

# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-QSB

(Mark One)

- Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the **quarterly period ended June 30, 1995.**
- Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 33-81560C

### SolarAttic, Inc.

(Name of small business issuer in its charter)

**MINNESOTA**  
(State of Incorporation)

**41-1611245**  
(IRS Employer Identification No.)

**15548 95th Circle NE, Elk River, Minnesota**  
(Address of Principal Executive Offices)

**55330-7228**  
(Zip Code)

**(612) 441-3440**  
(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

The number of shares of the registrant's Common Stock outstanding **as of August 14, 1995**, was 8,486,256.

## **Documents Incorporated by Reference**

<b><u>Document Description</u></b>	<b><u>Form 10-QSB Part</u></b>
10-KSB Filing dated April 29, 1995.....	I, II
10-QSB Filing dated May 23, 1995.....	I, II
Company's Prospectus dated September 7, 1994.....	I, II
SB-1 Registration Statement dated August 8, 1994.....	I, II
Company Press Release dated July 10, 1995.....	I, II
Company Press Release dated July 24, 1995.....	I, II
Company Press Release dated July 31, 1995.....	I, II
Company Press Release dated August 7, 1995.....	I, II
Company Press Release dated August 14, 1995.....	I, II

### **PART I - Financial Information**

#### **Item 1. *Financial Statements***

**SOLARATTIC, INC. (A Development Stage Company)****BALANCE SHEETS****(Unaudited)**

<b>JUNE 30,</b>	<b>1994</b>	<b>1995</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 5,222	\$ 5,094
Accounts receivable	—	—
Inventories	31,419	32,627
Prepaid Expenses (Note 1)	—	4,000
Deferred Financing Costs (Note 1)	—	34,720
Total current assets	36,641	76,441
<b>Furniture and Equipment</b>	23,936	24,505
Less accumulated depreciation	18,566	20,264
Total furniture and equipment	5,370	4,241
<b>Patent</b>		
Less accumulated amortization 1994 \$11,542; 1995 \$17,984	49,658	43,216
	\$ 91,669	\$ 123,898
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of note payable to officer (Note 2)	\$ 2,327	\$ 2,782
Due to related party (Note 2)	6,796	11,934
Accounts payable and accrued expenses	15,242	38,270
Total current liabilities	24,365	52,986
<b>Note Payable to Officer</b>		
Less current maturities (Note 2)	28,578	25,796
<b>Commitments and Contingencies</b> (Note 4)		
<b>Stockholders' Equity</b>		
Common stock, no par value; authorized 100,000,000 shares; issued and outstanding 1994 8,300,422 and 1995 8,486,256 shares (Note 3)	307,160	358,411
Less account receivable for the purchase of common stock	—	—
Deficit accumulated during the development stage	(243,815)	(279,853)
	63,345	78,558
Less officer notes receivable (Note 2)	(24,619)	(33,442)
	38,726	45,116
	\$ 91,669	\$ 123,898

See Notes to UNAUDITED Financial Statements.

**SOLARATTIC, INC. (A Development Stage Company)**  
**STATEMENTS OF OPERATIONS**

**(Unaudited)**

	<b>PERIOD OF</b>		Period From August 11, 1986 (Date of Inception), to June 30, 1995
	Six Months Ending June 30,		
	<b>1994</b>	<b>1995</b>	
<b>Revenues</b>	\$ 22,328	\$ 37,660	\$ 180,994
<b>Cost of Goods Sold</b>	10,830	19,008	93,434
Gross profit	11,498	18,652	87,560
<b>Operating Expenses</b>	49,553	27,965	343,310
Operating loss	(38,055)	(9,313)	(255,750)
<b>Interest Expense (Note 2)</b>	3,986	3,488	24,103
Net loss	\$ (42,041)	\$ (12,801)	\$ (279,853)
<b>Net Loss Per Common Share (Note 1)</b>	\$ (.01)	\$ (.01)	\$ (.03)
<b>Weighted Average Common Shares</b>			
<b>Outstanding (Note 1)</b>	11,240,921	8,474,585	10,327,049

See Notes to UNAUDITED Financial Statements.

**SOLARATTIC, INC. (A Development Stage Company)**  
**STATEMENTS OF OPERATIONS**

**(Unaudited)**

	<b>QUARTER Ending June 30,</b>		Period From
	<b>1994</b>	<b>1995</b>	August 11, 1986 (Date of Inception), to June 30, 1995
<b>Revenues</b>	\$ 19,773	\$ 29,123	\$ 180,994
<b>Cost of Goods Sold</b>	9,932	14,291	93,434
Gross profit	9,841	14,832	87,560
<b>Operating Expenses</b>	26,828	16,888	343,310
Operating loss	(16,987)	(2,056)	(255,750)
<b>Interest Expense (Note 2)</b>	2,049	1,734	24,103
Net loss	\$ (19,036)	\$ (3,790)	\$ (279,853)
<b>Net Loss Per Common Share (Note 1)</b>	\$ (.01)	\$ (.01)	\$ (.03)
<b>Weighted Average Common Shares</b>			
<b>Outstanding (Note 1)</b>	11,232,114	8,485,020	10,327,049

See Notes to UNAUDITED Financial Statements.

**SOLARATTIC, INC. (A Development Stage Company)**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**

**(Unaudited)**

Period From August 11, 1986 (Date of Inception), to June 30, 1995

	Common Stock		Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount		
<b>Balance at Inception</b>				
Initial sale of common stock in August 1986	10,000,000	\$ 1	\$ -	\$ 1
Additional sale of common stock in 1986	50,000	5,000	-	5,000
Net loss 1986	-	-	(3,608)	(3,608)
Sale of common stock in 1987	249,000	44,600	-	44,600
Net loss 1987	-	-	(31,356)	(31,356)
Sale of common stock in 1988	180,000	36,000	-	36,000
Net loss 1988	-	-	(32,100)	(32,100)
Sale of common stock in 1989	80,000	16,000	-	16,000
Net loss 1989	-	-	(22,947)	(22,947)
Sale of common stock in 1990	32,500	6,500	-	6,500
Net loss 1990	-	-	(22,245)	(22,245)
Sale of common stock in 1991	73,674	14,735	-	14,735
Net loss 1991	-	-	(26,625)	(26,625)
Sale of common stock in 1992	40,000	9,000	-	9,000
Issuance of stock for patent 1992	204,000	61,200	-	61,200
Issuance of stock for services 1992	34,347	10,304	-	10,304
Net loss 1992	-	-	(24,902)	(24,902)
<b>Balance, December 31, 1992</b>	<b>10,943,521</b>	<b>203,340</b>	<b>(163,783)</b>	<b>39,557</b>
Sale of common stock	109,167	29,500	-	29,500
Issuance of stock for inventory	93,334	28,000	-	28,000
Issuance of stock for services	69,440	20,832	-	20,832
Net loss 1993	-	-	(37,991)	(37,991)
<b>Balance, December 31, 1993</b>	<b>11,215,462</b>	<b>\$ 281,672</b>	<b>\$ (201,774)</b>	<b>\$ 79,898</b>
Sale of common stock	234,544	65,989	-	65,989
	(3,000,000)	-	-	-
Net loss 1994	-	-	(65,278)	(65,278)
<b>Balance, December 31, 1994</b>	<b>8,450,006</b>	<b>347,661</b>	<b>(267,052)</b>	<b>80,609</b>
Sale of common stock	26,250	6,750	-	6,750
Issuance of stock for services	10,000	4,000	-	4,000
Net Loss YTD95	-	-	(12,801)	(12,801)
<b>Balance, June 30, 1995</b>	<b>8,486,256</b>	<b>358,411</b>	<b>(279,853)</b>	<b>78,558</b>

See Notes to UNAUDITED Financial Statements.

**SOLARATTIC, INC. (A Development Stage Company)**  
**STATEMENTS OF CASH FLOWS**

**(Unaudited)**

	<b>PERIOD OF</b>		Period From
	Six Months Ending June 30,		August 11,
	<b>1994</b>	<b>1995</b>	1986
			(Date of
			Inception), to
			June 30,
			1995
<b>Cash Flows From Operating Activities</b>			
Net loss	\$ (42,041)	\$ (12,801)	\$ (279,853)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	897	789	24,128
Amortization	3,221	3,221	17,984
Issuance of common stock for services	—	—	35,136
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	—	—	—
Decrease (increase) in inventory	1,513	(1,584)	(4,617)
Increase in accounts payable	15,242	13,915	38,270
Net cash used in operating activities	(21,168)	3,540	(168,952)
<b>Cash Flows From Investing Activities</b>			
Purchase of equipment	(3,893)	(450)	(28,703)
Proceeds from sale of equipment	—	—	334
Net cash used in investing activities	(3,893)	(450)	(28,369)
<b>Cash Flows From Financing Activities</b>			
Net proceeds from issuance of common stock	25,488	7,077	200,633
Increase in deferred financing costs		(12,995)	(34,720)
Proceeds from note payable to officer	—	—	35,630
Payments on note payable to officer	(1,016)	(1,215)	(7,052)
Proceeds (payments) on accounts payable to related party, net	(2,097)	804	7,924
Net cash provided by financing activities	22,375	(6,329)	202,415
Increase (decrease) in cash and cash equivalents	(2,686)	(3,239)	5,094
<b>Cash and Cash Equivalents</b>			
Beginning	7,908	8,333	—
Ending	\$ 5,222	\$ 5,094	\$ 5,094

**SOLARATTIC, INC. (A Development Stage Company)**  
**STATEMENTS OF CASH FLOWS CONTINUED**

**(Unaudited)**

	<b>PERIOD OF</b>		Period From
	<u>Six Months Ending June 30,</u>		August 11,
	<b>1994</b>	<b>1995</b>	1986
			(Date of
			Inception), to
			June 30,
			1995

**Supplemental Disclosures of Cash Flow Information**

Cash payments for interest	\$	3,986	\$	3,488	\$	23,775
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**Supplemental Schedule of Noncash Investing and Financing Activities**

Issuance of common stock for services	\$	-	\$	4,000	\$	35,136
Issuance of common stock for patent		-		-		61,200
Issuance of common stock for inventory		-		-		28,000

See Notes to UNAUDITED Financial Statements.

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## NOTES TO UNAUDITED FINANCIAL STATEMENTS

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### **Note 1. Nature of Business and Significant Accounting Principles**

#### **Nature of business:**

SolarAttic, Inc. (Company) is a development stage Company manufacturing and selling heating units which use solar-derived hot attic air. Revenue is recognized upon shipment of the product.

#### **Inventories:**

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory is comprised primarily of raw materials.

#### **Furniture and equipment:**

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method and is charged to expense based upon the estimated useful lives of the assets which range from three to seven years.

#### **Patent:**

The Company has obtained a patent in exchange for Company stock. The patent is being amortized using the straight-line method over the life of the patent (9.5 years).

#### **Research and Development:**

Research and development costs are charged to operations as incurred and totaled \$5,716 and \$731 for the six month period ending **June 30**, 1994 and 1995, respectively.

#### **Net loss per share attributable to common stock:**

Net loss per share is computed based on the weighted average number of common shares outstanding during the period.

#### **Prepaid Expenses:**

Prepaid expenses shown are for the writing of the Company's technical specification and claims language in the preparation of the Company's fourth patent application on its newly developed heat collecting and ventilation duct technology. See the Company's 10-KSB filing for fiscal year 1994 for further details.

#### **Deferred Financing Costs:**

Deferred financing costs shown are the costs that the Company has incurred for its initial public offering which is still in process.

#### **Income Taxes:**

The income tax basis is substantially the same for both financial statement purposes and income tax purpose.

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## NOTES TO UNAUDITED FINANCIAL STATEMENTS

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### Note 2. Related Party Transactions

Note payable to officer at **June 30**, 1994 and 1995, consists of the following:

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	1994	1995
Unsecured note payable, due in monthly installments of \$642, including interest at 18%	\$30,905	\$28,578
Less current maturities	2,327	2,782
	\$28,578	\$25,796

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Future Maturities of this note are as follows:

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1995	1,329
1996	3,042
1997	3,637
1998	4,349
1999	5,199
Thereafter	11,022
	\$28,578

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Due to related party is due on demand and bears interest at a variable rate (currently 15.37 to 19.80 percent).

Interest expense for related parties was \$2,049 in the **second** quarter 1994 and \$1,734 in 1995.

Amounts due from officers are non interest bearing and mature between December 31, 1996, and December 31, 1999. Due to the nature of these amounts and uncertainty of repayment, the officer notes receivable have been classified as a reduction of stockholders' equity.

The Company is renting office and warehouse facilities from an officer of the Company on a month-to-month basis. Rent expense was \$615 in the **second** quarter 1994 and 1995.

The Company has not paid or accrued any compensation expense to any officers or directors since the inception of the Company. A full time marketing communications assistant was hired on February 15, 1995 at a monthly salary of \$1,800. (The Company's first paid employee.)

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## NOTES TO UNAUDITED FINANCIAL STATEMENTS

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### **Note 3. Stockholders' Equity**

#### **Stock warrants:**

Stockholders are able to purchase additional stock with stock warrants attached to common stock issued. **At August 14, 1995**, there are 1,318,203 warrants exercisable. Of this total, 1,028,203 warrants are exercisable at 20 cents per share expiring between December 31, 1996, and December 31, 1998. The remaining 290,000 warrants are exercisable at 30 cents per share expiring December 31, 1998.

#### **Stock option plan:**

The Company has reserved 1,000,000 shares of common stock for issuance under an incentive stock option plan established in 1986. Under the plan, options are granted at prices determined by the Board of Directors. No options have been granted **as of August 14, 1995**.

In 1991, 200,000 options were granted outside the stock option plan at an exercise price of 20 cents per share and expire on December 31, 1998. No options have been exercised to date.

#### **Common shares issued as consideration:**

Common shares have been issued periodically for patents, inventory, and consulting services. The amount assigned to each transaction is based upon contractual agreements.

### **Note 4. Insurance**

The Company is self-insured for all business risks and does not have any stop loss insurance. The Company has not experienced any losses and is not aware of any potential losses.

### **Note 5. Ability to Continue as a Going Concern**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. While the Company has maintained operations for several years with minimal new capital in the past, significant additional funds will be necessary for the Company to pursue its growth strategies. Management is attempting to raise these funds through a public offering of the Company's stock. In the interim, the Company will rely on current working capital to fund operations. Ultimately, the Company will need to obtain future profitable operations.

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## NOTES TO UNAUDITED FINANCIAL STATEMENTS

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### **Note 6. Employee and Officer Compensation**

The Company's majority shareholder is a limited partnership. It is controlled by the sole officer of the Company who is the limited partnership's general partner. The Company has not compensated this individual since the date of inception. The Company does plan to compensate this individual at the rate of \$60,000 per year upon a successful initial public offering which is in progress. The following pro forma information reflects the operations of the Company **as if the officer was compensated** at this rate during the second quarter of 1994 and 1995:

<u>SECOND QUARTER</u>	<u>1994</u>	<u>1995</u>
Net loss, as reported	(19,036)	(3,790)
Pro forma provision for compensation	<u>15,000</u>	<u>15,000</u>
Pro forma net loss	<u>(34,036)</u>	<u>(18,790)</u>

### **Note 7. Unaudited Statements**

It is the opinion of the Company's management that all necessary adjustments have been made to assure that these unaudited financial statements are accurate and not misleading. This includes all GAAP adjustments that are required so that these unaudited financial statements can be read in conjunction and consistency with all prior financial statements either unaudited or audited.

**Item 2. Management's Discussion and Analysis or Plan of Operation**

SolarAttic, Inc. is a development stage company that is engaged in the research, development and limited-manufacturing of solar energy systems that use the hot air contained in attics for heating swimming pools, space and hot water. In addition, the Company has developed a new 'inside-the-attic' duct technology for use in: a) enhancing the collection of attic-based solar-derived heat energy; and, b) the mechanical ventilation of the attic from within the attic's cavity. I.E. The forced mechanical ventilation of the attic and its roof structure from within the attic's cavity to eliminate heat and moisture in the case where the attic's solar heat is not to be placed into productive use. The Company's solar heating technology eliminates the need for roof mounted solar panels. The Company's duct technology eliminates the need for roof mounted vents.

The Company has two U.S. Patents and a third one scheduled to be issued shortly. The Company has paid the third patent's issue fee. The Company's third patent is the patent application as described on page 15 of the Company's Prospectus dated September 9, 1994. The Company now plans to make an application for a fourth patent during August 1995. The subject of the fourth patent application is the Company's proprietary duct technology described above. The Company's duct technology is also described in Paper #39 that was published by the American Solar Energy Society in the Solar 95 Conference Proceedings. The Solar 95 Conference was held this Summer in Minneapolis on July 15-20. A copy of this scientific technical paper is incorporated by reference herein as part of the Company's 10-KSB filing (for the period ending December 31, 1994).

At this time, the Company has a total of two full time employees and no part time employees. For further details on the company's business, see the Company's Prospectus dated September 9, 1994 incorporated by reference herein. Also, see the Company's SB-1 Registration Statement dated August 8, 1994 and the other documents listed above incorporated by reference herein.

The Company continues to restrict and pace its operations, limiting them to a garage setting. This limits the Company's overhead costs until the Company completes its IPO. The first half of 1995 saw a significant increase in word of mouth sales over 1994. During the first six months of 1994, the Company sold 10 pool heating systems. During the first six months of 1995, the Company sold 22 pool heating systems. The main reason for the increase in 1995 sales is a follow-up sales call that was implemented. Up until this point, no follow-up calls were made to solicit potential sales inquiries. The Company's pool heating system is now located in 27 states and its space heating system is in 7 states.

The Company's method of financing its future growth and expansion plans is to complete its Initial Public Offering (IPO). The Company expects to complete its IPO on September 5, 1995. IPO funds will be used to expand the Company's operations as stated in the Company's Prospectus dated September 7, 1994 on page 11. The Company anticipates that it will begin ramping up sales and manufacturing operations by late October 1995.

Further research & development on the Company's hot water heating system and duct technology has been placed on hold pending the completion of the Company's IPO and the hiring of additional engineering staff. The costs associated with further development of the Company's technology are anticipated within the Company's Prospectus under 'Use of Proceeds.'

Development efforts have shifted to the completion of the Company's fourth patent application which is now expected to occur during August 1995. The Company plans to file for international patent protection on its duct technology in several countries within the next twelve months.

The Company expects that its new duct/ventilation technology will have a significant impact on its future growth and revenues. According to Manufacturing USA 1993, the market for "Ventilating, Blowing & Exhaust Fan Manufacturing" in the United States alone is \$2 Billion 850.1 Million for the year 1989. The Company's ventilation and duct technology will fit within this market segment and possibly within other markets yet to be defined. This puts the total identified market size for the Company's technology and products over \$3 Billion in the United States. The Company notes that international markets exist for its technology and products. However, to date, the Company has not yet fully defined its international markets.

SolarAttic will demonstrate a working prototype of a combined space heating and attic ventilating product at the 1995 Minnesota State Fair. The fair is being held in St. Paul from August 24th through September 5th. The fair display will show a cutaway view of an attic; a short section of porous wall duct which is designed to ingest air, moisture and heat evenly throughout the attic; and, a working air moving system that can either vent the attic to the outside of the house or relocate the attic's warm air back into the home's living space. In Minnesota, this new product will allow the attic to be ventilated in the winter to eliminate moisture buildup and in the summer to eliminate heat buildup. During the fall and spring, the product will allow warm attic air to be relocated to the inside of the house. Anecdotal testimonials from Ohio and West Virginia indicate that this free solar heat energy placed back into the house can significantly reduce annual space heating costs. In more temperate climates, additional energy savings are possible. See the attached press release dated July 31, 1995.

SolarAttic has obtained CUSIP number 833971 for the trading of the Company's stock.

Van Clemens in Minneapolis has informed the Company that they plan to make a market for SolarAttic stock immediately after the Company completes its public offering. See the attached press release dated August 7, 1995.

SolarAttic has obtained trademark protection for its unique logo. This will allow the Company to pursue the establishment of a brand name identity. See the attached press release dated August 14, 1995.

For further information, see the Company's Prospectus and the other exhibits incorporated by reference herein.

## **PART II - Other Information**

### **Item 1. *Legal Proceedings***

The Company is not presently involved in any legal proceedings.

**Item 4. *Submission of Matters to a Vote of Security Holders***

The Company did not submit any matter to a vote of security holders during the quarter ending **June 30, 1995.**

**Item 6. *Exhibits and Reports on Form 8-K***

(a) The following exhibits are either attached or are incorporated herein by reference:

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
13.2	10-KSB Filing dated April 29, 1995 incorporated herein by reference.
13.3	10-QSB Filing dated May 23, 1995 incorporated herein by reference.
19.1	Company's Prospectus dated September 7, 1994 as filed with the SEC incorporated herein by reference.
20.1	SB-1 Registration Statement dated August 8, 1994 as filed with the SEC incorporated herein by reference.
99.4	Company Press Release dated July 10, 1995 titled "New duct/ventilation technology will be introduced at Solar 95." (Attached hereto)
99.5	Company Press Release dated July 24, 1995 titled "SolarAttic To Close Escrow Sept. 5th." (Attached hereto)
99.6	Company Press Release dated July 31, 1995 titled "SolarAttic to Present New Technology at MN State Fair." (Attached hereto)
99.7	Company Press Release dated August 7, 1995 titled "Van Clemens First SolarAttic Market Maker." (Attached hereto)
99.8	Company Press Release dated August 14, 1995 titled "SolarAttic Trademark To Create Brand Identity." (Attached hereto)

(b) Reports on Form 8-K

No Reports on Form 8-K were filed by the Company during the **second** quarter of 1995.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 14, 1995

**SolarAttic, Inc.**  
(Registrant)

/s/ Edward G. Palmer  
Edward G. Palmer  
President, Chief Executive Officer  
Chief Financial Officer

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**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**EXHIBITS TO**

**Form 10-QSB**

**Under**

**THE SECURITIES EXCHANGE ACT OF 1934**

**SolarAttic, Inc.**

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## INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Exhibit</u>	<u>Sequential **Page No.</u>
13.2	10-KSB filing dated April 29, 1995 ( <b>Incorporated by reference</b> )	-----
13.3	10-QSB filing dated May 23, 1995 ( <b>Incorporated by reference</b> )	-----
19.1	Prospectus ( <b>Incorporated by reference</b> )	-----
20.1	SB-1 Registration Statement ( <b>Incorporated by reference</b> )	-----
99.4	Company Press Release dated July 10, 1995	19
99.5	Company Press Release dated July 24, 1995	20
99.6	Company Press Release dated July 31, 1995	21
99.7	Company Press Release dated August 7, 1995	22
99.8	Company Press Release dated August 14, 1995	23

\*\* If exhibits are attached and document is numbered sequentially from the front cover to the back cover counting both sides of all pages.