. Presently, the Company's efforts regarding DWM are directed primarily toward the DWM modem.

Management believes that because of the increased amount of information that can be transmitted, other applications in the telecommunications industry may be feasible and beneficial. Again because of the sophisticated and high technology nature of this technology other applications may not ultimately be successful.

The Company is a development stage company and its business is subject to considerable risks. The Company's activities have not developed sufficient cash flows from business operations to sustain itself. The Company is small and has an extremely limited capitalization. Many of its actual and potential competitors have greater financial strength, more experienced personnel and extensive resources available. Also, the Company is engaged in technological development. It is expensive to do research and development on new products or applications of new or existing technology. Resources can be used and depleted without achieving the desired or expected results. Also, because of the rapid development of technology, the Company's products may become obsolete. Some of the Company's technology is revolutionary in that it is based on unconventional technological theories. The Company's business activities are subject to a number of risks, some of which are beyond the Company's control. The Company's future is dependent upon the Company developing technologically complex and innovative products. The Company's future depends on its ability to gain a competitive advantage. Product development based on new technology is complex and uncertain. New technology must be applied to products that can be developed and then successfully introduced into and accepted in the market. The Company's results could be adversely affected by delay in the development or manufacture, production cost overruns and delays in the marketing process.

To the extent that this report contains forward-looking statements actual results could vary because of difficulties in developing commercially viable products based on the Company's technologies. The Company undertakes no obligation to release publicly the revisions of any forward-looking statements or circumstances or to report the non-occurrence of any anticipated events.

Management of the Company has had limited experience in the operation of a public company and the management of a commercial enterprise large in scope.

The Company's business, if its technological development is successful, will require the Company to enter new fields of endeavor and even new industries. Entry into new markets will have many risks and require significant capital resources. If the Company seeks funds from other sources, such funds may not be available to the Company on acceptable terms. Success will be dependent on the judgment and skill of management and the success of the development of any new products.

The Company's success depends, and is expected to continue to depend, to a large extent, upon the efforts and abilities of its managerial employees, particularly Neldon Johnson, President of the Company. The loss of Mr. Johnson would have a substantial, material adverse effect on the Company. The Company has entered into an agreement with Neldon Johnson to act as President and Chief Executive Officer for a period of ten years beginning in July 2000.

The Company is not insured against all risks or potential losses which may arise from the Company's activities because insurance for such risks is unavailable or because insurance premiums, in the judgment of management, would be too high in relation to the risk. If the Company experiences an uninsured loss or suffers liabilities, the Company's operating funds would be reduced and may even be depleted causing financial difficulties for the Company.

#### Patents and Trade Secrets.

The Company has been assigned or will be assigned the rights to several U.S. patents. Four patents pertaining to the AFIM technology granted January 1997, February 2001, July 2001, and September 2002, seven patents relate to the DWM technology granted May 1996, June 1997, November 1997, July 2000, September 2000, October 2000, and May 2001, one patent pertaining to shelf tag granted September 2003, and four patents relating to the turbine granted March 2003, January 2004, February 2006 and November 2007. One patent pertaining to the solar energy technology granted in October 2007.

The Company has not sought or received an opinion from an independent patent attorney regarding the strength of the patents or patents pending and the ability of the Company to withstand any challenge to the patent or any future efforts by the Company to enforce its rights under a patent or patents against others. One of the AFIM patents was deemed invalid per a court decision in January 2008. See further discussion in Item 3.



The Company believes that it has trade secrets and it has made efforts to safeguard and secure its trade secrets. There can be no assurance that these safeguards will enable the Company to prevent competitors from gaining knowledge of these trade secrets and using them to their advantage and to the detriment of the Company.

The Company relies heavily on its proprietary technology in the development of its products. There can be no assurance that others may not develop technology which competes with the Company's products and technology.

#### Future Funding

Because the Company is a development stage company and currently has no revenue, it will continue to need additional operating capital either from borrowing or the sale of additional equities. The Company has no present plans to borrow money or issue additional shares for money. However, shares have been sold from the escrow accounts and it is anticipated that additional shares will be sold from the escrow accounts. In the past, the Company has received funds from its president and his relatives in the form of cash advances. The Company received \$498,082 in cash advances from its president during the year ended June 30, 2010. The cash advances are unsecured, payable on demand and non-interest bearing. No assurance can be given that the Company will continue to receive funds from its president. No agreements or understandings exist regarding any future contributions. In addition, during the year ended June 30, 2010, the Company settled \$400,000 of the cash advances by issuing 1,000,000 shares of common stock to the officer upon the exercise of warrants; and the Company repaid \$104,432 of the cash advances. As of June 30, 2010 and 2009, the cash advances, included in the related party payable balance, was \$434,032 and \$440,382, respectively.

#### General

From its inception the Company's primary activity has been the development of different technologies. Since its formation, the Company has developed technologies which are in different stages of development. To date the Company has not marketed a commercially acceptable product.

#### Employees

The Company has twelve full-time employees. Our employees are not represented by any labor union, and we believe our relations with employees are good.

#### Company Headquarters

The Company's office is located at 326 North SR 198, Salem, Utah 84653. The Company's office and warehouse cost \$12,200 per month and are rented from the Company's president and a third party. The monthly rent includes a 200 square foot office space.

#### Warranty

The Company warrants that its System will remain in good operating condition for a thirty-five year period commencing on the installation date and that it will be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work during that period.

#### Marketing

The Company has not finalized its marketing strategy for all its products at this time.

The Company has received deposits of \$2,360,250 from parties toward the purchase of approximately 270 Systems.

For the AFIM and DWM technologies the Company has not determined any definite marketing plan.

The Company may seek joint venture partners, may license the product to others or may seek to establish distribution channels. It is anticipated that any marketing efforts will require time and capital to develop.

## Competition

Because the Company's products are distinct, its products will face different competitive forces.

The Bladeless Turbine and System has competition from larger well-established companies that already have a history and name recognition. Though the turbine has many potential uses, especially in the area of electrical generation, there is no assurance that the marketing strategies will be successful.

AFIM competes with all forms and systems of identity verification. End users have different needs including cost, sophistication, degree of security, operational requirements, time for individual verification and convenience. The Company believes that no firm dominates the identity verification market.

If the Company successfully completes the development of a commercially viable modem, the Company will face competition from large, well-established firms. These firms offer products with immediate name recognition and are established in the market place and are compatible with other modems. The Company believes because of the speed at which its modem may operate it may have a competitive advantage. The Company has no marketing studies or market research reports to determine the acceptance of the modem in the market place or the best marketing strategy to follow. Further, no assurance can be given that the Company will be successful in its further development of the DWM products.

The Company has no market share for any products at this time.

In marketing the Self-Check System the Company faces competition from major companies with established systems in the point of sale terminal market. Overcoming reluctance to change may be difficult. In addition, the System may not be compatible with or applicable to all types of retail operations.

The Company may rely on prospects known to management or developed by word of mouth. The Company may develop a franchise program as a means to market and distribute the Self-Check System or OrderXCEL system.

## Manufacturing and Raw Materials

The manufacturing of the turbine and System has been done mostly by the Company up to this point, but if needed, the design could easily be outsourced. If marketing efforts succeed and demand for the turbine and System increase, the Company plans to have them manufactured by established companies in their fields, with much of the assembling done on site.

Management believes that the supplies and parts are readily available from sources presently used by the Company or from alternative sources which can be used as needed. The Company has no backlog.

## Research and Development

The Company's primary activity is the development of its technologies. The industries may be subject to rapid and significant technological change. Future growth for the Company may be dependent on its ability to innovate and adapt its technologies to the changing needs of a marketplace. In the past the Company's activities have primarily consisted of its efforts in research and development. During fiscal years ended June 30, 2010 and 2009, research and development expenses were \$493,550 and \$704,889, respectively. Although no precise dollar amount has been determined, the Company will continue to allocate resources to product development. The Company expenses development costs as they occur. The Company intends to work closely with prospective customers to determine design, possible enhancements and modifications.

## Immediate Plans

The Company intends to continue the research and development of its technologies, primarily focusing on its Bladeless Turbine and Alternate Solar Energy Thermal System over the next twelve months. The Company intends to have its Alternate Solar Energy Thermal System, which utilizes the Bladeless Turbine, fully operational in the next twelve months. The Company plans to broadly market the technology to companies seeking alternative energy sources.

Renewable Energy Development Corporation ("REDCO"), an unrelated third party, pursuant to an executed twenty year Power Purchase



Agreement (“PPA”) with the Needles Public Utility Authority, will develop and operate a 5-megawatt solar thermal power plant in Needles, CA to provide the city with power and the required Renewable Energy Certificates. REDCO plans to purchase the Company’s solar thermal equipment, including turbines, to build and operate the 5-megawatt solar thermal power plant. REDCO is in the planning stages of a 49-megawatt solar project in Needles and plans to add an additional 150-200 megawatts over the next 3-5 years; REDCO is currently in discussions with several potential power purchasers for these projects. REDCO plans to utilize the Company’s solar thermal technology on all of its planned solar projects in Needles.

Acquisition of Technology

In May 2004, the Company entered into an agreement with its president, in which the Company acquired from the president patents, patents pending, designs and contracts related to the bladeless turbine, solar and chemical thermal technologies and electronic shelf tag technology developed by the president. As consideration for these patents, patents pending, designs and contracts, the Company issued warrants to purchase 100,000,000 shares of common stock and agreed to pay the president a 10% royalty of total gross sales of products related to the patents.

Government Regulation

The Company's activities may be subject to government regulation. Depending on the nature of its activities in data transmission and power production, the Company may need approval or authorization from Federal, State or Local authorities.

**ITEM 1A. RISK FACTORS**

*You should carefully consider the risks, uncertainties and other factors described below, in addition to the other information set forth in this Annual Report on Form 10-K, because they could materially and adversely affect our business, operating results, financial condition, cash flows and prospects, as well as adversely affect the value of an investment in our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently think are immaterial, may also impair our business operations. You should also refer to the other information contained in and incorporated by reference into this Annual Report on Form 10-K, including our financial statements and the related notes. The Company's business operations are highly speculative and involve substantial risks. Only investors who can bear the risk of losing their entire investment should consider buying our shares. Some of the risk factors that you should consider are the following:*

The Company is in the Development Stage

The Company is a development stage company. The Company has limited assets and has had limited operations since inception. The Company can provide no assurance that its current and proposed business will produce any material revenues or that it will ever operate on a profitable basis.

We Have a History of Significant Losses, and We May Never Achieve or Sustain Profitability

We are focused on product development and have generated minimal revenues of \$111,226. Since inception, we have incurred operating losses each year of our operations and we expect to continue to incur operating losses for the next several years. We may never become profitable. The process of developing our products requires significant development. In addition, commercialization of our targeted products will require the establishment of sales, marketing and manufacturing capabilities, either through internal hiring or through contractual relationships with others. We expect our research and development and general and administrative expenses will increase over the next several years and, as a result, we expect our losses will increase. As of June 30, 2010, our cumulative net loss was \$38,859,397. Our net loss was \$3,524,780 for the fiscal year ended June 30, 2010. Our continued operational loss may lower the value of our common stock and may jeopardize our ability to continue our operations.

The Company May Experience Fluctuations in Operating Results

The Company's operating results are likely to fluctuate in the future as a result of a variety of factors. Some of these factors may include economic conditions; the amount and timing of the receipt of sale of the Company's current developments such as the solar lens; the success of the Company's development projects; the success of the Company's marketing strategy; capital expenditures and other costs relating to the development of the Company's products; and the cost of advertising and related media. Due to all of the foregoing factors, the Company's operating results in any given quarter may fall below expectations. In such an event, any future trading price of the Company's common stock would likely be materially and adversely affected.

### The Company's Business Model May Change or Evolve

The Company and its prospects must be considered in light of the risks, as identified in the Risk Factors section of this filing, expenses and difficulties frequently encountered by companies in the development stage. Such risks for the Company include, but are not limited to, an evolving business model. To address these risks the Company must, among other things, develop strong business development and management activities, develop the strength and quality of its operations, develop and produce high quality products that can be marketed and distributed. There can be no assurance that the Company will be successful in meeting these challenges and addressing such risks, and the failure to do so could have a material adverse effect on the Company's business, financial condition and result of operations.

### The Company's Auditors Opinion Expresses Doubt About the Company's Ability to Continue as a Going Concern

The independent auditor's report issued in connection with the audited financial statements of the Company for the period ended June 30, 2010, expresses "substantial doubt about its ability to continue as a going concern," due to the Company's status as a development stage company and its lack of significant operations. If the Company is unable to get its solar thermal energy technology operational, the Company may have to cease to exist, which would be detrimental to the value of the Company's common stock. The Company can make no assurances that its business operations will develop and provide the Company with significant cash to continue operations.

### Customers with Deposits May Request a Return of Their Deposits

The Company has received deposits from customers to purchase its Alternate Solar Thermal Energy System totaling \$2,360,250. The agreements provide that the Company will deliver, install and startup the System on or prior to June 30, 2010. The Company has delivered, installed and started up the Systems, but the energy output has not been verified. Therefore, for these agreements, the customers could request a return of their deposits since the Company has not verified the energy output. If many of the customers request a return of their deposits, the Company may not have sufficient funds to return the deposits.

### The Company May Need Future Capital and May Not be Able to Obtain Additional Financing

The Company may need future capital and may not be able to obtain additional financing. If additional funds are needed, funds may be raised as either debt or equity. There can be no assurance that such additional funding will be available on terms acceptable to the Company, or at all. The Company may be required to raise additional funds through public or private financing, strategic relationships or other arrangements. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to the Company, or at all. If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

### Future Capital Raised Through Equity Financing May be Dilutive to Stockholders

Any additional equity financing may be dilutive to stockholders. If additional funds are raised through the issuance of equity securities, the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience additional dilution in net book value per share and such equity securities may have rights, preferences or privileges senior to those of the holder of the Company's common stock.

### Future Debt Financing May Involve Restrictive Covenants that May Limit the Company's Operating Flexibility

Furthermore, a debt financing transaction, if available, may involve restrictive covenants, which may limit the Company's operating flexibility with respect to certain business matters. If additional funds are raised through debt financing, the debt holders may require the Company to make certain agreements, covenants, which could limit or prohibit the Company from taking specific actions, such as establishing a limit on further debt, a limit on dividends, limit on sale of assets, or specific collateral requirements. Furthermore, if the Company raises funds through debt financing, the Company would also become subject to increased interest and principal payment obligations. In either case, if the Company was unable to fulfill either the covenants or the financial obligations, the Company may risk defaulting on the loan, whereby ownership of the firm's assets could be transferred from the shareholders to the debt holders.

### Executive Management has Limited Management Experience of an Operating Company

The Company's officers have limited experience in managing an operating company. If the Company develops a marketable product, this lack of experience may make it more difficult to establish the contacts and relationships and implement operating procedures necessary to successfully operate the Company.

The Company's Success is Dependent on Management

The Company's success is dependent, in large part, on the active participation of its Executive Officers. The loss of their services would materially and adversely affect the Company's development activities and future business success.

The Company's Success is Dependent on our Patents and Proprietary Rights

The Company's future success depends in part on our ability to protect our intellectual property and maintain the proprietary nature of our technologies through a combination of patents and other intellectual property arrangements. The protection provided by our patents and patent applications, if issued, may not be broad enough to prevent competitors from introducing similar products. In addition, our patents, if challenged, may not be upheld by the courts of any jurisdiction. Patent infringement litigation, either to enforce our patents or to defend us from infringement suits, would be expensive and, if it occurs, could divert our resources from other planned uses. Any adverse outcome in such litigation could have a material adverse effect on our ability to market, sell or license the related products. Patent applications filed in foreign countries and patents in such countries are subject to laws and procedures that differ from those in the U.S. Patent protection in such countries may be different from patent protection under U.S. laws and may not be as favorable to us. We also attempt to protect our proprietary information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our proprietary technology.

Executive Officers Maintain Significant Control Over the Company and its Assets

Our executive officers maintain control over the Company's board of directors and also control the Company's business operations and policies. In addition, Neldon Johnson, the Company's President, and two of his sons, Randale Johnson and LaGrand Johnson, control approximately 85% of the voting rights of the Company. As a result, these three individuals will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions.

The Company is Unlikely to Pay Dividends in the Foreseeable Future

It is unlikely that the Company will pay dividends on its common stock in the foreseeable future, resulting in an investor's only return on an investment in the Company's common stock being the appreciation of the per share price. The Company can make no assurances that the Company's common stock will ever appreciate.

Risks of "Penny Stock"

Our common stock may be deemed to be "penny stock" as that term is defined in Rule 3a51-1 of the SEC. Penny stocks are stocks (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) in issuers with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years); or \$5,000,000 (if in continuous operation for less than three years); or with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act and Rule 15g-2 of the SEC require broker dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Moreover, Rule 15g-9 of the SEC requires broker dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any "penny stock" to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his, her or its financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor, and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for investors in our common stock to resell their shares to third parties or to otherwise dispose of them.

There can be no assurance as to the depth or liquidity of any market for our common stock or the prices at which holders may be able to sell their shares. As a result, an investment in our common stock may not be totally liquid, and investors may not be able to liquidate their investment readily or at all when they need or desire to sell.

**ITEM 2. DESCRIPTION OF PROPERTIES**

The Company's principal executive offices are located at 326 North SR 198, Salem, Utah 84653. The Company rents the office space from its president at a cost of \$6,000 per month and from a third party at a cost of \$6,200 per month. The monthly rent includes a 200 square foot office space, plus additional store front and warehouse space. Our primary use of this the space is for offices.

The Company owns approximately 600 acres of land in Delta, Utah which was purchased in August 2006. The Company is currently building a solar energy plant on the land utilizing its Systems. The Company also entered into a lease agreement in November 2006 for research and development space in Delta, Utah, to be close to where it is building its Systems. The lease expires in November 2016 and requires annual lease payments of \$7,500.

The Company also owns approximately 6 acres of land in California. This land is currently not being used, but the Company plans to build a small energy plant utilizing the System. Permits will need to be obtained prior to utilizing this land for this purpose.

The Company believes that its current office and research and development space will be adequate to meet current needs. The Company may, however, require additional facilities in the future depending upon being able to produce and market its solar energy technology system.

**ITEM 3.LEGAL PROCEEDINGS**

The Company is a party to one lawsuit that it believes will have an immaterial effect on our operations, even if the Company does not prevail. Litigation to enforce patents, to protect proprietary information or to defend the Company against alleged infringement of the rights of others may occur. Such litigation would be costly, could divert our resources from other planned activities, and could have a material adverse effect on our results of operations and financial condition.

**ITEM 4. RESERVED****PART II****ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Presently Registrant's common stock is traded on the NASD Electronic Bulletin Board under the symbol "IAUS". The table below sets forth the closing high and low bid prices at which the Company's shares of common stock were quoted during the quarters indicated. The trades are in U. S. dollars but may be inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions in the common stock.

Fiscal 2010	<u>High</u>	<u>Low</u>
June 30, 2010	\$0.30	\$0.21
March 31, 2010	\$0.48	\$0.25
December 31, 2009	\$0.46	\$0.32
September 30, 2009	\$0.64	\$0.40
Fiscal 2009	<u>High</u>	<u>Low</u>
June 30, 2009	\$0.69	\$0.38
March 31, 2009	\$0.67	\$0.22
December 31, 2008	\$0.40	\$0.18
September 30, 2008	\$0.50	\$0.34



The Company's shares are significantly volatile and subject to broad price movements and fluctuations. The Company's shares should be considered speculative and volatile securities. The stock price may also be affected by broader market trends unrelated to the Company's activities.

At June 30, 2010, the Company had approximately 993 shareholders of record.

As of June 30, 2010, Registrant had 37,037,153 shares issued and outstanding, net of 3,538,118 held in an escrow account. Of these shares, approximately 31,667,000 shares were free trading shares. There were approximately 5,284,000 shares of restricted common stock but most of these shares may be available for resale pursuant to the provisions of Rule 144 promulgated under the 1933 Act. As of June 30, 2010, at least 100 shareholders hold not less than 1,000 restricted shares of common stock and have held the shares for more than one year. At least twenty-five shareholders own not less than 10,000 or more restricted shares of common stock and have held the shares for more than six months. These shareholders satisfy the six month holding period under Rule 144 promulgated under the 1933 Act. Rule 144(k) allows a restricted legend to be removed after one year has elapsed from the date of purchase and provides that certain provisions of Rule 144 are not applicable.

Sales pursuant to the provisions of Rule 144 sold into the trading market could adversely affect the market price. The Company's shares trade on the Over-the-counter Electronic Bulletin Board. The per share price in an auction market is based in part on supply and demand. If more shares are available for sale into the market by holders of restricted shares who satisfy the conditions of Rule 144 and in particular subsection 144(k), the market price of the shares of common stock of the Company will be adversely affected.

#### Dividend Policy

To date, registrant has not declared or paid any dividends to holders of its common stock. In the future it is unlikely that the Company will pay any dividends.

#### Recent Sales of Unregistered Securities

During the period covered by this report the Company issued 1,000,000 shares of common stock to the Company's president upon the exercise of options. In lieu of payment for the options, the Company and its president settled \$400,000 in related party payables. The Company also sold 429,131 shares of restricted common stock to employees for \$88,000 and granted 300,000 shares of restricted stock, valued at \$105,000, to employees as stock-based compensation.

We issued all of these securities to persons who were "accredited investors", as those terms are defined in Rule 501 of Regulation D of the Securities and Exchange Commission, or employees; and each such person had prior access to all material information about us. We believe that the offer and sale of these securities were exempt from the registration requirements of the Securities Act, pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission. Registration of sales to "accredited investors" are preempted from state regulation, though states may require the filing of notices, a fee and other administrative documentation like consents to service of process and the like.

Resales of the shares noted above must be made through an available exemption such as Rule 144 or Section 4(1) of the Securities Act in "routine trading transactions." Any person who acquires any of these securities in a private transaction may be subject to the same resale requirements. (See below for a general discussion on Rule 144).



Rule 144

The following is a summary of the current requirements of Rule 144:

	<u>Affiliate or Person Selling on Behalf of an Affiliate</u>	<u>Non-Affiliate (and has not been an Affiliate During the Prior Three Months)</u>
Restricted Securities of Reporting Issuers	<p><u>During six-month holding period</u> – no resales under Rule 144 Permitted.</p> <p><u>After Six-month holding period</u> – may resell in accordance with all Rule 144 requirements including:</p> <ul style="list-style-type: none"> <li>·Current public information,</li> <li>·Volume limitations,</li> <li>·Manner of sale requirements for equity securities, and</li> <li>·Filing of Form 144.</li> </ul>	<p><u>During six- month holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After six-month holding period but before one year</u> – unlimited public resales under Rule 144 except that the current public information requirement still applies.</p> <p><u>After one-year holding period</u> – unlimited public resales under Rule 144; need not comply with any other Rule 144 requirements.</p>
Restricted Securities of Non-Reporting Issuers	<p><u>During one-year holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After one-year holding period</u> – may resell in accordance with all Rule 144 requirements including:</p> <ul style="list-style-type: none"> <li>·Current public information,</li> <li>·Volume limitations,</li> <li>·Manner of sale requirements for equity securities, and</li> <li>·Filing of Form 144.</li> </ul>	<p><u>During one-year holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After one-year holding period</u> – unlimited public resales under Rule 144; need not comply with any other Rule 144 requirements.</p>

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 - Financial Statements and Supplementary Data.”

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>Results of Operations:</b>		
Revenue	\$ -	\$ -
Loss from operations	(3,515,516)	(6,627,114)
Other income (expenses)	(9,264)	(10,223)
Net loss	(3,524,780)	(6,637,337)
Basic and diluted net loss per share	(0.10)	(0.20)
<b>Cash Flow and Balance Sheet Data:</b>		
Net cash used in operating activities	\$ (770,443)	\$ (843,908)
Cash	6,865	47,537
Total Assets	1,018,300	1,029,603
Total Current Liabilities	3,343,810	2,913,638
Accumulated deficit	(38,859,397)	(35,334,617)
Total Stockholders' deficit	(2,409,344)	(1,980,717)

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**General

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company’s results of operations and financial condition. The discussion should be read in conjunction with the financial statements and notes thereto. This discussion contains forward looking statements regarding the Company's plans, objectives, expectations and intentions. All forward looking statements are subject to risks and uncertainties that could cause the Company's actual results and experience to differ materially from such projections.

Historically, the Company's activities have been dominated by its research and development activities. As a result, there have not been revenues associated with operations. The Company has limited experience regarding profit margins or costs associated with operating a business.

Plan of Operation

The Company’s plan of operation for the next 12 months is to: (i) continue to build its alternate thermal solar energy system and get the system operational to begin producing saleable energy; (ii) market and sell the alternate thermal solar energy system to entities who desire to produce solar energy; and (iii) continue to develop marketable products for its technologies.

During the next 12 months, additional financing will be required to fund the building of the alternate solar energy system and the development of marketable products. To date, the Company has primarily financed operations by the receipt of advances from the Company’s president, deposits from customers for the alternate thermal solar energy system and through the private placement of equity securities. The president and the Company have no formal agreement as to any future advances. However, it is anticipated that the Company will continue to receive additional financing from receipt of advances from its president to help fund continuing operations. The Company also anticipates receiving additional financing through the private placement of equity securities.

The Company does not expect a significant change in the number of employees during the next 12 months. However, if the Company is successful in getting the alternate thermal solar energy system operational, additional employees may be necessary depending on the demand for the System and how the Company determines to produce the System. The Company plans to evaluate the possibility of contracting with suppliers to produce and install the systems.



## Results of Operations

Fiscal year ended June 30, 2010 compared to fiscal year ended June 30, 2009

The Company has not generated a profit since inception. Operations during the years ended June 30, 2010 and 2009, primarily pertained to research and development and other activities. Research and development expenses decreased by \$211,339 or 30% from \$704,889 in fiscal year 2009 to \$493,550 primarily due to purchasing less research and development materials to develop the alternate thermal solar energy system and bladeless turbine during the fiscal year 2010 as compared to fiscal year 2009.

General and administrative expenses decreased by \$2,900,259 or 49% from \$5,922,225 in fiscal year 2009 to \$3,021,966 in fiscal year 2010. The decrease in general and administrative expenses is primarily attributable to many options fully vesting in fiscal year 2009 resulting in a decrease in stock-based compensation for fiscal year 2010. Stock-based compensation decreased by \$2,533,766 from fiscal year 2009 to fiscal year 2010 as compared to fiscal year 2009. Additionally, legal expenses decreased significantly in 2010 as compared to 2009 due primarily to the Company's patent claim being settled in 2009.

Total revenue and cost of sales were \$0 for fiscal years 2010 and 2009. Other expenses remained relatively constant in fiscal years 2010 and 2009. Net loss decreased by \$3,112,557 from \$6,637,337 in fiscal year 2009 to \$3,524,780 in fiscal year 2010 primarily related to the decrease in stock-based compensation.

## Liquidity and Capital Resources

Historically, our principal use of cash has been to fund ongoing research and development activities. To date, we have primarily financed our operations by the receipt of loan advances from the Company's president and through the private placement of equity securities. The president and the Company have no formal agreement as to any future loans or advances. The Company has no line of credit with any financial institution. The Company believes that until it has consistent operations and revenues, it will be unable to establish a line of credit from conventional sources.

The Company's liquidity is substantially limited given the current rate of expenditures. More funds will be required to support ongoing product development, finance any marketing programs and establish any distribution networks. The Company had \$6,865 in cash as of June 30, 2010, representing a decrease of \$40,672 from June 30, 2009. The decrease relates to net cash used in operations and investing of \$770,443 and \$17,599, respectively, offset by net cash provided by financing activities of \$747,370.

As of June 30, 2010, the Company has current assets of \$8,865 and total assets of \$1,018,300. Current liabilities were \$3,343,810 and total liabilities of \$3,427,644. The ratio of current assets to current liabilities is approximately 0.003. If the Company continues to have a negative cash flows or if the Company is unable to generate sufficient revenues to meet its operating expenses, the Company will continue to experience liquidity difficulties.

## *Stock issuance*

The Company has shares of common stock in escrow accounts. Proceeds from the sale of stock from these escrow accounts are placed in separate escrow accounts to be used at the Company's and the trustee's discretion. During the year ended June 30, 2010, 806,700 shares were sold for proceeds of \$300,230 at prices ranging from \$0.22 to \$0.62 per share. During the year ended June 30, 2009, 1,245,000 shares were sold for proceeds of \$432,502 at prices ranging from \$0.16 to \$0.67 per share. The proceeds were used to pay professional fees, rent, operating expenses and accrued liabilities. At June 30, 2010 and 2009, there was a balance of 3,538,118 and 4,344,818 shares, respectively, in the escrow accounts. During the year ended June 30, 2010, the Company also sold 429,131 shares of common stock at a 25% discount to employees for \$88,000.

## Critical Accounting Policies

The Company's significant accounting policies are discussed in Note 1 to the Financial Statements. The application of certain policies requires significant judgments or an estimation process that can affect our results of operations, financial position and cash flows, as well as the related footnote disclosures. We base our estimates on historical experience and other assumptions, as discussed below, that we believe is reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. The accounting policies and estimates with the greatest potential to have a significant impact on our operating results, financial position, cash flows and footnote disclosures are as follows.



*Long-Lived Assets*

The Company regularly evaluates whether events or circumstances have occurred that indicate the carrying value of its long-lived assets may not be recoverable. When factors indicate the asset may not be recoverable, we compare the related undiscounted future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than the carrying value, an impairment charge is recognized based on the fair value of the asset. The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance and economic conditions. Furthermore, the Company makes periodic assessments about each patent and related technology to determine if it plans to continue to pursue the technology and if the patent has value. No impairments were recorded during the years ended June 30, 2010 and 2009, respectively.

*Stock-Based Compensation*

The Company measures compensation expense for granted share-based awards at fair value and recognizes compensation expense over the service period for awards expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from estimates, such amounts will be recorded as an adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. Actual results may differ from these estimates.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of June 30, 2010 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by Fiscal Year						Total
	2011	2012	2013	2014	2015	Thereafter	
Long-term debt arrangements (1)	\$ 30,881	\$ 13,604	\$ 14,555	\$ 15,575	\$ 16,665	\$ 23,435	\$ 114,715
Operating leases (2)	7,500	7,500	7,500	7,500	7,500	10,000	47,500
Total contractual obligations	<u>\$ 38,381</u>	<u>\$ 21,104</u>	<u>\$ 22,055</u>	<u>\$ 23,075</u>	<u>\$ 24,165</u>	<u>\$ 33,435</u>	<u>\$ 162,215</u>

(1) The Company has two notes payable to financing companies due in annual installments that are collateralized by land and both mature in fiscal year 2017. The Company also has a note payable for equipment maturing in fiscal 2011.

(2) The Company entered into a lease agreement for research and development space in October 2006. The term of this lease is from November 1, 2006 to November 1, 2016.

The Company's board of directors authorized the Company to enter into an agreement dated May 14, 2004 and amended October 13, 2004, with the Company's president, in which the Company acquired patents, patents pending, designs and contracts related to certain technology developed by the president from the president. As consideration, the Company authorized and issued warrants to purchase 100,000,000 shares of common stock to the president and agreed to pay the president royalties in the future equal to 10% of future sales proceeds from the technology.

The Company's president has also entered into several solar lease bonus fee contracts with many of the customers who made deposits on the alternate solar energy system discussed further in Note 1 and Note 10 to the financial statements. As additional consideration for making the deposit and making the alternate solar energy system available to the Company as a reference for marketing and sales purposes to show and demonstrate, the Company's president has agreed to pay many of the customers a referral fee of .009% on the first one billion dollars of total gross sales revenue received by the Company for the sale of power generation equipment. The Company's president will be obligated to pay this bonus fee if the Company is able to produce and then sell its alternate solar energy system. The Company's president plans to pay this fee from his future royalties mentioned in the above paragraph.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial



Recent Accounting Pronouncements

In June 2009, the FASB issued guidance under SFAS No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140” (“SFAS 166”), which was subsequently codified into ASC Topic 860. SFAS 166 amends SFAS 140 by including: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the standard requires extensive new disclosures regarding an entity’s involvement in a transfer of financial assets. Finally, existing QSPEs (prior to the effective date of SFAS 166) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept. This guidance is effective for the Company beginning on July 1, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

In June 2009, the FASB issued guidance under SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”, which was subsequently codified into ASC Topic 810. Among other items, this guidance responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. This guidance is effective for the Company beginning on July 1, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

In October, 2009, the FASB issued ASC Update 2009-13, “Multiple-Deliverable Revenue Arrangements” (“ASC Update 2009-13”). This guidance provides amendments to the criteria in Subtopic 605-24 for separating consideration in multiple-deliverable revenue arrangements. It establishes a hierarchy of selling prices to determine the selling price of each specific deliverable which includes vendor-specific objective evidence (if available), third-party evidence (if vendor-specific evidence is not available) or estimated selling price if neither of the first two are available. The guidance also eliminates the residual method for allocating revenue between the elements of an arrangement and requires that arrangement consideration be allocated at the inception of the arrangement. Finally, the guidance expands the disclosure requirements regarding a vendor’s multiple-deliverable revenue arrangements. ASC Update 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

In October, 2009, the FASB issued ASC Update 2009-14, “Certain Revenue Arrangements That Include Software Elements” (“ASC Update 2009-14”). This guidance amends existing guidance to exclude tangible products that include software and non-software components that function together to deliver the product’s essential functionality. ASC Update 2009-14 shall be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its financial statements.

## **ITEM 8. FINANCIAL STATEMENTS**

The financial statements required by this item are after the signature pages.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

## **ITEM 9A(T). CONTROLS AND PROCEDURES**

### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer,



we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of June 30, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this evaluation, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that, as of June 30, 2010, our internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

During the most recent quarter ended June 30, 2010, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**Directors and Officers

The executive officers and directors of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Neldon Johnson	64	Chairman of the Board of Directors, President and CEO
Randale Johnson	41	Secretary, Vice President
LaGrand Johnson	44	CFO
Bruce Barrett	80	Director
Blain Phillips	48	Director
Curtis Snow	44	Director



All Directors hold office until a successor has been elected. All officers are appointed by the Board of Directors and serve at the discretion of the Board until a new officer is appointed.

Directors will be reimbursed by the Company for any expenses incurred in attending Directors' meetings. The Company also intends to obtain Officers and Directors liability insurance, although no assurance can be given that it will be able to do so.

*Background of Executive Officers and Directors*

Neldon Johnson is the founder of the Company and the primary inventor of the bladeless turbine and solar thermal energy technologies, Self-Check system, AFIM and DWM. Mr. Johnson directs the Company's research and development program. Mr. Johnson studied physics and mathematics at Brigham Young University in Provo, Utah, and graduated from Utah Technical College's Electronics Technology Program in 1964. He has taken training courses and has taught courses in electronics programming, microwave and wave switch programs. From 1965 to 1968 he worked for American Telephone and Telegraph, Inc., as an engineer. From 1983 to the present, Mr. Johnson has been developing the bladeless turbine and solar thermal energy technologies, Self-Check System, AFIM and DWM. Also, from 1975 to 1990 he worked at a Ream's Grocery Store and had management responsibilities for operations. Mr. Johnson has real estate holdings, one of which is a building of approximately 25,000 square feet in Salem, Utah. Mr. Johnson is not currently an officer or director of any other public company nor has he ever been an officer or director of any other public company. We believe Mr. Johnson's long-standing service and extensive experience with the Company qualify him to serve as a director.

Randale P. Johnson is the son of Neldon Johnson. He has been an officer since June 1996. His responsibilities include marketing and administration. Mr. Johnson holds an associate degree in Computer Science and has four years of experience in the computer industry. He joined the Company in 1996. Mr. Johnson is not currently an officer or director of any other public company nor has he ever been an officer or director of any other public company.

LaGrand T. Johnson is the son of Neldon Johnson. He has worked with the Company since 1987 but started full time in 1996. He graduated with a Bachelor's Degree in chemistry in 1991. He received his Doctor of Osteopathy degree in 1995 from Western University of Health Sciences. He works as CFO and General Manager of the Company and in research and development. Mr. Johnson is not currently an officer or director of any other public company nor has he ever been an officer or director of any other public company.

Bruce Barrett graduated from Brigham Young University with a degree in Marketing and Business Management in 1958. After graduating he continued to work for BYU. He was Manager of Married Student Housing, Manager of Material Handling, Director of Textile Cleaning Services, and Director of Auxiliary Services before retiring in 1995. Mr. Barrett passed away in September 2010. Mr. Barrett was not an officer or director of any other public company.

Blain Phillips has been employed at Union Pacific Railroad since 1991. Mr. Phillips is not currently nor has he ever been an officer or director of any other public company.

Curtis Snow became a director in September 2010 following the passing of Mr. Barrett. Mr. Snow graduated from BYU with Bachelor of Science degree in Design Engineering Technology in 1992. He worked off and on with the Company as an employee or consultant for a period of 15 years. Mr. Snow previously served on the Company's board of directors from June 1996 to January 2006. He currently works as an employee for a company who reverse engineers aircraft parts. We believe Mr. Snow's extensive experience with the Company qualify him to serve as a director.

None of the officers or directors of the Company has during the past five years, been involved in any events such as criminal proceedings or convicted of proceedings relating to securities violations.





Employment Agreements

The Company has entered into an agreement with Neldon Johnson to act as President and CEO of the Company for a period of ten years starting in July 2000. Per the agreement, Neldon is to be paid \$100,000 per annum and shall increase each calendar year by the percentage increase in the Consumer Price Index. Neldon may terminate the agreement, but must give the Company 6 months advance notice. The Company can not voluntarily terminate Neldon's employment for any reason. No additional payments are outlined in the agreement for a change in control. No new employment agreement has yet been entered into between the Company and its president.

Outstanding Equity Awards at Fiscal Year-End

(a)	Option Awards					Stock Awards			
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Neldon Johnson	93,300,000	—	—	\$0.40	12/31/2034	—	—	—	—
Randale Johnson	500,000 (1)	—	—	\$3.00	8/22/2010	—	—	—	—
LaGrand Johnson	500,000 (1)	—	—	\$3.00	8/22/2010	—	—	—	—

(1) These options expired unexercised on August 24, 2010.

Compensation of Directors

The Company's Directors currently are not compensated for their time and there are no payment arrangements. The Company anticipates that it will need to compensate Directors at some point in the future.

**ITEM. 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to the Company regarding beneficial ownership of the Company's Common Stock as of June 30, 2010, by (i) each person known by the Company to own, directly or beneficially, more than 5% of the Company's Common Stock, (ii) each of the Company's directors, and (iii) all officers and directors of the Company as a group. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws, where applicable.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our common stock issuable currently or within 60 days of June 30, 2010, upon exercise of options or warrants held by that person or group is deemed outstanding. These shares, however, are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the stockholders named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Percentage ownership is based on 36,951,439 shares of common stock outstanding as of June 30, 2010, together with applicable options and warrants for each stockholder. Unless otherwise indicated, the address of each person listed below is in the care of International Automated Systems, Inc., 326 North SR 198, Salem, Utah





Name and Title	Shares Beneficially Owned	
	Number (4)	Percent
Neldon Johnson, President, CEO and Director	94,305,020 (1)	71.9%
Randale Johnson, Secretary and Vice President	750,085 (2)	0.6%
LaGrand Johnson, CFO	800,000 (3)	0.6%
Bruce Barrett, Director	100,000	0.1%
Blain Phillips, Director	70,000	0.1%
All officers and directors as a group (5 persons)	96,025,105	73.2%

- (1) Includes warrants to purchase 93,300,000 shares of common stock exercisable as of June 30, 2010.
- (2) Includes options to purchase 500,000 shares of common stock exercisable as of June 30, 2010.
- (3) Includes options to purchase 500,000 shares of common stock exercisable as of June 30, 2010.
- (4) Does not include 2,000,000 shares of Series 1 Class A Preferred Stock held by Neldon Johnson, 1,150,000 shares of Series 1 Class A Preferred Stock held by LaGrand Johnson, or 1,150,000 shares of Series 1 Class A Preferred Stock held by Randale Johnson. Each share of the Series 1 Class A Preferred Stock has ten votes per share and votes with the shares of common stock on all matters with the exception of 1,000,000 of the Series 1 Class A Preferred Stock held by Neldon Johnson which has 100 votes per share and votes with the shares of common stock on all matters. Mr. Neldon Johnson has approximately 76%, LaGrand Johnson 5%, and Randale Johnson 5% of the voting control of the Company when the voting power of the shares of preferred stock, common stock and vested options are considered together.

#### Changes in Control

There are no additional present arrangements or pledges of the Company's securities which may result in a change in control of the Company. However, there are no provisions in our Articles of Incorporation or Bylaws that would delay, defer or prevent a change in control.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

On May 14, 2004, the Company entered into an agreement with Neldon Johnson, the Company's president, in which the Company acquired from Mr. Johnson patents, patents pending, designs and contracts related to the bladeless turbine, solar and chemical thermal technologies, and electronic shelf tag technology developed by Mr. Johnson. As consideration for these patents, patents pending, designs and contracts, the Company issued warrants to purchase 100,000,000 shares of common stock and 10% of total gross sales in royalties of the Company.

During the year ended June 30, 2003, the Company commenced leasing office and research and development space on a month- to-month basis from its president, for \$6,000 per month. The amount payable to the president for rent at June 30, 2010 was \$73,500.

The Company received cash advances of \$498,082 and \$557,101 from its president during the years ended June 30, 2010 and 2009. The advances are non-interest bearing, payable upon demand and included in related party payables. During the year ended June 30, 2010, the Company settled \$400,000 of the cash advances by issuing 1,000,000 shares of common stock to the president upon the exercise of warrants; and paid \$104,432 of the cash advances. The balance was \$434,032 at June 30, 2010 and is unsecured, payable on demand and non-interest bearing.

During December 2005, the Company entered into a purchase and installation contract with Solar Renewable Energy-1, LLC for a solar thermal power plant. The contract is contingent on several factors and provides for certain progress payments. As of June 30, 2010, the Company has not provided any services or equipment required under this agreement and has received no money and recognized no revenues.

#### Resolving Conflicts of Interest

The Company's directors must disclose all conflicts of interest and all corporate opportunities to the entire board of directors. Any transaction involving a conflict of interest will be conducted on terms not less favorable than that which could be obtained from an unrelated third party.

The Company has two independent directors serving on its board of directors.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Our financial statements for the years ended June 30, 2010 and 2009 have been audited by our principal accountant, Mantyla McReynolds, LLC. Each year the Chief Executive Officer pre-approves all audit and tax related services prior to the performance of services by Mantyla McReynolds, LLC. The percentage of hours expended on the audit by persons other than full time, permanent employees of Mantyla McReynolds, LLC was zero.

Audit Fees

Aggregate fees for the year ended June 30, 2010 for professional services by Mantyla McReynolds, LLC, our principal accountant, for the audit of our annual financial statements and review of our interim financial statements were approximately \$45,040.

Aggregate fees for the year ended June 30, 2009 for professional services by Mantyla McReynolds, LLC, our principal accountant, for the audit of our annual financial statements and review of our interim financial statements were approximately \$48,325.

Audit-Related Fees

Audit-related fees, not included in the previous paragraphs, for the years ended June 30, 2010 and 2009 for assurance and related services by Mantyla McReynolds, LLC were \$0 and \$655, respectively.

Tax Fees

There were no fees for professional services by Mantyla McReynolds, LLC for tax compliance, tax advice, and tax planning. A firm, other than our principal accountant, prepares all income tax returns.

**ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K**

a. Exhibits

- 31.1 Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b. Reports on Form 8-K.

During the period ended June 30, 2006, Registrant filed two reports on Form 8-K and one report on 8-K/A.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL AUTOMATED SYSTEMS, INC.

/s/ Neldon Johnson\_\_\_\_\_

NELDON JOHNSON

Title: President,  
Chief Executive Officer

Date: October 13, 2010

DIRECTORS

/s/ Neldon Johnson\_\_\_\_\_

NELDON JOHNSON

Title: Director

Date: October 13, 2010

/s/ Blain Phillips\_\_\_\_\_

BLAIN PHILLIPS

Title: Director

Date: October 13, 2010

/s/ Curtis Snow\_\_\_\_\_

CURTIS SNOW

Title: Director

Date: October 13, 2010

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

**(A Development Stage Company)**

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Board of Directors and Stockholders  
International Automated Systems, Inc.

We have audited the accompanying balance sheets of International Automated Systems, Inc. (the Company) as of June 30, 2010 and 2009, and the related statements of operations and cash flows for the years ended June 30, 2010 and 2009 and for the period from July 1, 2006 through June 30, 2010, and the statement of stockholders' deficit for the period from July 1, 2006 through June 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of International Automated Systems, Inc. for the period from inception [September 26, 1986] through June 30, 2005, were audited by other auditors whose report dated September 28, 2005, except for the Note 1 restatement which was dated February 20, 2006, expressed an unqualified opinion on those statements. Others audited the financial statements of the Company from inception (September 26, 1986) through June 30, 1990, whose reports dated October 21, 1988 and April 30, 1991, were qualified subject to the effects of such adjustments, if any, as might have been required had the outcome of certain uncertainties referred to in the related notes been known. Our opinion, in so far as it relates to the period from September 26, 1986 through June 30, 2005, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2010 and 2009 and the results of operations and cash flows for the years ended June 30, 2010 and 2009, and for the period from inception (September 26, 1986) through June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has accumulated losses from inception and has negative working capital as of June 30, 2010. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Mantyla McReynolds, LLC*

Salt Lake City, Utah  
October 13, 2010

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

(A Development Stage Company)

## Balance Sheets

	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,865	\$ 47,537
Prepaid expenses	2,000	11,833
Total Current Assets	<u>8,865</u>	<u>59,370</u>
Alternate solar energy systems	537,825	413,520
Property and Equipment, net of accumulated depreciation of \$372,457 and \$291,390, respectively	402,057	481,512
Patents, net of accumulated amortization of \$26,474 and \$20,825, respectively	<u>69,553</u>	<u>75,201</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,018,300</u></u>	<u><u>\$ 1,029,603</u></u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 94,525	\$ 417,136
Accrued liabilities	350,622	181,327
Related party payable - Note 3	507,532	505,382
Customer deposits - Note 8	2,360,250	1,757,250
Notes payable-current portion	<u>30,881</u>	<u>52,543</u>
Total Current Liabilities	<u>3,343,810</u>	<u>2,913,638</u>
Long-term notes payable	<u>83,834</u>	<u>96,682</u>
<b>TOTAL LIABILITIES</b>	<u><u>3,427,644</u></u>	<u><u>3,010,320</u></u>
Commitments and contingencies - Note 10		
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, Class A, no par value; 22,000,000 shares authorized, 4,400,000 shares issued and outstanding	417,264	417,264
Preferred stock, Class B, no par value, 3,000,000 shares authorized, 300,000 shares issued and outstanding	-	-
Common stock, no par value, 225,000,000 shares authorized, 37,037,153 and 34,501,322 issued and outstanding, net of 3,538,118 and 4,344,818 shares held in escrow account, respectively - Note 7	36,032,789	32,936,636
Deficit accumulated during the development stage	<u>(38,859,397)</u>	<u>(35,334,617)</u>
Total Stockholders' Deficit	<u>(2,409,344)</u>	<u>(1,980,717)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<u><u>\$ 1,018,300</u></u>	<u><u>\$ 1,029,603</u></u>

The accompanying notes are an integral part of these financial statements





**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

(A Development Stage Company)

## Statements of Operations

	For the Years Ended		For the Period From Inception (September 26, 1986) Through June 30, 2010
	June 30,		
	2010	2009	
<b>Revenues</b>			
Sales	\$ -	\$ -	\$ 111,226
Income from related party	-	-	32,348
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>143,574</b>
<b>Costs of sales</b>			
Cost of sales	-	-	81,927
Write down of carrying value of inventory	-	-	233,131
<b>Total costs of sales</b>	<b>-</b>	<b>-</b>	<b>315,058</b>
<b>Gross loss</b>	<b>-</b>	<b>-</b>	<b>(171,484)</b>
<b>Operating expenses</b>			
General and administrative	3,021,966	5,922,225	31,267,802
Research and development	493,550	704,889	8,116,389
Impairment of patents	-	-	140,577
License fees	-	-	270,634
<b>Total operating expenses</b>	<b>3,515,516</b>	<b>6,627,114</b>	<b>39,795,402</b>
<b>Loss from operations</b>	<b>(3,515,516)</b>	<b>(6,627,114)</b>	<b>(39,966,886)</b>
<b>Other income (expenses)</b>			
Loss on impairment of assets	-	-	(583)
Forfeiture of deposits	-	-	(236,803)
Interest income	91	127	26,580
Interest expense	(8,381)	(8,371)	(31,478)
Other income (expenses)	(974)	(1,979)	(32,250)
<b>Total other income (expenses)</b>	<b>(9,264)</b>	<b>(10,223)</b>	<b>(274,534)</b>
<b>Loss before extraordinary gain</b>	<b>(3,524,780)</b>	<b>(6,637,337)</b>	<b>(40,241,420)</b>
<b>Extraordinary gain on sale of patents</b>	<b>-</b>	<b>-</b>	<b>1,382,023</b>
<b>Net loss</b>	<b><u>\$(3,524,780)</u></b>	<b><u>\$(6,637,337)</u></b>	<b><u>\$(38,859,397)</u></b>
<b>Net loss per common share</b>			
Basic and diluted	\$ (0.10)	\$ (0.20)	
<b>Weighted average common shares outstanding</b>			

The accompanying notes are an integral part of these financial statements

## INTERNATIONAL AUTOMATED SYSTEMS, INC.

(A Development Stage Company)

## Statement of Stockholders Equity / (Deficit)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Stock Purchase Rights</u>	<u>Deficit Accumulated During Development Stage</u>	<u>Total Stockholder's Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance - September 26, 1986 (Date of Inception)</b>	-	\$ -	-	\$ -	-	\$ -	\$ -
Common stock issued for cash							
September 1986 - \$0.002 per share	-	-	5,100,000	11,546	-	-	11,546
September 1988 (net of \$38,702 offering costs) - \$0.32 per share	-	-	213,065	67,964	-	-	67,964
December 1988 (net of \$6,059 offering costs) - \$0.32 per share	-	-	33,358	10,641	-	-	10,641
March 1989 (net of \$4,944 offering costs) - \$0.32 per share	-	-	27,216	8,681	-	-	8,681
June 1989 (net of \$6,804 offering costs) - \$0.32 per share	-	-	37,461	11,950	-	-	11,950
Common stock issued for services							
September 1986 - \$0.002 per share	-	-	300,000	679	-	-	679
June 1989 - \$0.32 per share	-	-	5,000	1,595	-	-	1,595
Net loss for the period from September 26, 1986 through June 30, 1990	-	-	-	-	-	(192,978)	(192,978)
<b>Balance - June 30, 1990</b>	-	-	<b>5,716,100</b>	<b>113,056</b>	-	<b>(192,978)</b>	<b>(79,922)</b>
Class A Preferred and Common Stock issued for technology 1990-1996- \$0.02 per share	1,000,000	292,786	6,000,000	175,672	-	-	468,458
Class A Preferred Stock issued for services							
July 2000 - \$0.001 per share	2,000,000	2,000	-	-	-	-	2,000
August 2000 - \$0.00 per share	400,000	-	-	-	-	-	-
Class B Preferred stock issued for services							
August 2000 - \$0.00 per share	300,000	-	-	-	-	-	-
Common Stock issued for cash							
January 1994 - \$0.40 per share	-	-	59,856	23,942	-	-	23,942
May 1994 - \$0.20 per share	-	-	137,500	27,500	-	-	27,500
January 1996 (net of \$24,387 offering costs) - \$3.86 per share	-	-	179,500	693,613	-	-	693,613
November 1997 - \$1.43 per share	-	-	35,000	50,000	-	-	50,000
May 1998 - \$1.20 per share	-	-	250,000	300,000	-	-	300,000
October 1999 - \$2.00 per share	-	-	50,000	100,000	-	-	100,000
September 2000 - \$1.67 per share	-	-	11,500	19,236	-	-	19,236
October through Dec 2000 - \$1.03 per share	-	-	140,100	144,546	-	-	144,546
January through March 2001 - \$1.30 per share	-	-	39,900	51,920	-	-	51,920
April through June 2001 - \$0.98 per share	-	-	120,100	117,684	-	-	117,684
July through December 2001 - \$0.86 per share	-	-	138,400	119,287	-	-	119,287

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December 2001 - \$0.71 per share	-	-	28,000	20,000	-	-	20,000
January 2002 - \$1.39 per share	-	-	50,000	35,910	-	-	35,910
May through June 2002 - \$0.25 per share	-	-	500,000	125,000	-	-	125,000
<b>Common Stock issued for services</b>							
April 1991 - \$0.10 per share	-	-	300,000	30,000	-	-	30,000
January 1995 - \$1.00 per share	-	-	100,000	100,000	-	-	100,000
May 1997 - \$4.13 per share	-	-	14,000	57,750	-	-	57,750
June 1997 - \$2.94 per share	-	-	5,000	14,690	-	-	14,690
December 1997 - \$1.13 per share	-	-	6,000	6,750	-	-	6,750

The accompanying notes are an integral part of these financial statements

## INTERNATIONAL AUTOMATED SYSTEMS, INC.

(A Development Stage Company)

Statement of Stockholders Equity / (Deficit), continued

	Preferred Stock		Common Stock		Stock Purchase Rights	Deficit Accumulated During Development Stage	Total Stockholder's Deficit
	Shares	Amount	Shares	Amount			
October 1999 - \$1.26 per share	-	-	50,000	63,147	-	-	63,147
August 2000 - \$2.25 per share	-	-	268,000	603,000	-	-	603,000
May 2001 - \$1.12 per share	-	-	3,000	3,360	-	-	3,360
February and March 2001 - \$1.55 per share	-	-	350,000	542,500	-	-	542,500
October 2001 - \$1.44 per share	-	-	150,000	216,000	-	-	216,000
February 2002 - \$1.14 per share	-	-	25,000	28,500	-	-	28,500
Common stock issued for financing transactions							
November 2000 - \$0.90 per share	-	-	50,000	45,000	-	-	45,000
December 2000 - \$0.90 per share	-	-	10,000	9,000	-	-	9,000
January 2001 - \$0.84 per share	-	-	30,000	25,320	-	-	25,320
June 2001 - \$1.16 per share	-	-	120,000	139,200	-	-	139,200
Common stock issued to satisfy liabilities							
June 1991 - \$0.03 per share	-	-	2,700,000	78,101	-	-	78,101
Grant of stock purchase rights							
May 1994 - \$0.50 per share	-	-	-	6,750	13,500	-	6,750
June 1995 - \$3.00 per share	-	-	-	95,283	31,761	-	95,283
August 1995 - \$5.00 per share	-	-	-	25,000	5,000	-	25,000
Stock purchase rights exercised							
May 1997	-	-	36,761	-	(36,761)	-	-
June 1997	-	-	13,500	-	(13,500)	-	-
Redemption and retirement of treasury stock							
December 1991 - \$0.49 per share	-	-	(5,000)	(2,425)	-	-	(2,425)
December 1992 - \$0.49 per share	-	-	(1,856)	(900)	-	-	(900)
Adjustment for additional shares issued 1990-2002	-	-	68,973	-	-	-	-
Contributed capital - cash and settlement of liability, no shares issued, 1990-2002	-	-	-	5,762,419	-	-	5,762,419
Capital distribution of related party receivable, 1990-2002	-	-	-	(1,577,674)	-	-	(1,577,674)
Net loss for the period from July 1, 1990 through June 30, 2002	-	-	-	-	-	(8,705,191)	(8,705,191)
<b>Balance – June 30, 2002</b>	<b>3,700,000</b>	<b>294,786</b>	<b>17,749,334</b>	<b>8,388,137</b>	<b>-</b>	<b>(8,898,169)</b>	<b>(215,246)</b>
Common stock issued for cash							
July 2002 - \$0.20 per share	-	-	150,000	30,000	-	-	30,000
August 2002 - \$0.26 per share	-	-	316,000	82,000	-	-	82,000
January 2003 - \$0.32 per share	-	-	80,000	25,600	-	-	25,600
July through September 2002 - \$0.39 per share	-	-	217,000	84,204	-	-	84,204
October through December 2002 - \$0.33 per share	-	-	200,000	66,407	-	-	66,407

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January through March 2003 - \$0.26 per share			150,000	37,905			38,617
April through June 2003 - \$0.24 per share	-	-	240,000	57,234	-	-	57,234
Common stock issued for services							
July 2002 - \$0.50 per share	-	-	3,806	1,903	-	-	1,903
October 2002 - \$0.45 per share	-	-	885,000	398,250	-	-	398,250
November 2002 - \$0.35 per share	-	-	65,000	22,750	-	-	22,750
May 2003 - \$0.15 per share	-	-	10,000	1,500	-	-	1,500

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

(A Development Stage Company)

Statement of Stockholders Equity / (Deficit), continued

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Stock Purchase Rights</u>	<u>Deficit Accumulated During Development Stage</u>	<u>Total Stockholder's Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Common stock issued as part of share value guarantee							
August through May 2003	-	-	260,000	-	-	-	-
Contributed capital - no shares issued							
July through June 2003	-	-	-	39,682	-	-	39,682
Capital distribution of related party receivable- July through June 2003	-	-	-	(52,606)	-	-	(52,606)
Net loss	-	-	-	-	-	(1,017,055)	(1,017,055)
<b>Balance – June 30, 2003</b>	<u>3,700,000</u>	<u>294,786</u>	<u>20,326,140</u>	<u>9,183,678</u>	<u>-</u>	<u>(9,915,224)</u>	<u>(436,760)</u>
Common stock issued for cash							
August 2003- \$0.50 per share	-	-	132,400	66,200	-	-	66,200
September 2003- \$0.50 per share	-	-	148,000	73,000	-	-	73,000
December 2003- \$0.25 per share	-	-	34,000	8,500	-	-	8,500
July through September 2003 - \$0.72 per share	-	-	84,000	60,880	-	-	60,880
October through December 2003 - \$0.34 per share	-	-	111,200	37,731	-	-	37,731
January through March 2004 - \$0.36 per share	-	-	91,500	32,560	-	-	32,560
April through June 2004 - \$0.38 per share	-	-	104,800	40,337	-	-	40,337
Contributed capital - no shares issued							
July through June 2004	-	-	-	98,204	-	-	98,204
Net income	-	-	-	-	-	443,183	443,183
<b>Balance – June 30, 2004</b>	<u>3,700,000</u>	<u>294,786</u>	<u>21,032,040</u>	<u>9,601,090</u>	<u>-</u>	<u>(9,472,041)</u>	<u>423,835</u>
Common stock issued for cash							
August 2004 - \$0.25 per share	-	-	132,000	32,546	-	-	32,546
July through September 2004 - average of \$0.37 per share	-	-	103,050	38,165	-	-	38,165
October through December 2004 - average of \$0.34 per share	-	-	233,200	79,201	-	-	79,201
January through March 2005 - average of \$0.47 per share	-	-	225,000	106,701	-	-	106,701
April through June 2005 - average of \$0.40 per share	-	-	170,500	66,279	-	-	66,279
Contributed capital - no shares issued	-	-	-	93,877	-	-	93,877
Common stock issued for services	-	-	1,100,000	429,000	-	-	429,000
Net loss	-	-	-	-	-	(1,442,880)	(1,442,880)
<b>Balance - June 30, 2005</b>	<u>3,700,000</u>	<u>294,786</u>	<u>22,995,790</u>	<u>10,446,859</u>	<u>-</u>	<u>(10,914,921)</u>	<u>(173,276)</u>
Common stock issued for cash							
July through September 2005 - average of \$0.56 per share	-	-	722,500	407,817	-	-	407,817

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October through December 2005 - average of \$0.43 per share			124,000	52,761	-	-	52,761
January through March 2006 - average of \$0.88 per share	-	-	411,900	361,140	-	-	361,140
April through June 2006 - average of \$0.69 per share	-	-	968,432	641,730	-	-	641,730
Common stock issued for services - \$0.30 per share	-	-	50,000	15,000	-	-	15,000
Common stock issued for services - \$0.34 per share	-	-	60,000	20,400	-	-	20,400
Common stock issued for settlement of debt - \$0.69 per share	-	-	200,000	138,000	-	-	138,000
Net loss	-	-	-	-	-	(1,473,256)	(1,473,256)
<b>Balance - June 30, 2006</b>	<u>3,700,000</u>	<u>294,786</u>	<u>25,532,622</u>	<u>12,083,707</u>	<u>-</u>	<u>(12,388,177)</u>	<u>(9,684)</u>

The accompanying notes are an integral part of these financial statements



## INTERNATIONAL AUTOMATED SYSTEMS, INC.

(A Development Stage Company)

Statement of Stockholders Equity / (Deficit), continued

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Stock Purchase Rights</u>	<u>Treasury Stock</u>		<u>Deficit Accumulated During Development Stage</u>	<u>Total Stockholder's Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		<u>Shares</u>	<u>Amount</u>		
<b>Balance - June 30, 2006</b>	3,700,000	\$294,786	25,532,622	\$12,083,707	\$ -	- \$	- \$	-\$ (12,388,177)	\$ (9,684)
Common stock issued for cash									
July through September 2006 – average of \$0.63 per share	-	-	143,000	89,900	-	-	-	-	89,900
October through December 2006 - average of \$0.52 per share	-	-	402,580	208,252	-	-	-	-	208,252
January through March 2007 – average of \$0.68 per share	-	-	136,920	93,309	-	-	-	-	93,309
April through June 2007 - average of \$0.74 per share	-	-	4,500	3,322	-	-	-	-	3,322
Amortization of stock-based compensation	-	-	-	6,548,839	-	-	-	-	6,548,839
Common stock issued for cash - \$0.40 per share	-	-	400,000	160,000	-	-	-	-	160,000
Options exercised for settlement of related party borrowings - \$0.40 per share	-	-	1,725,000	690,000	-	-	-	-	690,000
Treasury stock issued for settlement of debt - \$0.51 per share	-	-	-	-	-	(625,000)	(318,750)	-	(318,750)
Treasury stock issued for settlement of debt - \$0.65 per share	-	-	-	-	-	(500,000)	(325,000)	-	(325,000)
Reissuance of treasury stock for cash - \$0.86 per share	-	-	-	200,055	-	575,000	293,250	-	493,305
Net loss	-	-	-	-	-	-	-	(8,493,400)	(8,493,400)



December 2008 - average of \$0.27 per share	-	-	398,900	109,385	-	-	-	-	109,385
January through March 2009 – average of \$0.27 per share	-	-	316,000	86,019	-	-	-	-	86,019
April through June 2009 - average of \$0.50 per share	-	-	303,100	150,925	-	-	-	-	150,926
Common stock issued for compensation - \$0.25 per share	-	-	505,000	126,250	-	-	-	-	126,250
Amortization of stock-based compensation	-	-	-	4,715,439	-	-	-	-	4,715,439
Common stock issued for services - \$0.59 per share	-	-	50,000	29,500	-	-	-	-	29,500
Options exercised for settlement of related party borrowings - \$0.40 per share	-	-	1,575,000	630,000	-	-	-	-	630,000
Common stock retired	-	-	(20,400)	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(6,637,337)	(6,637,337)
<b>Balance - June 30, 2009</b>	<u>4,700,000</u>	<u>\$417,264</u>	<u>34,501,322</u>	<u>\$32,936,636</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (35,334,617)</u>	<u>\$ (1,980,717)</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

(A Development Stage Company)

Statement of Stockholders Equity / (Deficit), continued

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Stock Purchase Rights</u>	<u>Deficit Accumulated During Development Stage</u>	<u>Total Stockholder's Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance – June 30, 2009</b>	4,700,000	\$417,264	34,501,322	\$32,936,636	\$ -	\$ (35,334,617)	\$ (1,980,717)
Common stock issued for cash – trust accounts							
July through September 2009 – average of \$0.49 per share	-	-	164,700	81,142	-	-	81,142
October through December 2009 - average of \$0.37 per share	-	-	318,400	118,322	-	-	118,322
January through March 2010 - average of \$0.33 per share	-	-	237,100	79,088	-	-	79,088
April through June 2010 - average of \$0.25 per share	-	-	86,500	21,678	-	-	21,678
Common stock issued to employees for cash – average of \$0.21 per share	-	-	429,131	88,000	-	-	88,000
Stock-based compensation	-	-	300,000	2,307,923	-	-	2,307,923
Options exercised for settlement of related party borrowings - \$0.40 per share			1,000,000	400,000			400,000
Net loss	-	-	-	-	-	(3,524,780)	(3,524,780)
<b>Balance – June 30, 2010</b>	<u>4,700,000</u>	<u>\$417,264</u>	<u>37,037,153</u>	<u>\$36,032,789</u>	<u>\$ -</u>	<u>\$ (38,859,397)</u>	<u>\$ (2,409,344)</u>

The accompanying notes are an integral part of these financial statements

## INTERNATIONAL AUTOMATED SYSTEMS, INC.

(A Development Stage Company)

## Statements of Cash Flows

	For the Years Ended		For the
	June 30,		Period
	2010	2009	From
			Inception
			(September
			26,
			1986)
			Through
			June 30,
			2010
Cash flows from operating activities			
Net loss	\$ (3,524,780)	\$ (6,637,337)	\$ (38,859,397)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization	101,507	94,074	677,155
Stock-based compensation	2,307,923	4,841,689	22,371,141
Forfeiture of deposits	-	-	236,803
Write down of carrying value of inventory	-	-	16,945
Write off of equipment to research and development	-	-	23,900
Loss on disposal of equipment	1,195	-	18,679
Impairment of patents and abandonment of in-process rights to technology	-	-	387,128
Extraordinary gain on sale of patents	-	-	(1,382,023)
Gain on settlement of debt	-	-	(6,123)
Stock compensation for services	-	19,667	120,247
Changes in current assets and liabilities:			
(Increase) / decrease in prepaid expenses	9,833	(2,000)	7,833
(Increase) / decrease in alternate solar energy systems	(124,305)	(261,661)	(537,825)
Increase / (decrease) in customer deposits	603,000	954,000	2,360,250
Increase / (decrease) in accounts payable	(322,611)	81,723	94,525
Increase / (decrease) in related party payable	8,500	(42,999)	73,501
Increase / (decrease) in accrued liabilities	169,295	108,936	450,621
Net cash from operating activities	<u>(770,443)</u>	<u>(843,908)</u>	<u>(13,946,640)</u>
Cash flows from investing activities			
Purchase of property and equipment	(17,599)	(23,358)	(772,135)
Purchase of rights to technology	-	-	(706,643)
Organization costs	-	-	(1,880)
Net cash advanced to related party	-	-	(1,644,988)
Commitments and contingencies	-	-	44,220
Proceeds from sale of equipment	-	-	2,500
Repayment of cash loaned to related party	-	-	53,254
Net proceeds from sale of patents	-	-	1,382,023
Net cash from investing activities	<u>(17,599)</u>	<u>(23,358)</u>	<u>(1,643,649)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock	388,230	432,502	6,177,461
Proceeds from reissuance of treasury stock	-	-	751,573
Contributed capital	-	-	6,270,559
Payments for treasury stock	-	-	(3,325)
Payments for stock offering costs	-	-	(56,509)
Proceeds from cash advances from related party	498,082	557,101	2,897,203

Payments on cash advances from related party	(104,432)	(173,744)	(377,713)
Proceeds from notes payable	-	-	29,857
Payments on notes payable and capital lease obligations	(34,510)	(45,485)	(247,611)
Proceeds from related party deposits	-	-	224,400
Purchases of equipment held for distribution	-	-	(68,741)
Net cash from financing activities	<u>747,370</u>	<u>770,374</u>	<u>15,597,154</u>
Net change in cash	(40,672)	(96,892)	6,865
Cash at beginning of period	<u>47,537</u>	<u>144,429</u>	<u>-</u>
Cash at end of period	<u>\$ 6,865</u>	<u>\$ 47,537</u>	<u>\$ 6,865</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

(A Development Stage Company)

## Statements of Cash Flows

(Continued)

	For the Years Ended	
	June 30,	
	2010	2009
Supplemental non-cash flow information		
Acquisition of property and equipment with note payable	\$ -	\$ 74,965
Settlement of borrowings from related party in exchange for exercise of options	\$ 400,000	\$ 630,000
Settlement of related party borrowings in exchange for patent rights	\$ -	\$ 86,977
Stock issued for services and included in prepaids	\$ -	\$ 9,833
Supplemental cash flow information		
Cash payments for interest	\$ 9,096	\$ 9,105
Cash payments for income taxes	\$ 100	\$ 100

The accompanying notes are an integral part of these financial statements

**International Automated Systems, Inc.**

(A Development Stage Company)

Notes to the Financial Statements

June 30, 2010 and 2009

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - International Automated Systems, Inc. (the “Company” or “IAS”) was incorporated in the State of Utah on September 26, 1986. The Company’s activities to date have consisted of developing a business plan, raising capital through the issuance of debt and equity instruments, developing power generation equipment and obtaining the rights to certain technology related to an automated self-check-out system for retail stores, developing other electronic security and communication equipment.

The Company is considered to be in the development stage as defined in Accounting Standards Codification (“ASC”) 915. It has yet to commence full-scale operations and continues to develop its planned principle operations.

**Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Presentation / Going Concern** - The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of June 30, 2010, the Company had \$6,865 of available cash and a working capital deficit of \$3,334,945. For the years ended June 30, 2010 and 2009, the Company had no revenue, no operating income and used net cash for operating activities of \$770,443 and \$843,908, respectively. As of June 30, 2010 the Company’s losses accumulated from inception totaled \$38,859,397. These factors, among others, indicate that the Company may be unable to continue as a going concern for the next twelve months. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing as may be required, and ultimately to attain sufficient cash flow from operations to meet its obligations on a timely basis. Management is in the process of negotiating various sales agreements and believes these sales will generate sufficient cash flow for the Company to continue as a going concern. If the Company is unsuccessful in these efforts and does not attain sufficient sales to permit profitable operations or if it cannot obtain sufficient additional financing, it may be required to substantially curtail or terminate its operations.

**Concentration Risks** - The Federal Deposit Insurance Corporation (FDIC) insures cash deposits in most general bank accounts for up to \$250,000 per institution. The Company had no cash deposits that exceeded insured amounts for the years ended June 30, 2010 and 2009, respectively.

**Cash Equivalents** - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Fair Value of Financial Instruments** - The Company’s financial instruments consist of cash and cash equivalents, payables, and notes payable. The carrying amount of cash and cash equivalents and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

**Impairment** - The Company records impairment losses on property and equipment and patents when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amount. Furthermore, the Company makes periodic assessments about each patent and the related technology to determine if it plans to continue to pursue the technology and if the patent has value.



**Property and Equipment** - Property and equipment are recorded at cost and are depreciated using the straight-line method based on the expected useful lives of the assets which range from five to ten years. Depreciation expense for the years ended June 30, 2010 and 2009 was \$95,859 and \$88,425, respectively. The major classes of assets are as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Land	\$ 216,025	\$ 216,025
Computer equipment	55,433	59,956
Machinery and equipment	394,248	388,113
Trucks and autos	97,044	97,044
Mobile office	11,764	11,764
Total property and equipment	<u>774,514</u>	<u>772,902</u>
Less accumulated depreciation and amortization	<u>(372,457)</u>	<u>(291,390)</u>
Total property and equipment, net	<u><u>\$ 402,057</u></u>	<u><u>\$ 481,512</u></u>

**Patents** - Legal fees incurred in obtaining patents and franchises in the United States of America and other countries are capitalized. Costs to develop the technology are recognized as research and development and expensed when incurred. The patents are being amortized, once issued, on a straight-line basis over a 17-year life.

At June 30, 2010 and 2009, the Company had capitalized patents subject to amortization of \$69,553 and \$75,201, net of \$26,474 and \$20,825 in accumulated amortization, respectively.

All patent costs were assessed for impairment and no impairments were recorded during the years ended June 30, 2010 and 2009. Amortization expense was \$5,649 for the years ended June 30, 2010 and 2009. Amortization expense is expected to be \$5,649 per year for the next five years.

**Alternate Solar Energy Systems** - The Company's principal product is its Alternative Solar Energy System ("System"). Each individual system is designed to generate 250,000,000 British Thermal Units ("BTU's") per year. The principal component of the system is the solar lenses in the collection platform. The solar lenses are purchased from a third party. The System also includes towers and pipelines, which are constructed by the Company.

**Capitalized Costs** - Similar to a multi-unit condominium project with both unit-specific and common area costs, the Company capitalizes all costs associated with constructing the System. Costs are allocated equally to each unit (based on their common size) and will be recognized as cost of sales at the same rate revenue is recognized, as discussed below. Capitalized System costs at June 30, 2010 include labor costs and materials for the Systems being built through June 30, 2010 and materials that will be used to produce additional Systems that will be sold in the future.

**Customer Deposits and Revenue Recognition** - The terms of sale of a System provides for an initial cash deposit of \$9,000 at the date the agreement is signed and thirty annual payments of \$700 (with no stated interest), totaling \$21,000, commencing five years following the installation date. As of June 30, 2010, the Company had entered into contracts and received deposits to build, install and maintain approximately 270 Systems. No revenue has been recognized.

Under the terms of sale, the Company warrants that the Systems will remain in good operating condition for a thirty-five year period commencing on the installation date and that it will be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work. In addition, the Company warrants a production rate of 95% of the target production rate of 250,000,000 BTU's per year for the first five years. If the energy produced during the first five years is less than five times the warranted production rate, the purchaser may elect to terminate the agreement and will have no further obligation other than to return the System to the Company. The initial cash deposit will not be returned.

The deposits received have been recorded as customer deposits and included as current liabilities in the financial statements since the Company has not verified the energy output and has not yet delivered electricity from the Systems to a third party as of June 30, 2010. Therefore, for all of these agreements, the customers may request a return of their deposits since the Company has not verified output of the energy. Revenue will be recognized when all of the following four criteria are met: (1) persuasive evidence of an

arrangement exists, (2) the fee is fixed or determinable, (3) collection is reasonably assured, and (4) delivery has occurred or services have been rendered. The Company will begin to recognize revenue once the Systems energy output has been verified (saleable energy is produced) and once it is able to estimate its costs associated with the warranty.

**Stock-Based Compensation** – Stock-based compensation cost is measured at the grant date based on the fair value of the award granted and recognized as expense over the requisite service period in which the award is expected to vest. The fair value of stock options was determined at the grant dates using the Black-Scholes option-pricing model. The Company uses historical data to estimate the expected volatility and expected life. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from estimates, such amounts will be recorded as an adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. Actual results may differ substantially from these estimates (see Note 4).

**Advertising Costs** - Advertising costs are expensed when incurred. Advertising expense was \$33,156 and \$12,884 for the years ended June 30, 2010 and 2009, respectively.

**Research and Development** - Research and development has been the principal function of the Company. Research and development costs are expensed as incurred. Expenses in the accompanying financial statements include certain costs which are directly associated with the Company's research and development of the Solar Power Plant technology, Steam Turbine technology, Automated Fingerprint Identification Machine technology, Digital Wave Modulation Technology and other various projects. These costs, which consist primarily of monies paid for consulting expenses, materials and supplies and compensation costs amounted to \$493,550 and \$704,889 for the fiscal years ended June 30, 2010 and 2009, respectively.

**Income Taxes** - The Company recognizes the amount of income taxes payable or refundable for the current year and recognizes deferred tax assets and liabilities for operating loss carryforwards and for the future tax consequences attributable to differences between the financial statement amounts of certain assets and liabilities and their respective tax basis. Deferred tax assets and deferred liabilities are measured using enacted tax rates expected to apply to taxable income in the years those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance to the extent that uncertainty exists as to whether the deferred tax assets will ultimately be realized.

**Recent Accounting Pronouncements** - In June 2009, the FASB issued guidance under SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 166"), which was subsequently codified into ASC Topic 860. SFAS 166 amends SFAS 140 by including: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the standard requires extensive new disclosures regarding an entity's involvement in a transfer of financial assets. Finally, existing QSPEs (prior to the effective date of SFAS 166) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept. This guidance is effective for the Company beginning on July 1, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

In June 2009, the FASB issued guidance under SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)", which was subsequently codified into ASC Topic 810. Among other items, this guidance responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. This guidance is effective for the Company beginning on July 1, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

In October, 2009, the FASB issued ASC Update 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASC Update 2009-13"). This guidance provides amendments to the criteria in Subtopic 605-24 for separating consideration in multiple-deliverable revenue arrangements. It establishes a hierarchy of selling prices to determine the selling price of each specific deliverable which includes vendor-specific objective evidence (if available), third-party evidence (if vendor-specific evidence is not available) or estimated selling price if neither of the first two are available. The guidance also eliminates the residual method for allocating revenue between the elements of an arrangement and requires that arrangement consideration be allocated at the inception of the arrangement. Finally, the guidance expands the disclosure requirements regarding a vendor's multiple-deliverable revenue arrangements. ASC Update 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

In October, 2009, the FASB issued ASC Update 2009-14, "Certain Revenue Arrangements That Include Software Elements" ("ASC Update 2009-14"). This guidance amends existing guidance to exclude tangible products that include software and non-software components that function together to deliver the product's essential functionality. ASC Update 2009-14 shall be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have material impact on its financial statements.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its financial statements.

Basic earnings per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing the net income or loss by the sum of the weighted average number of common shares plus the weighted average common stock equivalents which would arise from the exercise of outstanding stock options, issuance of stock held in trust and conversion of Series B Preferred Shares into options to purchase shares of common stock, using the treasury stock method and the average market price per share during the period.

As a result of incurring a net loss for the years ended June 30, 2010 and 2009, no outstanding common stock equivalents are included in the calculation of diluted earnings per share because such effect would be anti-dilutive. The Company had outstanding stock options and warrants to purchase a total of 94,900,000 and 95,900,000 shares of common stock at June 30, 2010 and 2009, respectively, which are not included in the basic earnings per share calculation. The Company had 3,538,118 and 4,344,818 shares of common stock held in trust at June 30, 2010 and 2009, respectively, which are not included in the basic earnings per share calculation. The Company had 300,000 Series B Preferred Shares that are convertible into options to purchase 600,000 shares of common stock at June 30, 2010 and 2009, which are not included in the basic earnings per share calculation.

**NOTE 3 – RELATED PARTY TRANSACTIONS**

During 2003, the Company commenced leasing office and research and development space on a month-to-month basis from the Company's president and a third party. The lease is an operating lease and rent expense is \$6,000 per month payable to the president and \$6,200 per month payable to the third party. The amount payable to the president for rent at June 30, 2010 and 2009 was \$73,500 and \$65,000, respectively, and is included in related party payables.

The Company received cash advances of \$498,082 and \$557,101 from its president during the years ended June 30, 2010 and 2009. The advances are non-interest bearing, payable upon demand and included in related party payables. During the year ended June 30, 2010, the Company settled \$400,000 of the cash advances by issuing 1,000,000 shares of common stock to the president upon the exercise of warrants; and paid \$104,432 of the cash advances. During the year ended June 30, 2009, the Company settled \$630,000 of the cash advances by issuing 1,575,000 shares of common stock to the president upon the exercise of warrants; paid \$173,744; and settled \$86,977 of the cash advances through the transfer of in-process patent rights at cost. As of June 30, 2010 and 2009, the balance was \$434,032, and \$440,382, respectively.

The Company has received deposits from officers of \$81,000 for alternate solar energy systems, which are included in customer deposits at June 30, 2010 and 2009.

The Company's president and two of his sons, who are also officers of the Company, control approximately 86% of the voting rights of the Company. As a result, these three individuals control the Company's business operations and policies and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions.

**NOTE 4 – STOCK BASED COMPENSATION**

*Options and Warrants* - The Company's board of directors authorized the Company to enter into an agreement dated May 14, 2004 and amended October 13, 2004, with the Company's president, in which the Company acquired patents, patents pending, designs and contracts related to certain technology developed by the president from the president. The direct costs of developing and obtaining the acquired patents, patents pending, designs and contracts were paid and capitalized by the Company. No additional value has been assigned to these patents as a result of them being acquired from the president.

As consideration, the Company authorized and issued warrants to purchase 100,000,000 shares of common stock to the president and agreed to pay the president royalties in the future equal to 10% of future sales proceeds from the technology. The warrants, which were considered stock-based compensation for services to be rendered, had no intrinsic value on the grant date. The fair value of the warrants was \$37,136,781, calculated on the grant date using the Black-Scholes model. The following assumptions were used for this grant: Average risk-free interest rate of 4.79%; expected lives of 10 years; expected dividend yield of zero percent; and expected volatility of 138.76%. On July 1, 2006, the Company began recognizing stock-based compensation expense over the graded exercisability period of the options using the straight-line basis over the requisite service period for each separately exercisability portion of the award as if the award was, in-substance, multiple awards.

The agreement contains an anti-dilution clause that gives the president the right to purchase the same number of shares of common stock, given reclassification, reorganization or change by a stockholder, as were purchasable prior to any such changes, at a total price equal to that payable upon the exercise of the options. Appropriate adjustments shall be made to the exercise price so the aggregate purchase price of the shares will remain the same.

The warrants have an exercise price of \$0.40 per share and are all exercisable as of June 30, 2010.

During the year ended June 30, 2009, the president exercised 1,575,000 of the warrants in exchange for satisfaction of related party payable of \$630,000.



During the year ended June 30, 2010, the president exercised 1,000,000 of the warrants in exchange for satisfaction of a related party payable of \$400,000.

In August 2000, the Company issued options to purchase 1,000,000 shares of restricted common stock over a ten year period at \$3.00 per share as part of employment agreements. These options vest 100,000 shares per year over a ten year period and expire ten years from the date of issuance.

In August 2000, the Company issued options to purchase 600,000 shares of restricted common stock over a ten year period at \$3.00 per share as part of employment agreements. These options vested on August 24, 2000 and expire ten years from the date of issuance.

The following table summarizes the stock option and warrant activity as of and for the years ended June 30, 2010 and 2009:

	<u>Options and Warrants</u>	<u>Wtd. Avg. Exercise Prices</u>	<u>Wtd. Avg. Remaining Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at June 30, 2008	97,475,000	\$ 0.44	27.2	\$ 33,277,500
Exercised	<u>(1,575,000)</u>	0.40		-
Outstanding at June 30, 2009	95,900,000	0.44	26.1	17,917,000
Exercised	<u>(1,000,000)</u>	0.40		-
Outstanding at June 30, 2010	<u>94,900,000</u>	\$ 0.44	24.1	\$ -
Exercisable at June 30, 2010	<u>94,900,000</u>	\$ 0.44	24.1	\$ -

The following table summarizes information about the stock options and warrants as of June 30, 2010:

<u>Range of Exercise Prices</u>	<u>Options and Warrants Outstanding and Exercisable</u>			
	<u>Shares</u>	<u>Wtd. Avg. Remaining Contractual Life (years)</u>	<u>Wtd. Avg. Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
\$ 3.00	1,600,000	0.15	\$ 3.00	\$ -
\$ 0.40	<u>93,300,000</u>	24.52	0.40	-
	<u>94,900,000</u>	24.11	\$ 0.44	<u>\$ -</u>

The following table summarizes the activity of non-vested options and warrants for the years ended June 30, 2010 and 2009:

	<u>Options and Warrants</u>	<u>Wtd. Avg. Grant Date Fair Value</u>
Non-vested at June 30, 2008	75,200,000	\$ 0.37
Vested during the year ended June 30, 2009	<u>(10,100,000)</u>	0.39
Non-vested at June 30, 2009	65,100,000	0.37
Vested during the year ended June 30, 2010	<u>(65,100,000)</u>	0.37
Non-vested at June 30, 2010	<u>-</u>	\$ -



*Restricted Stock* - During the year ended June 30, 2010, the Company granted 300,000 shares of restricted stock to employees, which vested immediately. The grant date fair value of the restricted stock awards, which totaled \$105,000, was based on the effective date of the restricted stock awards using the \$0.35 closing market price of the Company's common stock on the grant date, with the compensation expense being recognized immediately. During the year ended June 30, 2010, employees purchased 429,131 shares of restricted stock at a 25% discount from the price of the stock on the date of the sale. The Company recorded the value of the 25% discount of \$29,333 as stock-based compensation.

During the year ended June 30, 2009, the Company granted 505,000 shares of restricted stock to employees, which vested immediately. The grant date fair value of the restricted stock awards, which totaled \$126,250, was based on the effective date of the restricted stock awards using the \$0.25 closing market price of the Company's common stock on the grant date, with the compensation expense being recognized immediately.

For the years ended June 30, 2010 and 2009, total stock-based compensation expense recognized was \$2,307,923 and \$4,841,689, respectively. Stock-based compensation for the year ended June 30, 2010 includes the issuance of 300,000 shares of restricted common stock valued at \$105,000 and the value of the 25% discount of \$29,333. Stock-based compensation for the year ended June 30, 2009 includes the issuance of 505,000 shares of restricted common stock valued at \$126,250. As of June 30, 2010, there was no unrecognized compensation cost related to non-vested stock-based compensation awards granted.

Reduction in related party payables received from the exercise of stock options and warrants during the years ended June 30, 2010 and 2009 was \$400,000 and \$630,000, respectively. No tax benefit was realized from the exercise of these options and warrants due to the Company's current loss position.

#### NOTE 5 – NOTES PAYABLE

Notes payable consist of the following:

	June 30, 2010	June 30, 2009
Note payable to a financing company; 7% per annum; secured by land; due in annual installments of \$10,000; maturing on August 1, 2016; collateralized by a deed of trust covering the underlying real property	\$ 51,366	\$ 57,387
Note payable to a financing company; 7% per annum; secured by land; due in annual installments of \$9,397; maturing on July 15, 2016; collateralized by a deed of trust covering the underlying real property	45,181	51,168
Note payable to a company; 4.65% per annum; due in monthly installments of \$4,000; maturing in May 2010	18,168	40,670
	<u>114,715</u>	<u>149,225</u>
Less current portion	(30,881)	(52,543)
Long-term debt	<u>\$ 83,834</u>	<u>\$ 96,682</u>

The scheduled maturities of the notes payable are as follows:

2011	\$ 30,881
2012	13,604
2013	14,555
2014	15,575
2015	16,665
Thereafter	23,435
	<u>\$ 114,715</u>

#### NOTE 6 – PREFERRED STOCK

*Series A Preferred Stock* – The Series A Preferred Stock has equal dividend rights to the common shares, is not convertible into common



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shares, has no cumulative dividend requirements and has liquidation preferences equivalent to the common shares. 3,400,000 of the Series A Preferred Stock are entitled to the voting rights of ten common shares, and 1,000,000 of the Series A Preferred Stock are entitled to the voting rights of 100 common shares. At June 30, 2010 and 2009, there were 4,400,000 Series A Preferred Stock issued and outstanding.

*Series B Preferred Stock* – The Series B Preferred Stock has equal dividend rights to the common shares, has no cumulative dividend requirements, has liquidation preferences equivalent to the common shares and each preferred share is entitled to the voting rights of ten common shares. Each share is convertible into options to purchase two shares of common stock at \$3.00 per share, exercisable immediately and the options expire ten years from the date the preferred stock is exchanged. At June 30, 2010 and 2009, there were 300,000, series B Preferred shares issued and outstanding.

**NOTE 7 – COMMON STOCK**

*Common Stock Held in Escrow* - The Company has shares of common stock held in escrow accounts. Proceeds from the sale of stock from these escrow accounts are placed in separate escrow accounts to be used at the Company's and the trustee's discretion. During the year ended June 30, 2010, 806,700 shares were sold for proceeds of \$300,230 at prices ranging from \$0.22 to \$0.62 per share. During the year ended June 30, 2009, 1,245,000 shares were sold for proceeds of \$432,502 at prices ranging from \$0.16 to \$0.67 per share. The proceeds were used to pay professional fees, rent, operating expenses and accrued liabilities. At June 30, 2010 and 2009, there was a balance of 3,538,118 and 4,344,818 shares, respectively, in the escrow accounts. These shares are not accounted for as issued or outstanding common shares.

During the year ended June 30, 2010, the Company also issued 429,131 shares of restricted common stock to employees in exchange for \$88,000 in cash at an average price of \$0.21 per share.

*Common Stock Issued for Services* – During the year ended June 30, 2009, the Company issued 50,000 shares of common stock valued at \$29,500 or \$0.59 per share in exchange for services performed.

*Retirement of Common Stock* – The Company retired 20,400 shares of common stock during the year ended June 30, 2009.

**NOTE 8 – CUSTOMER DEPOSITS**

During the years ended June 30, 2010 and 2009, the Company received customer deposits totaling \$621,000 and \$954,000, respectively, and refunded deposits totaling \$18,000 and \$0, respectively, relating to contract agreements to build, install and maintain alternate solar energy systems.

The total amount of customer deposits at June 30, 2010 and 2009 was \$2,360,250 and \$1,757,250, respectively. The agreements provide that the Company will deliver, install and startup the alternate solar energy systems prior to June 30, 2010. The Company has and continues to work toward delivering, installing and starting up the alternate solar energy systems, but the energy output has not been verified. Therefore, for all of these agreements, the customers may request a return of their deposits since the Company has not verified output of the energy.

**NOTE 9 – INCOME TAXES**

Because of its net losses, the Company did not have a current or deferred provision for income taxes for the years ended June 30, 2010 and 2009. Significant components of the Company's net deferred income tax assets using a combined federal and state tax rate of 37.3% as of June 30, 2010 and 2009 are as follows.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Net operating loss carryforwards	\$ 4,567,526	\$ 4,116,481
Accrued wages	94,439	47,332
Depreciation and amortization	<u>(25,338)</u>	<u>(21,990)</u>
Total gross deferred income tax asset	4,636,627	4,141,823
Less valuation allowance	<u>(4,636,627)</u>	<u>(4,141,823)</u>
Net deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

The net change in the valuation allowance for the years ended June 30, 2010 and 2009 was an increase of \$494,804 and \$714,000, respectively.

Accounting guidance requires that a valuation allowance be provided if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Because the Company has a history of operating losses, the Company's ability to realize the benefit of its deferred tax asset will depend on the generation of future taxable income. The Company has recorded a full valuation allowance as of June 30, 2010 and 2009.



At June 30, 2010, the Company had total tax net operating loss carryforwards of \$12,245,379 that will expire in the years 2012 through 2030.

The following is a reconciliation of the income tax benefit from the loss before extraordinary gain computed at the federal statutory tax rate with the provision for income taxes for the years ended June 30, 2010 and 2009:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
US Federal income tax benefit at statutory rate of 34%	\$ (1,198,425)	\$ (2,256,695)
Nondeductible expenses	819,939	1,761,265
State income tax benefit, net of federal expense	(116,318)	(219,032)
Change in valuation allowance	494,804	714,462
Total income tax provision	<u>\$ -</u>	<u>\$ -</u>

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any material adjustments. Therefore, no reserves for uncertain income tax positions have been recorded. The Company is subject to audit by the IRS and various states for the prior 3 years.

The Company's policy for recording interest and penalties associated with taxes is to recognize it as a component of income tax expense. The Company recorded no interest and penalties for the years ended June 30, 2010 and 2009.

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

*Sales Commitments* - During December 2005, the Company entered into a purchase and installation contract with Solar Renewable Energy-1, LLC for a solar thermal power plant. The contract is contingent on several factors and provides for certain progress payments to the Company. As of June 30, 2010, the Company has not provided any services or equipment required under this agreement and has recognized no revenues.

The Company's board of directors authorized the Company to enter into an agreement dated May 14, 2004 and amended October 13, 2004, with the Company's president, in which the Company acquired patents, patents pending, designs and contracts related to certain technology developed by the president from the president. As consideration, the Company authorized and issued warrants to purchase 100,000,000 shares of common stock to the president and agreed to pay the president royalties in the future equal to 10% of future sales proceeds from the technology.

The Company's president has entered into several solar lease bonus fee contracts with many of the customers who made deposits on the alternate solar energy system discussed in Note 8. As additional consideration for making the deposit and making the solar alternate energy system available to the Company as a reference for marketing and sales purposes to show and demonstrate, the Company's president has agreed to pay many of the customers a referral fee of .009%, for each System purchased, on the first one billion dollars of total gross sales revenue received by the Company for the sale of power generation equipment.

*Legal* - During the years ended June 30, 2010 and 2009, the Company was involved in various lawsuits to protect its patents. One counterclaim was filed by a defendant against the Company in June 2008, requesting an award for attorney fees and court costs, which could have exceeded \$1,000,000. The Company filed a motion to dismiss in August 2008. The Court issued a Memorandum Decision and Order denying the defendant's motion for summary judgment and denying the motion for an award of attorney fees. The Court made a limited award of \$45,000 for reasonable attorney fees incurred by the defendant, which was paid by the Company in April 2009.

*Employment Agreement* - The Company has entered into an agreement with its president and CEO for a period of ten years starting in July 2000. Per the agreement, the president is to be paid \$100,000 per annum and shall increase each calendar year by the percentage increase in the Consumer Price Index. The president may terminate the agreement, but must give the Company six months advance notice. The Company can not voluntarily terminate its president's employment for any reason. No additional payments are outlined in the agreement.

for a change in control. The president agreed to waive his salary from July 2000 to June 30, 2006. The Company issued 1,000,000 Series A Preferred Stock, entitled to the voting rights of 100 common shares, valued at \$122,478, to its president in lieu of cash compensation for services rendered during fiscal year 2008. The Company accrued \$125,000 for services rendered by its president during both fiscal year 2010 and 2009, which are included accrued liabilities at June 30, 2010 and 2009. No new employment agreement has yet been entered into between the Company and its president.

**NOTE 11 – LEASE OBLIGATIONS**

In October 2006, the Company entered into a lease agreement for research and development space. The term of this lease is from November 1, 2006 to November 1, 2016. The following summarizes future minimum lease payments under this lease at June 30, 2010:

2011	\$	7,500
2012		7,500
2013		7,500
2014		7,500
2015		7,500
Thereafter		10,000
	\$	<u>47,500</u>

Total rent expense for this lease and the leases described in Note 3 for the years ended June 30, 2010 and 2009 was \$170,057 and \$169,870, respectively.

**NOTE 12 – SUBSEQUENT EVENTS**

The Company entered into an agreement for engineering and consulting services in July 2010. As part of the agreement, the Company agreed to transfer in retainer 1,500,000 shares of the Company's restricted stock to engineering consulting firm as a retainer. The engineering consulting firm will be entitled to have shares of the restricted stock sold as reasonably needed to generate funds to pay for engineering and consulting costs incurred by the engineering and consulting firm for the Company. The restricted shares transferred will be classified as shares held in escrow.

The Company has received \$166,577 in cash advances from its president subsequent to June 30, 2010, thereby increasing related party payables.