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**UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION**

UNITED STATES OF AMERICA,

Plaintiff,

v.

RAPOWER-3, LLC; INTERNATIONAL
AUTOMATED SYSTEMS, INC.; LTB1,
LLC; R. GREGORY SHEPARD; NELDON
JOHNSON; and ROGER FREEBORN,

Defendants.

**ORDER CANCELING SHARES OF
INTERNATIONAL AUTOMATED
SYSTEMS, INC.**

Civil No. 2:15-cv-00828-DN

District Judge David Nuffer

R. Wayne Klein, the court-appointed receiver (“Receiver”), filed a motion (the “Motion”) for an order canceling the shares of International Automated Systems, Inc. (“IAS”).¹ The Corrected Receivership Order (“Order”) directed the Receiver to “investigate the publicly-traded status of IAS and provide a recommendation to the Court on whether IAS should remain a publicly traded

¹ Docket No. ____, filed May __, 2019.

company or should otherwise be liquidated and dissolved.”² The Receiver was also directed to file a report that “describe[s] in detail his findings and recommendations.”³ The Order further stated that: “[i]f the Receiver determines that [IAS has] no operations unrelated to the solar energy scheme, then the Receiver shall propose a liquidation plan rather than sell the shell entity and its ‘public company’ status.”⁴

The Order separately established a priority system for distributing assets of the Receivership Estate.⁵ Under this priority system, claims of shareholders of IAS would be entitled to share in recoveries only to the extent that the Receiver has previously paid \$50,025,480 to the United States Treasury and other priority claimants.⁶

FACTUAL BASIS

The Receiver filed his *Receiver’s Accounting, Recommendation on Publicly-Traded Status of International Automated Systems, and Liquidation Plan* (“Report and Recommendation”) on December 31, 2018.⁷ In the Report and Recommendation, the Receiver recommended that IAS not continue as a publicly traded company⁸ and proposed a liquidation plan.⁹ During the course of his investigation, the Receiver has found that:

1. The company’s most recent annual report dated, June 30, 2016, is outdated and fails to disclose material information such as: Johnson’s 2011 personal bankruptcy,¹⁰ the SEC’s 2004

² [Docket No. 491](#), filed on November 1, 2018, at ¶ 85.

³ *Id.*

⁴ *Id.* at ¶ 85(f).

⁵ *Id.* at ¶¶ 88-91.

⁶ *Id.* at 89 (d) and (e).

⁷ [Docket No. 552](#).

⁸ *Id.* at 16-24.

⁹ *Id.* at 24-30.

¹⁰ *In re Neldon P. Johnson*, Ch.7 Case No. 11-20679 (Bankr. D. UT. 2011).

and 2005 injunctions against Neldon Johnson and family members,¹¹ the fact that the intellectual property rights which underlay the supposed solar generation program are owned by foreign entities,¹² the fact that courts have invalidated some of the IAS patents,¹³ and this Court's ruling that IAS was operating a massive fraud.¹⁴

2. Material information contained in the annual report is inaccurate. The section on stock ownership by insiders falsely reports that Johnson owns 76% of outstanding shares when those shares are currently held by foreign corporations.¹⁵

3. IAS has filed no quarterly or annual reports subsequent to its June 30, 2016 annual report. The company had been delinquent in filing its quarterly and annual reports at least 39 times since 1996.¹⁶

4. The trading price and volume of IAS stock has varied greatly, ranging from a high of \$57 per share in 1996 to less than \$0.01. Despite the public availability of this Court's *Amended Judgment*¹⁷ and its *Findings of Fact and Conclusions of Law*,¹⁸ and the Receiver's filing of Form 8-K "Current Report," disclosing the Court's *Memorandum Decision and Order Freezing Assets*¹⁹ and the *Receivership Order*, the stock retained value and continued trading.²⁰

5. While IAS had been telling shareholders and the public markets for years that IAS was developing a variety of products, the only active product development in which the company

¹¹ *SEC v. Intl. Auto Sts, et al.*, [Docket No. 65, 66](#), Case No. 2:98-cv-687 (D. Ut. Jan. 13, 2005).

¹² Receiver's Second Quarterly Status Report, [Docket No. 608](#) at 8.

¹³ *Id.* at 14.

¹⁴ See generally, *Findings of Fact and Conclusions of Law*, [Docket No. 467](#).

¹⁵ Motion at 8.

¹⁶ [Docket No. 467](#) at 18.

¹⁷ *Amended and Restated Judgment*, [Docket No. 507](#), filed Nov. 13, 2018.

¹⁸ [Docket No. 467](#), filed Oct. 4, 2018.

¹⁹ [Docket No. 444](#), filed Aug. 22, 2018.

²⁰ [Report and Recommendation](#) at 20.

was engaged was the solar lens system.²¹ IAS does not engage in any business operations other than the solar scheme.²² IAS has never had a product that generated revenue, has never generated a profit,²³ and had no market share for any of its products.²⁴ IAS's independent auditors indicated the company may be "unable to continue as a going concern."²⁵

6. IAS issued over nine million shares to the law firm Nelson Snuffer Dahle & Poulsen, that the law firm could sell in order to pay legal fees incurred by the firm.²⁶

7. The SEC obtained injunctions against Johnson and family members in 2005 based on allegations the Johnson family members manipulated the price of IAS shares in the course of selling shares they owned.²⁷

8. IAS was sanctioned twice by the Utah Division of Securities for selling unregistered securities and for a denied application for exemption.²⁸

9. Based on the assets identified by the Receiver, there are no prospects of the Receivership Estate yielding over \$50 million in assets. Accordingly, there will be no asset distribution to fifth priority shareholder claims under the Order.

ORDER

THEREFORE, IT IS HEREBY ORDERED that:

²¹ Report and Recommendation, [Docket No. 552](#).

²² *Id.*

²³ Indeed, the company had a \$40.1 million accumulated deficit as of June 30, 2016.

²⁴ [Report and Recommendation](#) at 21.

²⁵ *Id.*

²⁶ Receiver's Second Quarterly Status Report, [Docket No. 608](#) at 9, filed Apr. 15, 2019.

²⁷ *Id.* at 14.

²⁸ *In the Matter of International Automated Systems, Inc.*, Findings of Fact, Conclusions of Law and Order, Case No. SD-88-100, Jan. 31, 1989 (Utah Division of Securities); *In the Matter of the Application for or Notice of Exemption from Registration of International Automated Systems, Inc.*, Findings of Fact, Conclusions of Law and Order, Case No. EN-01120-21, Nov. 20, 1991 (Utah Division of Securities).

1. The Motion is GRANTED.
2. All equity in IAS shares is canceled.
3. IAS shares have no value, including any common shares, preferred shares, or warrants in IAS shares.
4. The Receiver shall continue to have all powers, authorities, rights, and privileges as set forth in the Corrected Receivership Order.²⁹
5. Nothing in this order shall change or circumscribe the Receiver's authority as set forth in the Corrected Receivership Order or the Order on Receiver's Motion to Include Affiliates and Subsidiaries in Receivership.³⁰

Signed _____, 2019.

BY THE COURT:

David Nuffer
United States District Judge

²⁹ [Docket No. 491](#).

³⁰ [Docket No. 636](#).