

# SolarAttic, Inc.

## Up to 200,000 Shares Common Stock No Par Value

SolarAttic, Inc. (the "Company" or "SolarAttic") hereby offers up to 200,000 shares of the Company's Common Stock (the "Shares") at an offering price of \$5.00 per Share (the "Offering"). The minimum subscription is 600 shares and the maximum subscription is the shares remaining to be sold at any given time. Prior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price has been arbitrarily determined by the Company. See "RISK FACTORS." The Offering will begin on the date of this Prospectus (the "Prospectus") and continue for up to twelve months or until the Company has sold all the Shares offered hereby, whichever is less, or such earlier date as the Company may close or terminate the Offering. While there is a minimum subscription of 600 shares, there is no minimum number of Shares which must be sold in this Offering.

In connection with this Offering, no person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such other information or representations should not be relied upon as having been authorized by the Company. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, Shares in any state where the offer and sale of the Shares is not lawful. The delivery of this Prospectus at any time does not imply that the information herein contained is correct as of any time subsequent to the date hereof.

Within five days of its receipt of a subscription agreement accompanied by a check for the purchase price, the Company will send by first class mail a written confirmation to notify the subscriber of the extent, if any, to which such subscription has been accepted by the Company. The Company reserves the right to reject orders for the purchase of Shares in whole or in part. Not more than thirty days following the mailing of its written confirmation, a subscriber's Common Stock certificate will be mailed by first class mail. The company shall not use the proceeds paid by any investor until the Common Stock certificate evidencing such investment has been mailed.

**THE SECURITIES OFFERED HEREBY ARE HIGHLY SPECULATIVE, INVOLVE A HIGH DEGREE OF RISK AND IMMEDIATE SUBSTANTIAL DILUTION, AND SHOULD BE PURCHASED ONLY BY PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. SEE "RISK FACTORS."**

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED OR APPROVED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THESE AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to Company (2)
Per Share	\$5.00	—	\$5.00
Total	\$1,000,000	—	\$1,000,000

(1) The Company plans to offer and sell the Shares directly to investors and has not retained any underwriters, brokers or placement agents in connection with the Offering. Management will not receive compensation for sales of securities offered hereby. (2) Before deduction of offering expenses estimated to be \$70,000.

**SolarAttic, Inc.**  
15548 95th Circle NE  
Elk River, MN 55330  
(612) 441-3440

**The date of this Prospectus is January 31, 1998**

<b>SCOR CROSS REFERENCE TABLE</b>					
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The location of the answers are listed to the right of each question. If the question (#) is not applicable to the Company, this is indicated by "NA" and nothing further is contained in this Prospectus. If the answer is "NO", this is the Company's response to a yes/no question that did not pertain to the Company. The Company has chosen to use the standard narrative disclosure. All SCOR questions have been answered or addressed. If needed, see the SCOR Form U7 questionnaire for more details concerning how each question is asked and its contents. A copy of the SCOR questionnaire is available from the Company's Web site at <http://www.solarattic.com/scorform.htm>.

THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"). HOWEVER, THE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREBY ARE EXEMPT FROM REGISTRATION.

THIS OFFERING HAS BEEN REGISTERED UNDER THE SECURITIES LAWS OF A LIMITED NUMBER OF STATES, AND THE SHARES OFFERED HEREBY MAY BE SOLD ONLY IN THOSE STATES. SUCH REGISTRATIONS, HOWEVER, DO NOT CONSTITUTE AN ENDORSEMENT OR APPROVAL BY ANY PARTICULAR STATE SECURITIES COMMISSION OF ANY SECURITIES OFFERED OR THE TERMS OF THIS OFFERING. NO STATE SECURITIES COMMISSION HAS PASSED UPON THE ACCURACY OR COMPLETENESS OF THIS PROSPECTUS OR ANY OTHER SELLING LITERATURE.

THIS OFFERING INVOLVES SUBSTANTIAL RISKS (SEE "RISK FACTORS") AND SHOULD BE CONSIDERED ONLY BY PERSONS ABLE TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. OFFERS ARE PERMITTED ONLY TO RESIDENTS OF CERTAIN STATES (SEE "LIMITED STATE REGISTRATIONS"). NO ESCROW ACCOUNT HAS BEEN ESTABLISHED AND THE INVESTORS' FUNDS ARE TO BE PAID DIRECTLY TO THE COMPANY. AT THE TIME OF ITS SUBSCRIPTION, AN INVESTOR WILL NOT BE ABLE TO ASCERTAIN HOW MANY SHARES WILL BE PURCHASED BY OTHER INVESTORS.

ANY PERSON WHO PURCHASES THE SECURITIES OFFERED HEREBY SHALL HAVE THE UNQUALIFIED AND UNWAIVABLE RIGHT TO RESCIND SUCH PURCHASE WITHIN 72 HOURS OF THE EXECUTION OF A WRITTEN AGREEMENT TO PURCHASE ANY SECURITIES OFFERED HEREBY, THE DELIVERY OF A CONFIRMATION OF SALE, OR THE PAYMENT FOR ANY SECURITIES OFFERED HEREBY, WHICHEVER SHALL OCCUR FIRST. RESCISSION MAY BE ACCOMPLISHED BY COMPLETING AND MAILING THE FORMS PROVIDED ON PAGE X-3 OF THIS PROSPECTUS.

SUBJECT TO THE PROVISIONS OF ARIZONA ADMINISTRATIVE CODE R14-4-140, THESE SECURITIES MAY BE OFFERED AND SOLD BY THE ISSUER ONLY TO ACCREDITED INVESTORS AS DEFINED IN ARIZONA ADMINISTRATIVE CODE R14-4-126 AND MAY BE RE-OFFERED AND SOLD WITHIN ARIZONA FOR A THREE YEAR PERIOD ONLY TO ACCREDITED INVESTORS.

THIS OFFERING WAS APPROVED IN CALIFORNIA UNDER A LIMITED OFFERING QUALIFICATION WHICH IMPOSES A SUPER SUITABILITY STANDARD OF NOT LESS THAN \$250,000 LIQUID NET WORTH [EXCLUSIVE OF HOME, HOME FURNISHINGS AND AUTOS] (LNW) PLUS \$65,000 GROSS ANNUAL SALARY -OR- \$500,000 LNW -OR- \$1,000,000 NET WORTH (INCLUSIVE) -OR- \$200,000 GROSS ANNUAL INCOME. OFFERS AND SALES CAN ONLY BE MADE TO CALIFORNIA INVESTORS THAT MEET THESE REQUIREMENTS. THE ISSUER DID NOT HAVE TO DEMONSTRATE COMPLIANCE WITH SOME OR ALL OF THE MERIT REGULATIONS OF THE DEPARTMENT OF CORPORATIONS AS FOUND IN TITLE 10, CA CODE OF REGULATIONS, RULE 260.140 ET SEQ. EXEMPTIONS FOR SECONDARY TRADING UNDER CA CODE §25104 (h) WILL BE WITHHELD AND THE COMPANY MAY NOT FILE FOR THE EXEMPTION UNDER §25101 (b) FOR AT LEAST 90 DAYS. HOWEVER, THERE MAY BE OTHER EXEMPTIONS TO COVER PRIVATE SALES BY THE BONA FIDE OWNER FOR HIS OWN ACCOUNT WITHOUT ADVERTISING AND WITHOUT BEING EFFECTED BY OR THROUGH A BROKER DEALER IN A PUBLIC OFFERING.

THIS INFORMATION IS DISTRIBUTED IN COLORADO PURSUANT TO AN EXEMPTION FOR SMALL OFFERINGS UNDER THE RULES OF THE COLORADO SECURITIES DIVISIONS. THE SECURITIES DIVISION HAS NEITHER REVIEWED OR APPROVED ITS FORM OR CONTENT. THE SECURITIES DESCRIBED HEREIN MAY ONLY BE PURCHASED BY "ACCREDITED INVESTORS" AS DEFINED BY RULE 501 OF SEC REGULATION D AND THE RULES OF THE COLORADO SECURITIES DIVISION.

#### **ADDITIONAL INFORMATION**

The Company has filed with the several individual states an Offering Registration Statement with respect to the securities offered hereby. This Prospectus omits certain information contained in the Registration Statement and reference is hereby made to the Offering Registration Statement and exhibits attached thereto for further information with respect to the Company and the Shares. All exhibits filed in connection with the Registration Statement have been posted on the Company's Internet World Wide Web site (www) for ease of inspection by investors. These exhibits include the Company's Articles of Incorporation, By-Laws and certain other documents. The Company's Internet Web address is <http://www.solarattic.com>. The Company's EMail address for electronic communications is [SolarAttic@compuserve.com](mailto:SolarAttic@compuserve.com). The Company will, upon written or oral request, provide, at no cost to each person who has received a Prospectus, a copy of any information that is incorporated herein by reference. To request such information, call or write Edward G. Palmer, President, SolarAttic, Inc at 15548 95th Circle NE, Elk River, Minnesota 55330-7228 (612) 441-3440.

## PROSPECTUS SUMMARY

**THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.**

### The Company

SolarAttic, Inc. (the Company), a Minnesota corporation, was formed on August 11, 1986 and was in the development stage through December 31, 1996. The year 1997 is the first year during which it is considered an operating company. Sales are currently throughout the continental United States. However, markets for the Company's technology and products are international in nature. SolarAttic manufactures solar-powered water heating, solar-powered space heating and attic ventilation systems. The solar-powered heating systems use the heat that collects in the attic space as a result of solar radiation on the roof. The attic ventilation systems use the Company's new duct technology that collects or distributes air evenly along its length which is useful in collecting attic air for heat transfer, attic ventilation or other purposes. The Company believes its strengths are its technology patents and experience in developing systems that harness the heat energy contained in hot attic air. The Company believes that its proprietary heating systems can replace or augment heating systems that use fossil fuels or conventional solar panel technology. The Company believes that its new duct technology can replace or augment devices that are used for ventilation, air collection or air distribution in attics and other building structures.

SolarAttic currently markets a swimming pool heating system, a space heating system, a combination space heating ventilation system and a ventilation system. All products use the solar thermal energy contained in hot attic air. A domestic hot water heating system, based on the same principle of transferring attic heat energy into water has been developed and patented but is not currently being marketed. (See "RESEARCH AND DEVELOPMENT").

All of the Company's current systems contain the feature of capturing and using solar energy without the use of roof-mounted or yard-mounted solar collection panels. SolarAttic's hidden-inside-the-attic heat exchange systems offer an alternative to traditional solar technology. Users do not have to install on their property solar thermal heat collection panels for heating space or liquids, which are considered by some to be visually objectionable. Based upon the Company's engineering studies and customer testimonials, the Company believes its technology reduces utility costs in both swimming pool heating, space heating and ventilation applications.

The Company's objective is to continue to research, develop and manufacture equipment which captures and transfers the thermal energy contained in solar-generated, hot attic air. The Company's strategy is to continue to develop methods and products to enhance and control the heat generating capacity of attic spaces while developing systems and equipment to transfer attic heat to purposeful applications such as water heating and space heating. At the same time, SolarAttic intends to develop distribution channels for the systems and equipment it designs and develops. The Company's main goal is to expand marketing, sales and manufacturing operations.

The exact Corporate name is "SolarAttic, Inc." The Company was incorporated in the State of Minnesota on August 11, 1986 as MN Corporate Charter Number 5H-1049. Its principal executive offices are located at 16820 Highway 10, Suite 130, Elk River, Minnesota 55330. The Company currently manufactures in Suite 140 at the same address. The Company's mailing address is 15548 95th Circle NE, Elk River, Minnesota 55330. Its telephone number is (612) 441-3440. Its fax number is (612) 441-7174 and EMail address is SolarAttic@compuserve.com. The Company maintains a Web site at <http://www.solarattic.com>. The Company's fiscal year is January 1 through December 31. The person to contact with respect to this offering or to purchase the securities described herein is Edward G. Palmer, the Company's president & CEO.

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## THE OFFERING

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Common Stock Offered by the Company	200,000 shares
Offering Price	\$5.00 per share
Common Stock Outstanding Prior to Offering	9,385,752 shares (a)
Common Stock Outstanding After Offering	9,585,752 shares (b)
Dividend Policy	The Company does not anticipate paying dividends on its capital stock in the foreseeable future.
Use of Proceeds	The net proceeds to the Company from the sale of the Shares, after deduction of offering expenses estimated at \$70,000, will be \$930,000 if all of the Shares offered are sold, \$680,000 if 75% of the Shares offered are sold, \$430,000 if 50% of the Shares offered are sold, and \$180,000 if 25% of the Shares offered are sold. Notwithstanding the exact amount of net proceeds available, the Company expects to use substantially all of such proceeds to expand its marketing, sales and R & D activities. There is no minimum number of shares which must be sold. In addition, no escrow account has been established and all subscription funds will be paid directly to the Company. (c)

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(a) Shares outstanding as of December 31, 1997.

(b) Assumes all of the Shares offered hereby are sold. Excludes shares of Common Stock subject to exercise of warrants or options outstanding or the Company's incentive stock option plan for employees. (See "OPTIONS" and "Notes to Financial Statements").

(c) Offering expenses reflect the cost of printing, distribution, advertising, employees and professional fees. (See "Use of Proceeds").

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**The Company believes that proceeds from the offering are not necessary for its survival nor its expansion. Because of the Company's limited overhead, survival and expansion are provided for by existing sales agreements, expiring stock options and sales strategies. This Offering is made to provide additional expansion capital to accelerate the Company's growth.**

## SUMMARY FINANCIAL INFORMATION

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### Statements of Operations Data:

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	Year Ended December 31,	
	<u>1996</u>	<u>1997</u>
Net sales	\$46,967	\$61,853
Gross profit	22,799	32,996
Operating expenses	95,139	180,897
Operating (loss)	(72,340)	(147,901)
Net (loss)	(78,413)	(159,560)
Net (loss) per share	(.01)	(.02)
Common shares outstanding (1)	8,947,695	9,247,613

(1) Weighted average common stock that was outstanding during each period.

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### Balance Sheet Data:

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	<u>December 31, 1997</u>	<u>As Adjusted (2)</u>
Cash & Cash Equivalents	\$22,384	\$851,922
Working Capital	51,223	981,223
Total Assets	244,067	1,174,067
Long-Term debt, less current portion	100,462	0
Total Stockholder's Equity	98,408	1,028,408

(2) As adjusted reflects the December 31, 1997 data adjusted to give effect to the sale of all of the Shares offered hereby and the payment of the offering expenses estimated at \$70,000 and long term debt at \$100,462. There can be no assurance that all the shares offered hereby will be sold.

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## LIMITED STATE REGISTRATIONS

Only residents of those states in which the Shares have been qualified for sale under applicable securities or Blue Sky laws may purchase Shares in this Offering. Each potential investor will be required to execute a subscription agreement which, among other things, requires the potential investor to certify his or her state of residence. A potential investor who is a resident of a state other than a state in which the Shares have been qualified for sale may request that the Company register the Shares in the state in which such investor resides. However, the Company is under no obligation to do so, and may refuse any such request.

## RISK FACTORS

**THE SHARES OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. POTENTIAL INVESTORS SHOULD CAREFULLY CONSIDER THE POSSIBILITY THAT THEIR ENTIRE INVESTMENT IN THESE SHARES MAY BE LOST AND SHOULD CONSIDER, BEFORE PURCHASING SHARES OFFERED HEREBY AND IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS.**

### **Limited Operating History; Losses**

The Company was incorporated on August 11, 1986 and the Company has incurred losses in each of its historical years. As of December 31, 1997, the Company has accumulated net losses totaling \$592,659. There can be no assurance that the Company will be able to operate profitably in the future.

### **No Minimum Offering Amount; No Escrow; Irrevocability of Subscriptions**

There can be no assurance that all of the Shares offered will be sold. There is no minimum number of Shares which must be sold in this Offering. In addition, no escrow account has been established and all subscription funds will be paid directly to the Company. Subscriptions are irrevocable after 72 hours. See "PLAN OF DISTRIBUTION" & "SUBSCRIPTION AGREEMENT".

### **Broad Discretion to Allocate Net Proceeds**

The Company has broad discretion to allocate a substantial portion of the proceeds of this Offering, in both dollar and percentage terms, on a net proceeds basis. See "USE OF PROCEEDS."

### **Arbitrary Determination of Purchase Price**

The offering price of the shares has been arbitrarily determined by the Company and does not bear any relationship to book value, assets, earnings, or any other accepted criterion of value. The offering price should not be regarded as an indication of any future market price of the securities offered hereby. Recent private sales of the Company's Common Stock were at substantially less than the offering price. Each prospective investor should make an independent evaluation of the fairness of such price. See "DILUTION" and "CERTAIN TRANSACTIONS."

### **Dilution**

This offering involves immediate substantial dilution of the net tangible book value of the Common Stock offered hereby from the offering price of \$5.00 per share. Such dilution in net tangible book value will be \$4.90 per share if all the Shares offered are sold. This is a dilution of 98 percent in net tangible book value. See "DILUTION."

## **New Technology Uncertainties; Market Acceptance Uncertain**

The products and technology being developed by the Company and which the Company intends to market are not established in the market place and may not be accepted by consumers. SolarAttic has limited product exposure in the pool, space heating and ventilation markets; and, as a result, the Company has only limited experience with its products. Some solar engineering and ventilation professionals are unsure regarding the use and application of the Company's new technology. Some solar panel professionals disagree with the Company on the efficacy and application of the Company's technology. Some pool professionals are skeptical about the efficacy and application of the Company's technology in the area of heating swimming pools. Also, market skepticism about new products in general can create significant obstacles for the Company. As a result of these new technology and market factors, no assurance can be made about the efficacy of the Company's technology, marketplace acceptance and whether or not the Company's technology will be successful in making the Company profitable and viable.

## **Intellectual Property**

Certain information and knowledge developed by SolarAttic and used in the design and manufacture of its products are regarded as proprietary by the Company. SolarAttic relies on a combination of trade secret and other intellectual property law including holding patents and evaluating the benefits of obtaining patents. Such protection, however, may not preclude competitors from developing products similar to the Company's products. In addition, the laws of certain foreign countries may not protect the Company's intellectual property rights to the same extent as do the laws of the United States.

Existing Company patents are only U.S. Patents and the Company has only recently filed for patent protection outside of the United States (for its new duct technology). Although the Company continues to evaluate and implement protective measures, there can be no assurance that these efforts will be successful or that third parties will not assert intellectual property infringement claims against the Company. No such claims or litigation related to any such matter are currently pending against SolarAttic. However, there can be no assurance that any such claim will not be initiated, that the Company would prevail in any such litigation seeking damages or an injunction against the sale of the Company's products, or that SolarAttic would be able to obtain any necessary licenses on reasonable terms or at all. See "BUSINESS—Proprietary Rights."

## **No Underwriter Involved; "Best Efforts" Offering**

The Company is selling its stock directly to the public. There are no underwriters or broker-dealers involved. There can be no assurance that the Company will be successful in selling any or all of its own stock to the public.

## **Illiquidity; Lack of Public Market; Non-Registration In Certain Jurisdictions**

The Shares purchased in the Offering will be freely tradable under the Federal securities laws. However, the Shares have been registered in only a limited number of states and may not be sold or otherwise transferred to persons who are residents of any state in which the Shares have not been registered unless they are subsequently registered or there exists an exemption from the applicable state's registration requirements with respect to such sale or transfer.

Prior to the Offering, although a substantial number of shares of the Company's Common Stock are freely tradable under federal securities laws, there has been no public trading market for the Common Stock. Following the Offering, the Company plans to facilitate trading of its Common Stock by operating on its World Wide Web site a bulletin board based trading mechanism through which persons interested in purchasing or selling shares of Common Stock can meet prospective trading partners. Trading in this type of informal market should not be considered by investors as a reliable avenue for liquidity of their investment.

The Company's long-term plan for providing liquidity to its shareholders is to develop a public market for its Common Stock by soliciting securities brokers to become market makers of the shares. However, to date the Company has not solicited any such securities brokers nor does the Company have any immediate plans to do so. There can be no assurance that the Company will be successful in soliciting a market maker if it attempts to do so.

Following the Offering, the Company will still be considered a "non-reporting" issuer whose securities are not listed or subject to regulation under the Securities Exchange Act of 1934 (the "1934 Act"). The vast majority of all broker-dealers generally do not engage in the sale or trading of securities of a "non-reporting" issuer. Further limitations upon the development of a trading market are likely by virtue of regulations under Rule 15c2-11 of the 1934 Act which require that before broker-dealers can make a market in the Company's securities and thereafter as they continue making the market the Company must provide these broker-dealers with current information about the Company. The Company presently has formulated no specific plans to distribute current information to broker-dealers and probably will only do so if there appears otherwise to be adequate interest in making a market in the Company's securities. Furthermore, in view of the absence of an underwriter, the relatively small size of the Offering and the nature of the Company as a "non-reporting" issuer, there is virtually no likelihood that a regular trading market will develop in the near term, if at all, or that if developed it will be sustained. The Shares might not be able to be resold at the offering price or any other price. Accordingly, an investment in the Company's Common Stock should be considered highly illiquid.

#### **No Dividends in Foreseeable Future; No Stock Splits for Two Years**

The Company has never paid dividends and does not anticipate paying dividends in the foreseeable future. In addition, as part of this SCOR Offering (Small Corporate Offering Registration), the Company has specifically agreed that there shall be no stock splits or dividends for a period of two years. See SCOR Form U-7 and "Dividend Policy."

#### **Penny Stock Regulation**

The Commission recently adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market.

The broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. If the Company's Common Stock becomes subject to the penny stock rules, investors in this Offering may find it more difficult to sell their shares. In such event, any broker-dealer who desires to sell the Company's Common Stock will have to do so in compliance with the penny stock rules.

### **Shares Eligible For Future Sale**

Of the 9,385,752 shares of Common Stock currently outstanding (as of December 31, 1997), all 9,385,752 shares were offered and sold by the Company in private transactions in reliance upon an exemption from registration under the Securities Act. Accordingly, all of such shares are "restricted securities" as defined by Rule 144 ("Rule 144") under the Securities Act and cannot be resold without registration except in reliance on Rule 144 or another applicable exemption from registration.

In general, under Rule 144, a person (or persons whose shares are required to be aggregated), including any affiliate of the Company, who beneficially owns restricted shares for a period of at least ONE YEAR (reduced recently from two years) is entitled to sell within any three month period shares equal in number to the greater of (i) 1 percent of the then outstanding shares of the Common Stock (95,857 shares if all of the shares offered hereby are sold) or (ii) the average weekly trading volume of the same class of shares during the four calendar weeks preceding the filing of the required notice of sale with the Commission. The seller must also comply with the notice and manner of sale requirements of Rule 144, and there must be current public information available about the Company. In addition, any person (or persons whose shares are required to be aggregated) who is not, at the time of sale, nor during the preceding three months, an affiliate of the Company, and who has beneficially owned restricted shares for at least three years, can sell such shares without regard to notice, manner of sale, public information or the volume limitations described above. Shares of Common Stock first became eligible for resale under Rule 144 in November of 1989 (assuming the other requirements of Rule 144 are met).

Of the current 9,385,752 shares outstanding, 8,977,216 shares (95.6%) are aged past one year from their date of issue and qualify under Rule 144 for conditional sales. Of the current 9,385,752 shares outstanding, 8,460,006 shares (90.1%) are aged past three years and qualify for immediate resale under Rule 144 without registration except as may be required for certain "control stock." Sales of stock under Rule 144 may have a depressive effect on the price of the Common Stock in any trading markets that may develop for the Company's stock.

No prediction can be made as to the effect, if any, that future sales of the above described outstanding Common Stock, or the availability of such Common Stock for sale, will have on the market price prevailing from time to time. Sales of substantial amounts of such Common Stock in the public market, or the perception that such sales may occur, could adversely affect the then prevailing market price. See "SHARES ELIGIBLE FOR FUTURE SALE."

In addition, there are currently outstanding 1,635,993 warrants and options expiring December 31, 1998 through December 31, 2003. The Company also has an incentive stock option plan with 1,000,000 shares of Common Stock set aside for employees. The plan expires in the year 2001 and no shares have been issued under the plan. No prediction can be made as to the effect, if any, that future sales or potential sales of these warrants, options or incentive stock options may have on the market price of the Common stock prevailing from time to time.

### **Possible Volatility of Stock Price**

If a market does develop, there can be no assurance that it will be maintained or that the market price of the Company's securities will not decline below the initial public offering price. The trading price of the securities is likely to be subject to significant fluctuations.

### **Exercise of Warrants, Options, Stock Plan and Future Offerings; Added Dilution**

If any of the above described 1,635,993 warrants and options are exercised, it will result in an additional and substantial further dilution in the net tangible book value of any investment. There are 1,000,000 shares of Common Stock set aside in the Company's employee incentive stock option plan. No options have been issued to any employee from this plan to date. However, any options granted and subsequently exercised could have a significant additional dilutive effect. In addition, the Company expects to issue stock again in future public offerings which would also have significant additional dilutive effects. See "DILUTION" and "NOTES TO UNAUDITED FINANCIAL STATEMENTS."

### **Control by Existing Shareholder**

After this Offering, EJ Partners Limited Partnership will own and Edward G. Palmer the Company's President will have the ability to direct the vote of — 44.9% of the Company's outstanding Common Stock. As such, EJ Partners Limited Partnership may have the ability to elect the entire Board of Directors and, very likely, the ability to control all matters requiring shareholder approval. The General Partner of EJ Partners Limited Partnership is the "EJ Palmer Trust" which is also known as "The Edward G. Palmer Family Trust" of which Edward G. Palmer, the Company's President is the Trustee. See "PRINCIPAL SHAREHOLDERS" and "DILUTION."

### **No Cumulative Voting**

There is no cumulative voting for the election of directors of the Company. The owners of less than a majority of the Common Stock outstanding may not be able to elect any directors.

### **California Super Suitability Requirement**

The Company is registering its Offering under a limited offering qualification in the State of California which imposes a super suitability requirement on California investors. Under the super suitability requirement, one of four criteria must be met before the Company can accept a subscription agreement from a California investor. Investors must have: A) a Liquid Net Worth of not less than \$250,000 [exclusive of home, home furnishings and autos] ("LNW") Plus a gross annual income of not less than \$65,000 or, B) \$500,000 LNW or, C) a net worth of \$1,000,000 (inclusive) or, D) an annual gross income of \$200,000. Since there is no assurance that an entire investment into the Shares will not be lost, all investors should carefully consider California's super suitability requirements as it may apply to their own individual financial situation.

## **Dependence Upon Current Management**

The Company is dependent upon the management services of Edward G. Palmer, the Company's President. To the extent that Mr. Palmer's services would become unavailable to the Company, the Company would greatly suffer. There is no assurance that the Company would be able to employ qualified persons to replace Mr. Palmer. The Company does not currently have "key man" insurance or any employment contract with Mr. Palmer. See "MANAGEMENT."

## **Competition**

While the Company manufactures proprietary solar and ventilation products and to its knowledge has no direct competitors selling the same equipment, the Company faces stiff competition from well-entrenched and well-established competitive products within the markets that the Company's products will serve. Some competitors certainly have substantially more business and marketing resources than the Company. Therefore, there can be no assurance that the Company will operate profitably within this competitive environment.

## **Self Insured For Product Liability Risks**

The Company carries general liability, theft and fire insurance. However, it is self insured for product liability risks without any stop loss insurance. To the extent that the Company would suffer a catastrophic product liability loss, for any reason, it would have a severe negative impact on the Company and could cause the Company to fail and result in a complete loss of all equity investment made in the Company. There can be no assurance that the Company will be able to obtain sufficient insurance coverage for all potential liabilities that the Company is either now or in the future may become exposed to. There can also be no assurance that the Company will be able to obtain any product liability insurance or even that the Company would be able to afford such product liability insurance if it is available to the Company.

**NOTE: IN ADDITION TO THE ABOVE RISKS, BUSINESSES ARE OFTEN SUBJECT TO RISKS NOT FORESEEN OR FULLY APPRECIATED BY MANAGEMENT. IN REVIEWING THIS PROSPECTUS, POTENTIAL INVESTORS SHOULD KEEP IN MIND OTHER POSSIBLE RISKS THAT COULD BE IMPORTANT.**

## PLAN OF DISTRIBUTION

The Company is offering to sell up to 200,000 newly issued Shares at a price of \$5.00 per share. There is no required minimum number of Shares to be sold pursuant to the Offering. The Offering will begin on the date of this Prospectus and continue for up to twelve months or until all of the Shares offered are sold, whichever is less, or such earlier date as the Company may close or terminate the Offering. The minimum investment for the Offering is 600 shares (\$3,000). The maximum investment is the remaining available shares to be sold at any given time.

The Company plans to offer and sell the Shares directly to investors and has not retained any underwriters, brokers or placement agents in connection with the Offering. Since there is no minimum amount of Shares to be sold pursuant to the Offering, there is no escrow account for the deposit of subscribers' funds and no arrangements to return the funds if all the Shares offered are not sold.

The Company intends to contact prospective investors by publicizing the Offering through a posting on the Company's World Wide Web site. The Company also intends to publicize the Offering through extensive on-line networking using the Internet and newspaper advertisements. In addition, the Company plans to contact additional potential investors by direct e-mail and regular mail solicitation. Edward G. Palmer, the Company's president and CEO shall conduct the Offering on behalf of the Company.

To Subscribe for Shares, each prospective investor must complete, date, execute and deliver to the Company a subscription agreement and have paid the purchase price of the Shares subscribed for by check or money order payable to SolarAttic, Inc. A copy of the subscription agreement is attached at the end of this Prospectus at page X-1. Subscriptions become irrevocable after 72 hours. The form on page X-3 can be used to rescind the purchase of the Shares during this period.

The Company reserves the right to reject any subscription in its entirety or to allocate Shares among prospective investors. If any subscription is rejected, funds received by the Company for such subscription will be returned to the subscriber without interest or deduction.

Within five days of its receipt of a subscription agreement accompanied by a check for the purchase price, the Company will send by first class mail a written confirmation to notify the subscriber of the extent, if any, to which such subscription has been accepted by the Company. Not more than thirty days following the mailing of its written confirmation, a subscriber's Common Stock certificate will be mailed by first class mail. The company shall not use the proceeds paid by any investor until the Common Stock certificate evidencing such investment has been mailed.

Although the Company's long-term plan for providing liquidity to its shareholders is to develop a public market for its Common Stock by soliciting securities brokers to become market-makers of the shares, to date the Company has not solicited any such securities brokers nor does the Company have immediate plans to do so. See RISK FACTORS "Illiquidity; Lack of Public Market; Non-Registration In Certain Jurisdictions".

**NOTE: EQUITY INVESTORS SHOULD BE AWARE THAT UNLESS THE COMPANY IS ABLE TO COMPLETE A FURTHER PUBLIC OFFERING OR THE COMPANY IS ABLE TO BE SOLD FOR CASH OR MERGED WITH A PUBLIC COMPANY THAT THEIR INVESTMENT IN THE COMPANY MAY BE ILLIQUID INDEFINITELY.**

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the Shares, after deduction of estimated offering expenses, will be \$930,000 if all of the Shares offered are sold, \$680,000 if 75% of the Shares offered are sold, \$430,000 if 50% of the Shares offered are sold, and \$180,000 if 25% of the Shares offered are sold. The following table sets forth the Company's anticipated use of the proceeds at each level of Shares sold. Each use of proceeds as a percentage of gross proceeds is also shown. No escrow account has been established and all subscription funds will be paid directly to the Company.

	<b>200,000</b>		<b>150,000</b>		<b>100,000</b>		<b>50,000</b>	
	<b>Shares Sold</b>		<b>Shares Sold</b>		<b>Shares Sold</b>		<b>Shares Sold</b>	
<b>Gross Proceeds</b>	\$1,000,000	(100%)	\$750,000	(75%)	\$500,000	(50%)	\$250,000	(25%)
<b>Less Expenses</b>								
Office Supplies	2,000		2,000		2,000		2,000	
Printing	5,000		5,000		5,000		5,000	
Postage	4,500		4,500		4,500		4,500	
Accounting	12,000		12,000		12,000		12,000	
Employees	4,000		4,000		4,000		4,000	
Legal	4,000		4,000		4,000		4,000	
Filing Fees	9,000		9,000		9,000		9,000	
Public Relations	2,500		2,500		2,500		2,500	
Email Campaign	12,000		12,000		12,000		12,000	
Other Advertising	12,000		12,000		12,000		12,000	
Miscellaneous	3,000		3,000		3,000		3,000	
<b>Total Expenses</b>	70,000	(7%)	70,000	(9%)	70,000	(14%)	70,000	(28%)
<b>Net Proceeds</b>	\$930,000	(93%)	\$680,000	(91%)	\$430,000	(86%)	\$180,000	(72%)
<b>Use of Net Proceeds</b>								
Marketing/Sales	400,000	(40%)	300,000	(40%)	200,000	(40%)	100,000	(40%)
R & D	200,000	(20%)	150,000	(20%)	50,000	(10%)	17,500	(7%)
Inventory	100,000	(10%)	75,000	(10%)	25,000	(5%)	12,500	(5%)
Debt Reduction	109,668	(11%)	109,668	(15%)	89,106	(18%)	25,000	(10%)
Working Capital	120,332	(12%)	45,332	(6%)	65,894	(13%)	25,000	(10%)
<b>Total Net Proceeds</b>	930,000	(93%)	680,000	(91%)	430,000	(86%)	180,000	(72%)

The foregoing represents SolarAttic's best estimate, at this time, of its PRIORITIES and use of the net proceeds of this Offering, based on its expansion plans and estimates regarding its future revenues and expenditures. Should the Company fail to sell all of the Shares, the proceeds shall be proportioned for usage based on the Company's priorities shown above at the different net levels. Pending application of its proceeds of the Offering, the Company may invest the net proceeds in short-term, investment-grade, interest-bearing securities.

**SINCE THE COMPANY HAS ONLY LIMITED OPERATING HISTORY, THE ACTUAL ALLOCATION OF PROCEEDS MAY VARY FROM THAT INDICATED ABOVE. THE ACTUAL EXPENDITURES MAY VARY, DEPENDING UPON FACTORS SUCH AS THE AVAILABILITY OF FINANCING, COSTS FOR MARKETING/SALES, AND THE DATES AND EXTENT TO WHICH ADDITIONAL OPERATING REVENUES & PROFITS ARE GENERATED.**

**NOTE: AFTER REVIEWING THE PORTION OF THE OFFERING ALLOCATED TO THE PAYMENT OF OFFERING EXPENSES, A POTENTIAL INVESTOR SHOULD CONSIDER WHETHER THE REMAINING PORTION OF HIS INVESTMENT, WHICH WOULD BE THAT PART AVAILABLE FOR FUTURE DEVELOPMENT OF THE COMPANY'S BUSINESS AND OPERATIONS, WOULD BE ADEQUATE.**

## CAPITALIZATION

The following table shows the capitalization of the Company as of December 31, 1997, on an actual basis and on an as adjusted basis giving effect to the Offering if, of the Shares offered, all, 75 percent, 50 percent and 25 percent are sold. The table assumes the payment of offering expenses estimated at \$70,000. See "USE OF PROCEEDS."

	December 31, 1997				
	<u>Actual</u>	<u>As Adjusted</u>			
		<u>200,000</u> <u>Shares Sold</u>	<u>150,000</u> <u>Shares Sold</u>	<u>100,000</u> <u>Shares Sold</u>	<u>50,000</u> <u>Shares Sold</u>
<b>Common Stock, no par value;</b> 100,000,000 shares authorized; Shares issued and outstanding;	9,385,752	9,585,752	9,535,752	9,485,752	9,435,752
<b>Current paid-in capital;</b>	\$691,067	\$691,067	\$691,067	\$691,067	\$691,067
<b>Additional paid-in capital;</b>		930,000	680,000	430,000	180,000
<b>Accumulated deficit;</b>	(592,659)	(592,659)	(592,659)	(592,659)	(592,659)
<b>Total stockholders' equity;</b>	\$98,408	\$1,028,408	\$778,408	\$528,408	\$278,408

## IMPLICIT POST-OFFERING VALUE

The above table does not reflect shares of Common Stock which are subject to the exercise of warrants, options or the Company's incentive stock option plan. If all Shares are sold, all existing options are exercised and all existing warrants are exercised—there would be 11,221,745 shares outstanding. At \$5.00 per share, this would be a market value of \$56.1 Million.

**NOTE: AFTER REVIEWING THE ABOVE, POTENTIAL INVESTORS SHOULD CONSIDER WHETHER OR NOT THE OFFERING PRICE FOR THE SECURITIES IS APPROPRIATE AT THE PRESENT STAGE OF THE COMPANY'S DEVELOPMENT.**

## DILUTION

The NET TANGIBLE BOOK VALUE of the Company as of December 31, 1997 was \$45,368 or approximately \$.005 per share of Common Stock. Net tangible book value is the physical assets of the Company minus all liabilities. (Net Tangible Book Value = Total Tangible Assets - Total Liabilities). The net tangible book value does not include any of the Company's patents or other intellectual, intangible, or non-physical assets such as trade secrets and customer lists. Giving effect to the sale by the Company of all 200,000 Shares at a public offering price of \$5.00 per Share, there will be an immediate substantial dilution in the NET TANGIBLE BOOK VALUE to purchasers of Shares as set forth below. Dilution is determined by subtracting net tangible book value per share after the Offering from the initial offering price. The following table sets forth as of December 31, 1997 a comparison of the respective investments of the current shareholders and the public investors. The table below does not take into effect the additional and substantial dilution of exercised warrants, options or the stock option plan. See "INVESTOR % OWNERSHIP."

Offering Price . . . . .		\$5.00
Net tangible book value per share before offering . . . . .	\$ .005	
Increase to current shareholders in net tangible book value due to offering . . . . .	\$ .097	
Net tangible book value per share after offering . . . . .	\$ .102	\$ .102
Dilution per share to public investors . . . . .		\$4.90
Percent dilution per share to public investors . . . . .		98%

## INVESTOR % OWNERSHIP

The above table does not reflect shares of Common Stock which are subject to the exercise of warrants, options or the Company's incentive stock option plan. If all Shares are sold, all existing options are exercised and all existing warrants are exercised—there would be 11,221,745 shares outstanding. Investors in the Offering would own 200,000 shares ÷ 11,221,745 shares then outstanding or 1.8% of the Company.

**NOTE: AFTER REVIEWING THE ABOVE, POTENTIAL INVESTORS SHOULD CONSIDER WHETHER OR NOT THE OFFERING PRICE FOR THE SECURITIES IS APPROPRIATE AT THE PRESENT STAGE OF THE COMPANY'S DEVELOPMENT.**

## **THE BUSINESS**

### **GENERAL**

SolarAttic, Inc. (the Company), a Minnesota corporation, was formed on August 11, 1986 and was in the development stage through December 31, 1996. The year 1997 is the first year during which it is considered an operating company. Sales are currently throughout the continental United States. However, markets for the Company's technology and products are international in nature. SolarAttic manufactures solar-powered water heating, solar-powered space heating and attic ventilation systems. The solar-powered heating systems use the heat that collects in the attic space as a result of solar radiation on the roof. The attic ventilation systems use the Company's new duct technology that collects or distributes air evenly along its length which is useful in collecting attic air for heat transfer, attic ventilation or other purposes. The Company believes its strengths are its technology patents and experience in developing systems that harness the heat energy contained in hot attic air. The Company believes that its proprietary heating systems can replace or augment heating systems that use fossil fuels or conventional solar panel technology. The Company believes that its new duct technology can replace or augment devices that are used for ventilation, air collection or air distribution in attics and other building structures. The Company's goal is to establish a nationwide network of independent dealers who will sell, install and service the Company's products.

### **SOLARATTIC'S VISION OF THE FUTURE**

The future will see home attics being used as productive "Solar Energy Vehicles." Attics will be used to heat swimming pools, spas, hot tubs, hot water and space. Products will evolve to create a new roof and attic structure that will absorb more incident solar radiation instead of less [which is the current thinking]. New ventilation systems will provide a controlled attic ventilation and moisture environment that enables maximum heat extraction to occur.

Roofs will be painted black instead of white with newly [to be] developed "solar absorption paint." New asphalt shingles will absorb greater amounts of solar radiation. New roofing materials will conduct heat easily in one direction and hard in the opposite direction. These new products, plus others, will increase the effective heat collection and storage capacity of attics. Automatic ventilators will vent attics only when absolutely necessary. Houses will be built to optimize the attic as a "Solar Energy Vehicle." Attics will demonstrate their economics in terms of receiving, storing, and transferring free solar heat energy. Attics will evolve into a new solar class of device "the hybrid solar energy system" which will be part passive (the large solar roof collector) and part active (the low cost forced air heat transfer system).

People around the world will take advantage of this new source of free solar radiation through economical and practical products that won't require massive roof alterations. In fact, no significant or visual roof alterations. In fact, virtually no solar roof panels per se except PV cells.

Markets will expand as the "low operating cost" water heating, space and ventilation systems supplied by SolarAttic, Inc. are accepted into the market place and displace other inefficient "fossil fuel" heating systems. Legislation will be enacted to help solve the "Greenhouse Effect" that will force home owners to stop using fossil fuel systems as alternative systems like the PCS1 swimming pool heater become more commonplace and it becomes readily apparent that we do not have to burn fossil fuels for such heating applications. SolarAttic, Inc. will be the leader, the creator, the innovator and the pacesetter in this FUTURE marketplace.

The Company's founder and president, Ed Palmer, now believes that some aspect of the Company's new proprietary and patented technology can be applied to every single building structure worldwide regardless of its use, size or construction. Because of this, the Company's founder also believes that the markets for the Company's emerging new technology and products are now massive. See "MARKETING AND SALES".

## **SOLARATTIC'S MISSION**

SolarAttic's mission is to be the primary creator, designer, manufacturer and market leader for all technology and products that make use of the newly emerging "Attic Solar Energy Vehicle."

## **HISTORICAL PERSPECTIVE**

The Company began as Pool Heat Company in 1984, a Minnesota proprietorship owned entirely by Edward G. Palmer, the Company's current President and CEO. Pool Heat Company changed its name to Attic Technology, Inc. and organized itself as a Minnesota corporation in August 1986. In July 1993, the Articles of Incorporation were amended to change the name of the Company to SolarAttic, Inc.

The Company began by developing a design concept for an attic air-to-water heat exchanger which could heat swimming pools for as little as \$11.00 per month in electricity consumption. In May 1991, a U.S. patent named "ATTIC SOLAR ENERGY VEHICLE" was granted to Edward G. Palmer. This is a solar technology patent which disclosed swimming pool heating, domestic hot water heating and space heating systems — all using solar-generated, heat energy contained in hot attic air. Mr. Palmer has assigned 100% of the patent rights to the Company.

In response to product publicity (several articles written about the Company) primarily concerning the Company's pool heating system, the Company has received product-related inquiries from 1990 through the present. Direct mail follow ups to these inquiries have resulted in limited sales of the Company's pool heating and space heating systems. At December 31, 1997, the Company had sold a total of 167 pool heating systems to customers in 30 states.

The Company's first patent disclosure cited as a prior art reference an attic based space heating system patented by an Ohio inventor. In 1992, the Company was able to acquire 100% of the rights to this U.S. Patent in exchange for stock in the Company. Subsequently, the Company also acquired all of the remaining space heater inventory from its original West Virginia manufacturer in exchange for stock in the Company. The acquisition of this second patent entitled "COMPACT ATTIC MOUNTED SOLAR HEATING PACK ASSEMBLY" was considered important from a strategic technology standpoint. The Company's technology was then focused on heating liquids with an air-to-liquid heat exchanger. The second patent added a proprietary air-to-air heat transfer component to the Company's technology base.

In March of 1994, the Company applied for a third U.S. Patent entitled "A SELF SUFFICIENT APPARATUS AND METHOD FOR CONVEYING SOLAR HEAT ENERGY FROM THE ATTIC." This patent disclosure showed how to provide free solar hot water using a combination of hot attic air and solar photovoltaic cells. In September 1995, a U.S. patent with the aforementioned name was granted to Edward G. Palmer. Mr. Palmer has assigned 100% of the patent rights to the Company. The Company successfully demonstrated a prototype of this hot water heating technology at the Minnesota State Fair during 1994.

However, due to limited capital resources, the Company has not yet completed a domestic or commercial hot water heating product. See “RESEARCH AND DEVELOPMENT.”

Along the Company’s technology development path, it became obvious that there was more solar heat energy available in the attic than what the swimming pool heater was extracting. The Company’s pool heaters were working well according to customer empirical reports and testimonials. Some customers, however, informed us that more heat was available at the ends of their attic. The question then arose: “How can we collect all of the solar heat inside the attic?”

As a result of further investigation, a fourth U.S. Patent was applied for in September of 1995 for a new and innovative duct technology. The patent application is entitled: “AN AIR DISTRIBUTOR OR COLLECTOR.” The Company’s founder, Edward G. Palmer and Professor Ephraim M. Sparrow at the University of Minnesota are co-inventors. In 1995, a technical paper was first published in the SOLAR 95 PROCEEDINGS describing the Company’s new technology. The paper was entitled: “ENHANCED APPLICATIONS OF ATTIC-COLLECTED SOLAR ENERGY.” The paper was written by Professor Sparrow, engineering student John A. Sipple and the Company’s founder Edward G. Palmer.

On December 5, 1997, the Company was informed by the Patent and Trademark Office (“PTO”) that all of its claims had been accepted. The Company now expects its fourth U.S. Patent to issue in 1998. During September 1997, the Company filed for international patent protection through the United States PTO. This was the first of many expected filings.

The fourth patent is a unique duct technology that allows for the even collection or distribution of air all along its entire length. To get this even collection or distribution of air (performance) out of the duct, it is perforated with holes that provide an “air flow through area” that increases as you progress down the length of the duct. The increased flow through area compensates for pressure losses along the duct’s length thus causing the duct to collect air or distribute air evenly. The end of the duct opposite the fan end is typically capped albeit it can be left open under certain conditions. The duct can be any geometric shape or length. In the patent application, a circular non-insulated flex duct is described in detail. The flex duct can then wind its way around modern attic cavities which can be disjointed compared to older house structures with a rather straight attic from gable to gable.

The ramifications of the Company’s new duct technology are very broad. Virtually any place that a duct is used to collect or distribute air is a candidate for use of the Company’s new duct technology. As applied to the attic (solar) heat transfer systems, the duct technology will allow for an even more energy efficient solar heating system. Imagine, for example, the SolarAttic pool heater which is basically a radiator concept inside the attic. Pool water is pumped through the radiator coil while hot attic air is drawn across the coil. This is forced air convection technology. Just like the radiator inside your automobile except instead of cooling it is heating the water. The heat exchanger simply placed inside the attic is highly functional for its intended use. Pool owners appear quite satisfied. However, more heat energy is available (found) inside the attic.

With the Company’s new duct technology, a section of duct perforated properly can be attached to the heat exchanger and stretched throughout the attic. The net result is that a smaller heat exchanger can be manufactured because of an increase in overall efficiency in heat collection.

In addition, more flexibility is provided from an installation standpoint. Instead of having to mount the heat exchanger at the apex of the attic, it could then be placed in a more convenient location on the attic's floor with the duct itself extended up to and along the apex of larger attics.

The same technology concept holds true for space heating and domestic hot water heating products. With the addition of the Company's new duct technology, both of these products will also be more energy efficient. It translates into more proprietary products and less competition.

Pool heating, space heating and hot water heating are the main areas of attic heat transfer. The same technology can be used for "process heating" applications in industrial settings. All of these heat transfer products can be augmented with the duct technology. However, the duct technology also offers product opportunities extending far beyond heat transfer inside the attic.

Take, for example, the issue of proper attic ventilation. The new duct, when coupled with a fan and appropriate controls, now offers consumers a unique way of controlling attic ventilation from the inside of the attic. Hence, a fourth product category has been created with the introduction of the SolarAttic Ridge Ventilator which offers to control both humidity and temperatures inside the attic. This product was introduced at the 1997 Minnesota State Fair during August. It has been met with enthusiasm from fair visitors. Several systems were immediately ordered at the fair's introductory price of \$599.95 plus tax. See "PRODUCTS."

A fifth product opportunity has arisen during the Company's development stage that also takes advantage of the duct technology and other Company-owned patents. That is a modular system that combines space heating, ventilation, the duct and hot water heating. A combination space and ventilation system is now in the final prototype stages and is expected to be ready to market by the fourth quarter of 1998. Such a product, in Minnesota, would work as follows: In the fall and spring, the system will collect free attic (solar) heat and redistribute it back into the house to reduce home heating costs. In the winter, the system will vent the attic thereby working to reduce or eliminate ice dams caused by poor attic ventilation. In the summer, the system will vent the attic thereby reducing summer air conditioning costs.

From a modular concept, the Company expects to have a hot water heating module sometime in the future. When it is available, it can then be placed at the discharge air location. In the summer, then, as the hot attic air is discharged to reduce air conditioning costs—the hot air could then be used to heat domestic hot water before it is discharged outside. To create such a product requires that all elements be in place at the onset since the duct is designed and cut to a specific pressure loss and air flow (CFM) requirement. Therefore, it is not anticipated that a water heating module could be retrofitted but would rather have to be part of the initial order as an option. See "PRODUCTS."

The Company's first three patents are U.S. Patents only. However, if the Company is successful in its international filings for the fourth patent's duct technology, it is readily apparent that all of the systems built by the Company and sold overseas would then have a decisively competitive edge. Likewise, the Company now has additional and important technology that will not be easily copied overseas in those areas where overseas patent protection is granted. In some areas overseas, the Company may want to seek out business partners. SolarAttic does not envision any direct overseas operations. Instead, SolarAttic envisions overseas partners who could handle the relevant overseas markets.

SolarAttic's fourth U.S. Patent, when issued, will be issued in the names of Edward G. Palmer and Ephraim M. Sparrow. Mr. Palmer and Mr. Sparrow have assigned 100% of the patent rights to the Company.

One final historical perspective. All systems inside the attic consume relatively low amounts of electricity for the high corresponding amount of heat energy transferred. As a result, the low electrical energy consumption can be easily offset by solar photovoltaic cells (PV cells). As SolarAttic's new technology has evolved, so has that of PV cells. Most noteworthy is the fact that new PV cells have been developed to take the form of roof shingles. Such a development then takes away the remaining number one sales objection to existing solar technology. The panels. People want renewable solar energy technology, they just don't want the solar roof panels. When SolarAttic's new inside-the-attic solar heating technology is coupled with PV cells that look like roof shingles—it will be a strong product differentiation to that of traditional solar panel systems (panels vs. no panels).

The technology exists today for SolarAttic to create and supply solar energy systems that will provide free domestic hot water without solar hot water panels. SolarAttic can also provide free attic ventilation. Both of these product categories are immediately adaptable to the use of PV cells due to their low energy consumption. Attic ventilation could therefore be a function of sunlight. Whenever the sun shines or there exists a relative amount of sunlight, the attic would vent automatically with no utility power consumption. Just like small solar powered calculators. Solar powered attic ventilation, in itself, is not a new idea. However, with the control over attic ventilation offered by the Company's new duct technology—it is a new category of ventilation!

This historical perspective shows why the Company was in a prolonged developmental stage. With limited capital resources, time was the necessary substitute ingredient. The development of the Company's technology has taken much longer, time wise, than otherwise would have occurred with additional and substantial early capital. It has been unusual (and very difficult from a capital standpoint) for a new solar technology to emerge from Minnesota. The state that is often equated as Ice-Box, USA (home of International Falls). The end result, however, is that what started out as a simple pool heating concept in 1984 has evolved into a broad and expansive new solar energy and ventilation technology as it has progressed into 1998.

It should be noted that even though it has taken more time to develop this new technology in Minnesota, in the long run, it could save SolarAttic a lot of marketing costs. For example, if we had developed this technology in Florida, who would buy it in the Northern states? Everything solar works in Florida. Doesn't it? Many times, the Company has heard the dialogue: "If it works in Minnesota, it should work in our state." That consumer thought is a critical long-run marketing message. It's a fact — SolarAttic's technology works in Minnesota!

In April of 1997, the Company moved out of its founder's garage manufacturing and basement office area and into the new "Elk River Business Center" office complex along Highway 10 in Elk River, Minnesota.

## **PATENTS & INTELLECTUAL PROPERTY**

The Company believes its strengths are its technology patents and experience in developing systems that harness the heat energy contained in solar-generated, hot attic air. The Company has the following patents:

***1. A solar technology patent that covers the SolarAttic PCS1 Pool Heater and the SolarAttic Domestic Hot Water Heater (under development).*** (See “RESEARCH AND DEVELOPMENT”)

The Company filed a solar technology patent on September 7, 1989. Within the patent, swimming pool heating, domestic hot water heating and space heating systems were disclosed using the thermal energy contained in solar-generated, hot attic air. On May 14, 1991, U.S. Patent 5,014,770 was granted to Edward G. Palmer for the “ATTIC SOLAR ENERGY VEHICLE” (title of the patent). The Company has been assigned 100% of the patent rights by Mr. Palmer.

***2. A patent for the SolarAttic Space Heater, acquired from its inventor in 1992.***

In September 1992, the Company acquired all of the rights to U.S. Patent 4,502,476 which is now U.S. reissue patent number Re. 32,607 in exchange for 204,000 shares of the Company’s common stock valued at 30¢ per share. The patent is currently valid and owned 100% by the Company. (See “CERTAIN TRANSACTIONS”)

U.S. Patent Re 32,607 is titled “COMPACT ATTIC MOUNTED SOLAR HEATING PACK ASSEMBLY.” This patent describes what the Company markets as the SolarAttic Space Heater. This heating system takes warm attic air and distributes it into living spaces that need heat. The system is automatic, providing heat only when attic heat is available and when it is required in living spaces.

***3. A solar technology patent that discloses how to derive free domestic hot water from hot attic air using an attic based heat exchanger in combination with solar photovoltaic cells.***

On March 28, 1994, Mr. Palmer filed for a third U.S. Patent on behalf of the Company. The title of the U.S. Patent application by Edward G. Palmer is “A SELF-SUFFICIENT APPARATUS AND METHOD FOR CONVEYING SOLAR HEAT ENERGY FROM AN ATTIC.” In this application, Mr. Palmer disclosed a system and method for providing for the self-sufficient extraction of solar heat energy from within the attic. Mr. Palmer has disclosed a solar-generated attic heat method whereby domestic hot water may be obtained without the use of external power from a utility company. On September 26, 1995, U.S. Patent 5,452,710 was granted to Edward G. Palmer. The Company has been assigned 100% of the patent rights by Mr. Palmer.

***4. A duct technology patent that discloses how to collect or distribute air evenly all along its length by using an algorithm to perforate the duct to offset the pressure loss along its length.***

On September 15, 1995, Mr. Palmer filed for a fourth U.S. Patent on behalf of the Company. The title of the patent application by Edward G. Palmer and co-inventor Ephraim M. Sparrow is “AN AIR DISTRIBUTOR OR COLLECTOR.” In this application, Mr. Palmer and Mr. Sparrow disclose a new duct technology for collecting or distributing air evenly along its length.

The new duct technology is useful for collecting all solar derived hot attic air (heat energy). The collected heat can be used immediately at the intake of an air-to-liquid or air-to-air heat exchanger or it can be relocated to another location such as the intake of a furnace. It is also useful and has broad applications in air distribution, air collection and air ventilation systems.

On December 5, 1997, the Company received a “Notice Of Allowance” update for its PTO Application No. 08/717,148. The main claim and all dependent claims are now granted. The Company now expects that the fourth patent will issue with all its claims to Mr. Palmer and Mr. Sparrow sometime in 1998. The Company has been assigned 100% of the patent rights by Mr. Palmer and Mr. Sparrow.

## **BUSINESS STRATEGY; MILESTONES**

The Company’s primary business strategy is to expand its marketing, sales and manufacturing operations. The Company believes that its management has the requisite skills and experience necessary to succeed in its marketing, sales and manufacturing operations. The Company’s secondary strategy is to continue to research and develop innovative products that capitalize on the energy contained in solar-generated hot attic air. Also, to further develop the Company’s new duct technology. The milestones below are major areas of focus for the Company’s resources. The timing and costs for completion are uncertain and depend upon resources. Therefore, the Company can offer no more detail than the general discussion below and to note that no assurance can be provided that any milestone will be completed or that any will be completed in a timely manner. The Company’s milestones and plans include:

- **Continue to pace the business.** The Company has never had significant capital resources to rely upon and its primary survival strategy has been to simply pace the business. The Company continues to limit its overhead and operations so that they do not exceed available resources. The Company’s financial focus is on cash flow. It is the Company’s patents, the long term nature of the Company’s energy technology and the founder’s patience that gives the Company its ability to simply pace itself and continue its growth. The Company has consistently continued to progress in a forward direction from its inception and believes that regardless of the outcome of this Offering—that it shall continue to do so.
- **Ensure the issuance of the Company’s 4th patent.** Having received a Notice of Allowance of all claims, it is now expected that the patent will issue sometime in 1998. The payment of the patent issue fee has been made.
- **File for international protection of the Company’s 4th patent.** The Company is in the process of filing for international protection of its 4th patent. Several filings will be required including filings in the foreign languages of several countries. The outcome of these filings is uncertain and the process is very complicated. There can be no assurance that the Company will obtain any protection overseas for the new duct technology. However, such filing is of high importance strategically. If successful, overseas protection of the new duct technology would greatly expand the value of the Company’s technology.

• **Continue building the Company's customer list database.** During 1996, the Company acquired a customer list of 600,000 inground pool addresses in exchange for common stock in the Company. See "CERTAIN TRANSACTIONS." This list, however, is in typewritten form and requires data entry input into the Company's computer database to be most useful in direct marketing programs. The list is being entered into the database in anticipation of being used full time for marketing the Company's swimming pool heater in the near future. As of December 31, 1997, the database had reached 209,247 addresses and data entry is on temporary hold pending additional resources. The Company uses Macintosh computers and 4th Dimension database software and has full customization capabilities including laser printing on 600 dpi printers.

• **Continue testing sales initiatives.** The Company does not currently possess the capital to launch a full scale program for the marketing and sales of its products which, among other costs, would involve a substantive advertising budget. Instead, the Company has developed a more limited direct marketing approach for use with its database of 600,000 addresses of pool owners. This involves the use of an oversized postcard printed in four colors and describing the Company's pool heater. The postcards are then processed through a 600 dpi laser printer where a customized sales message is printed along with the address for delivery. The company will test some limited sales initiatives using these direct mail postcards and a customized message until additional capital is obtained. The Company is in the early stages of these direct marketing tests and postage costs are a concern with the limited capital available. There can be no assurance that these direct mail sales initiatives will lead to sales of the Company's pool heater. Several other methods such as dealers and distributors are also being tested. The Company needs substantive marketing funds to resolve the best sales and distribution method for the pool heater and other products.

• **Expand the Company's ventilation product line.** The Company's first product to make use of the new duct technology was introduced at the 1997 Minnesota State Fair which ended September 1. The SolarAttic Ridge Ventilator (model number 14-900) was introduced and received an enthusiastic welcome at the fair. However, this product, its technology and control methodology are still in its infancy using some off the shelf components and the custom perforated duct. Additional capital will be required to develop several customized product variations. See "PRODUCTS."

• **Complete the Company's GB-Series space heating/ventilation product line.** The Company's combination space heating and ventilation system needs to be completed. The status of this product is that three different sized prototype models have been constructed. However, the costs of placing the unit into production is a current constraint. Upon successful completion of this Offering, the GB-Series product will be completed and made available for sale. The control system developed for the SolarAttic Ridge Ventilator is identical to that used in the GB-Series except for a few parts. The common control system will allow for easier economies of production as both products are being sold. See "PRODUCTS."

• **Enhance engineering and manufacturing capabilities to lower production costs, enhance profits and effect the Company's product strategy.** The Company's product strategy is to offer a line of SolarAttic<sup>®</sup> products for heating swimming pools, space, and domestic hot water. These products will be primarily heat exchange systems placed inside attic structures and operated by electronic controls. The Company expects to not only manufacture the heat exchangers but also to either manufacture or have manufactured a line of custom electronic control systems to operate its heat exchangers. In addition, customized ventilation and combination space heating/ventilation systems will be deployed with custom controls (preceding paragraph).

- **Build and capitalize on the Company's brand name.** The Company believes that the SolarAttic® brand name captures the essence of its heat transfer technology. Further, the Company plans to expand its category of products which use hot attic air — to include products that will enhance and/or control the heat absorbing and storing capacity of attic spaces.
- **Educate potential users and distribution channels that there is untapped, solar energy contained in hot attic air.** The education of the general public is a marketing necessity since the Company has been pioneering a new solar and ventilation technology. The need exists to simply get the word out, to inform and to educate people on the availability of the Company's new technologies and products. The Company therefore publishes booklets and technical manuals and has an active Public Relations program which distributes information (See "Literature Products"). Prior to the Company's World Wide Web site development, this was a considerable effort for the Company to maintain. Now, however, the Company's World Wide Web site appears to be taking over this task. During November 1997, for example, SolarAttic's web site recorded 21,721 requests for information. SolarAttic has, among other things, made its complete technical manual for its pool heater available free for downloading as an Acrobat PDF file. Expanding the web site with educational information is important and ongoing.
- **Establish a nationwide distribution network of the Company's products.** The Company intends to form alliances with appropriate solar, swimming pool, plumbing and heating dealers. In addition, alliances with other business entities will also be sought to distribute and market the Company's products nationally. See "CERTAIN TRANSACTIONS."
- **Expand internationally.** Cost and availability of energy are global concerns that impact everyone worldwide. The Company plans to introduce applications of its technology to international markets where there is strong economic return for the Company and for users of the Company's technology. The Company also plans to seek out international alliances to distribute and market the Company's products. Such alliances may license overseas production of the Company's products for distribution overseas when such production is deemed advantageous. To date, the Company has received product inquiries from several foreign countries. However, the Company has not sought any such international alliances to date. There can be no assurance that the Company will be able to sell its products or technology into any foreign markets.

The Company's proprietary technology and patents have been thoroughly developed and disclosed. However, the current line of manufactured products are in their infancy. Additional product development work will be required to fully exploit the Company's new technologies. The design and manufacture of a custom electronic control for space heating and ventilation systems is just one area of product development remaining to be addressed. This would replace the Company's current hybrid mechanical control system. Another is UL Listing for the Company's products. Prior to volume production runs, final cabinet changes and other product refinements may need to be made. Notwithstanding having successfully developed these new technologies and products, there can be no assurance that the Company will successfully deploy any of the above strategies, complete its milestones timely or make the transition to profitable operations.

**NOTE: AFTER REVIEWING THE NATURE AND/OR TIMING OF EACH STRATEGY, EVENT OR MILESTONE, POTENTIAL INVESTORS SHOULD REFLECT UPON WHETHER ACHIEVEMENT OF EACH IS REALISTIC AND SHOULD ASSESS THE CONSEQUENCES OF DELAYS OR FAILURE OF ACHIEVEMENT IN MAKING AN INVESTMENT DECISION.**

## PRODUCTS

The Company designs, manufactures and sells a line of solar heating systems which utilize solar-generated hot attic air for heating swimming pools, space and hot water. In addition, the Company manufactures an attic ventilation system and a combination attic ventilation and space heating system (GB Series). The Company's solar heating products eliminate the need for solar roof panels. The Company's ventilation products eliminate the need for roof vents (holes, etc.).

**The Company's present product line consists of the following nine systems:**

- **Three swimming pool heating systems.**
- **One space heating system.**
- **Three combination space heating/ventilation systems.**
- **Two ventilation systems.**

The Company also publishes and sells a small collection of manuals and papers relating to its technology. However, since the Company has placed this collection of manuals and papers on its World Wide Web site for free distribution, sales of these literature products have declined. The Company's strategy with the literature products was to offset part of the costs of educating the public. Towards that extent, the "literature" strategy has been a success which is now being handled almost exclusively by the Company's web site file transfers. People from around the world now have access to an abundant amount of free information about the Company, its technologies and its products.

At December 29, 1997, the Company's web site consisted of 249 html pages (hypertext markup language browser pages) which either present company information or lead the browser to more in-depth information. The Company's Internet site is 12.2 megabytes in size which is considered large for a business web site and includes 39 downloadable Acrobat PDF (portable document) files. These files include the Company's comprehensive 114 page PCS1 Pool Heater Technical Manual, the Solar 95 Technical Paper and even an independent marketing report written by a MBA student. It is the Company's strategy to locate all public information about the Company that it can on this web site or at least linked to this web site. Exceptions, of course, would be trade secrets and other confidential non-public information.

The Company's SolarAttic<sup>®</sup> pool, space heating, GB Series combination space heating-ventilation, and ventilation systems are existing product lines which are in limited production at this time. Through December 1997, the Company has sold 167 pool heating systems to customers in 30 different states. The Company believes that the combination of these product lines will yield a manufacturing operation affected minimally by seasonal cycles.

The following graphic illustrations of the Company's technology are designed to present the conceptual basis for the Company's solar heating and ventilation products. The attic-based solar heating systems use either an "air-to-liquid" or an "air-to-air" heat exchanger. The attic based ventilation systems are simple fans connected to the Company's proprietary perforated duct. The conceptual graphics are accompanied by actual pictures, specifications and sales literature benefit messages of the different products where appropriate.

## Swimming Pool Heating Systems: The “SolarAttic Pool Heater”

1. **PCS1 Manual System:** A basic system with no automatic controls.

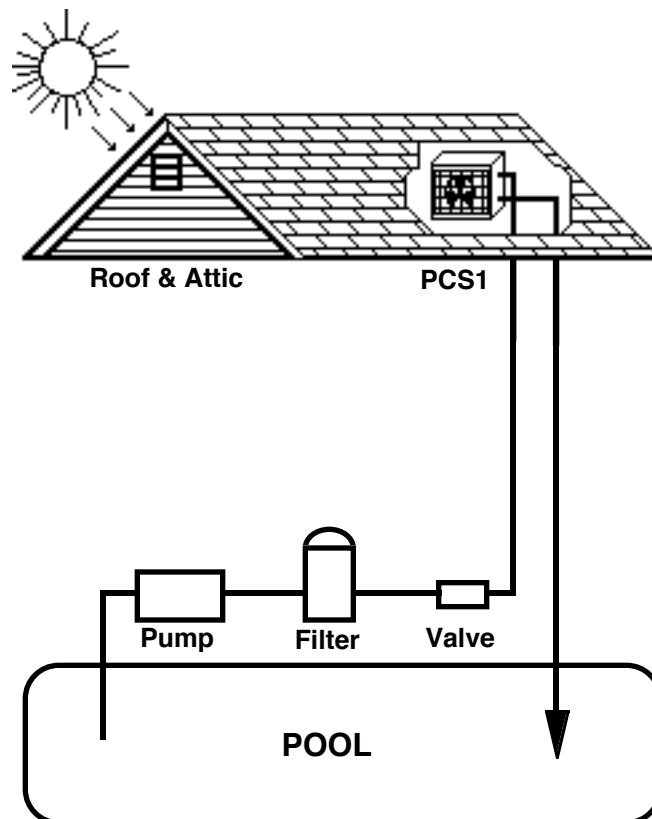
Note: PCS1 is an acronym that stands for Pool Convection System 1

2. **PCS1 Auto System:** An automated system with electronic solar controller that automatically activates the system when heat is required and solar conditions are met.

3. **PCS1 Auto Plus System:** An automated system with solar controller to automatically activate the system when heat is required and when solar conditions are met. This system also includes a flow reversal valve which routes heated water up through the pool’s floor drain rather than returning heated water through the pool’s return lines. This feature helps keep the pool temperature uniform from bottom to the top, and substantially reduces the pool’s overall heat needs.

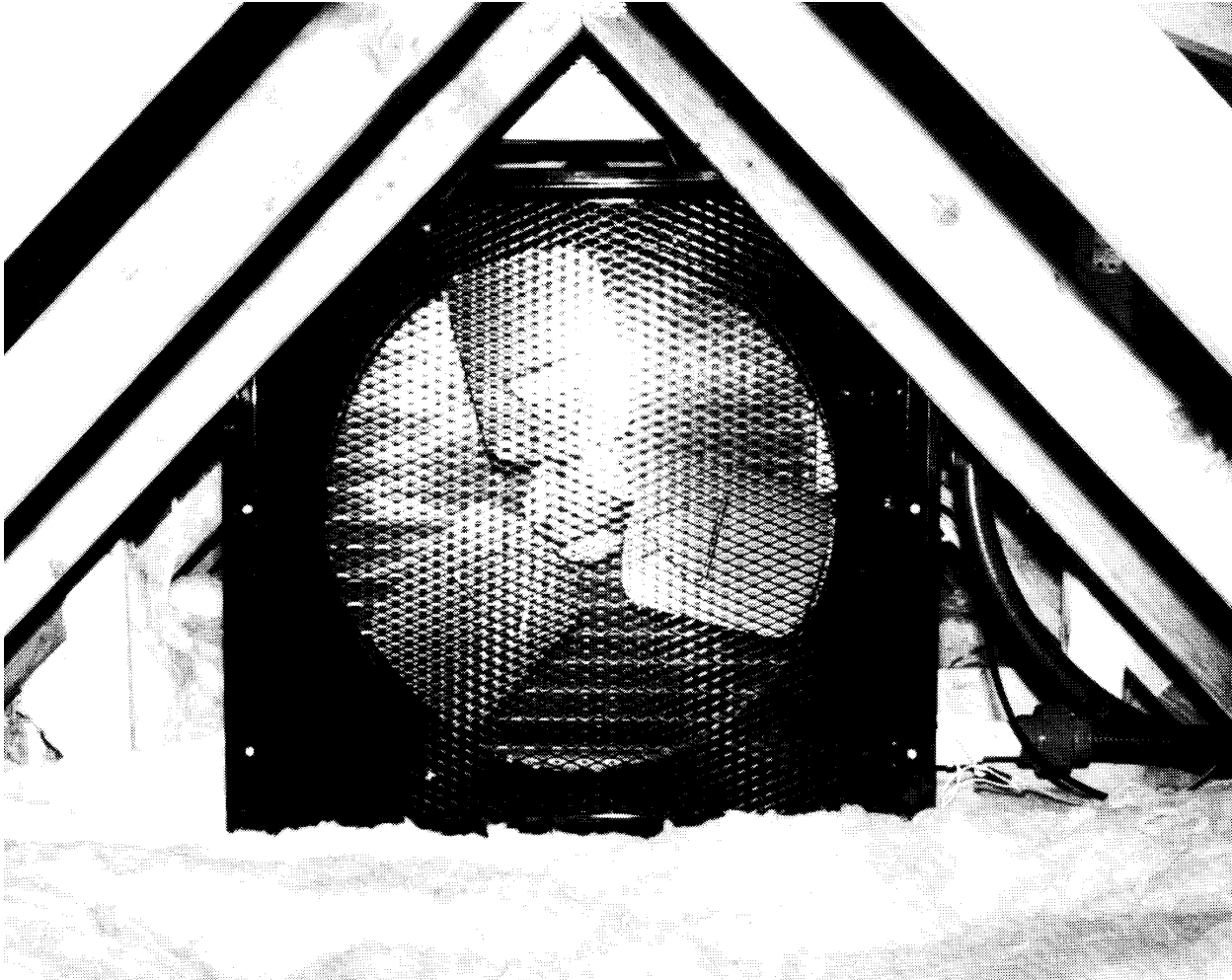
The Company believes (based on its studies and customer responses) that its pool heating systems offer the following key benefits to pool owners:

- Average monthly operating cost of as little as \$11.
- Significant reductions in air conditioning costs by elimination of attic heat.
- The utility cost savings will pay for the system in many instances.
- There are no aesthetic problems caused by roof or yard-mounted solar panels.



**Figure 1: Swimming Pool Heating Concept**

## The “SolarAttic Pool Heater”



### **SOLAR Without PANELS** **U. S. Patent 5,014,770**

**DESCRIPTION OF OPERATION:** Solar radiation bombards the house’s roof structure throughout the day. The roof functions as a “solar collector.” Solar radiation reaches the attic through a process called “conduction.” The attic functions as a storage and heat transfer area. The PCS1 is physically located inside the attic and then transfers this solar radiation from the attic air into the swimming pool’s water through a process called “forced air convection.”

**FULL AUTOMATIC OPERATION:** Is achieved with the optional LX220 control. When the attic is eight degrees hotter than the pool and the pool needs heat, the LX220 automatically routes water up to the PCS1 and turns it on. It can even synchronize the pool’s pump by turning it on at the same time. Temperature sensors sense the pool and attic temperatures, and maximum heat is then extracted automatically. The pool owner simply sets the desired thermostat setting on the LX220. Flowreversal™ can substantially reduce the pool’s heat demand by allowing the heat to rise from the main drain. Flowreversal™ is a trademark of Mark Urban, Tustin, California. A pool blanket can be used when the pool is not in use thereby minimizing heat losses caused by evaporation (60%).

## **PCS1 SPECIFICATIONS:**

- Pool Sizes: Up to 1000 square feet or 35,000 gallons
- Up to 70,000 gallons with FlowReversal™ valves
- Nominal BTU Rating: 60,000 BTUs/hour @  $\Delta$  32°F  
I.E. Pool water input 72°F & Attic's Peak @ 104°F
- BTU Transfer Range: 20-150,000 BTUs per hour
- Attic space required: 3 ft min height to peak; and,  
square ft of attic equal to or greater than pool sq ft
- Attic access: Fits through standard 24" o.c. trusses
- Minimum access opening recommended: 21"x 31"
- Can be disassembled for smaller access openings
- PCS1 Size: 33"W x 30"H x 20"D
- PCS1 Weight: 135 pounds
- Shipping Crate Size: 42"W x 38"H x 24"D
- Shipping/Crated Weight: 246-253 pounds
- Power: 220 vac 1.8 amps @ Full Load
- Operating Cost: \$5-11 per month @ 9¢ per KW/hour
- U.L. Listed: Coil, Motor & other components
- Plumbing: 1 1/2" or 2" PVC typical
- Pressure Drop: 4-6 PSI typical
- Air Flow Rate: 2500 SCFM
- Water Flow Rate: Range 15-80 GPM
- Optimal Water Flow Rate: 45-55 GPM
- Modes: Manual Off & On
- Optional Automatic Operation: LX220 control

## **Space Heating Systems: The “SolarAttic Space Heater”**

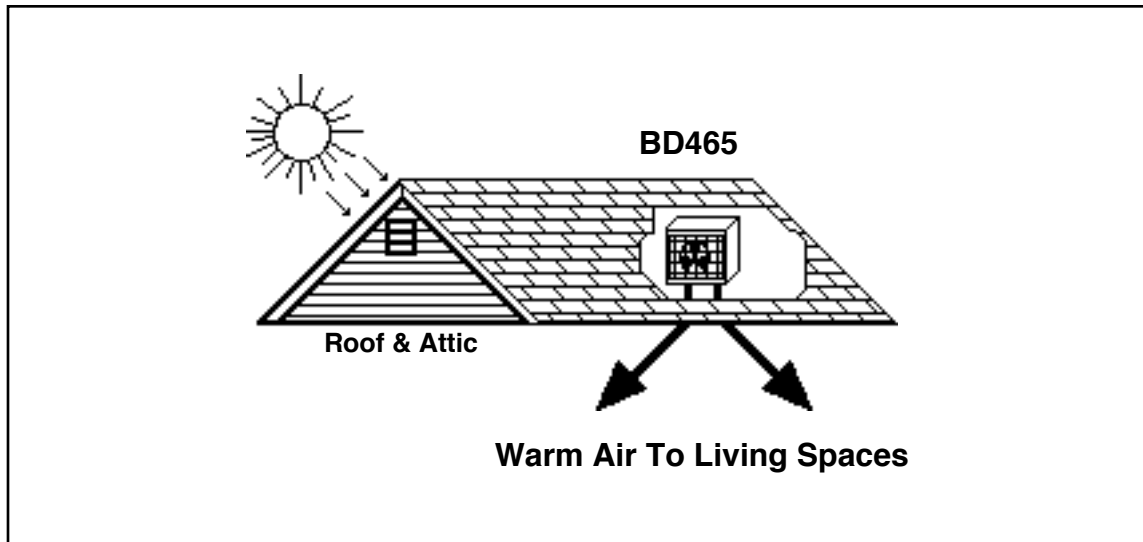
1. **SolarAttic Space Heater — Model BD465.** This heating system takes warm attic air and distributes it into living spaces that need heat. The system is automatic, providing heat only when attic heat is available and when it is required in living space.

The SolarAttic Space Heater (BD465) is comprised of a simple blower and plenum assembly that mounts at the apex of the attic. From this location, the fan automatically draws in warm attic air. Once drawn into the blower, the warm attic air is redistributed down into the house's living spaces via flexible ducts and ceiling diffusers designed for space heating purposes.

When this system operates, the main heating system operates in a limited, backup mode, providing additional heat only when necessary. The SolarAttic space heater is fully automatic. The Company believes its space heating technology has both residential and commercial applications. The original West Virginia manufacturer reported several commercial installations.

The Company believes (based on customer responses) that its space heating system offers the following key benefits to home owners:

- Reduced annual home heating costs (15 - 25% reported in Ohio-West Virginia).
- Complete kit weighs only 32 pounds and is easy for do-it-yourself installation.
- Maintenance free simple energy saving technology.



**Figure 2: Space Heating Concept**

## The “SolarAttic Space Heater”

### **Benefits**

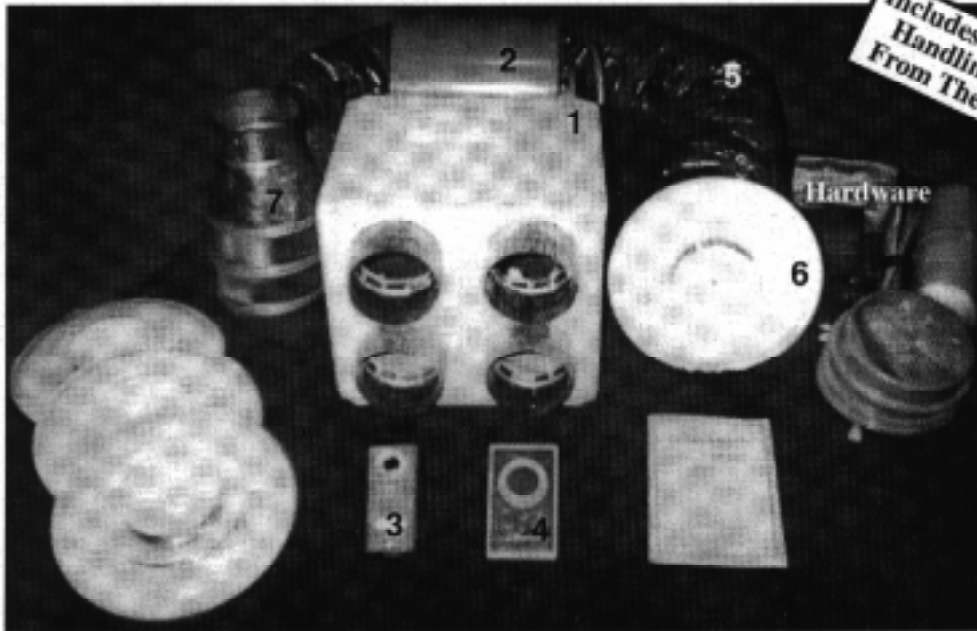
- **Whenever the sun shines.** Heat energy builds up inside your attic -- even on winter days with chilly temperatures outside. The SolarAttic space heater takes this free renewable solar heat from the peak of your attic and supplies it to the interior of your home.
- **Fully-Automatic.** All you do is set the room thermostat. When attic temperatures exceed this setting, the heater turns on automatically. When the room reaches the desired temperature, the attic heater turns itself off automatically.
- **Renewable Solar Energy.** When you use attic heat to supplement your central heating system, you save heating costs. Plus, you get the satisfaction of conserving natural resources and using renewable, solar energy.
- **A Complete System.** All the components you need are included with this kit. Do-it-yourselfers can install the system with the help of our easy-to-follow installation manual.
- **100% Performance Guarantee.** SolarAttic Space Heaters are guaranteed for two full years to reduce your home heating costs. If not, we will buy it back. All you need is a sunny roof and to follow our simple installation instructions.

**Use the SolarAttic Space Heater to supplement your home’s conventional heating system and reduce yearly heating costs!**

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An estimated 200 or more space heating systems were sold by the original West Virginia manufacturer into 10 or more states. No original manufacturing records are available so this is the Company’s best estimate based on conversations with the inventor and the original manufacturer. SolarAttic has sold 9 units since acquiring the technology and inventory. The remaining and original space heater inventory of 92 units is in fair condition but needs to be repackaged.

## The SolarAttic Space Heater – Fast Payback at Only \$815.85!



### Specifications for Model BD 465

- Heats Up to 4 large rooms
- Minimum Attic Space: 450 Sq Ft
- Internal Damper
- 115 vac 50/60 Hz
- Shaded Pole Motor
- 2.9 Amps Full Load Current
- Automatic Overload Protection
- Automatic Motor Thermal Reset
- Weight: 40 lbs Shipped
- Shipping box: 33 x 12.5 x 12.5"
- .28" Nominal Static Pressure
- 465 Free Air CFM
- 350 Nominal Operating CFM
- 1530 RPM @ Free Air
- Motor UL E37403
- Motor CSA 36496

### The SolarAttic Space Heater. A complete system kit.

1. Plenum Assembly
2. Blower Motor
3. Attic Thermostat
4. Room Thermostat
5. Flexible 4" insulated duct (50 feet)
6. Ceiling Air Diffusers (Qty 4)
7. Ceiling-Duct Reducers (Qty 4)

#### Also Shown:

- Diffuser filters
- Assembly Hardware
- Electrical Hardware
- Heat Barrier Curtain
- Installation Manual
- Operating Guide

**SOLAR Without PANELS**  
**U. S. Patent Re. 32,607**

## Product Performance Guarantees

The Company offers 100% Performance Guarantees on all of its products. The swimming pool heater has had a 100% performance guarantee since 1991. To date, no customer has exercised any rights under this performance guarantee. The Company believes that the energy dynamics involved are so profound that most, if not all, customers will notice immediate results from the Company's products. For example, a Tennessee customer reported an immediate reduction of 18% in overall energy consumption after installing the Company's pool heater. This customer uses a heat pump to air condition his home and states he was not previously heating his pool. The net reduction of energy costs are the direct result of the pool heater economically transferring the attic heat into the swimming pool [and simultaneously cooling the home].

## Literature Products

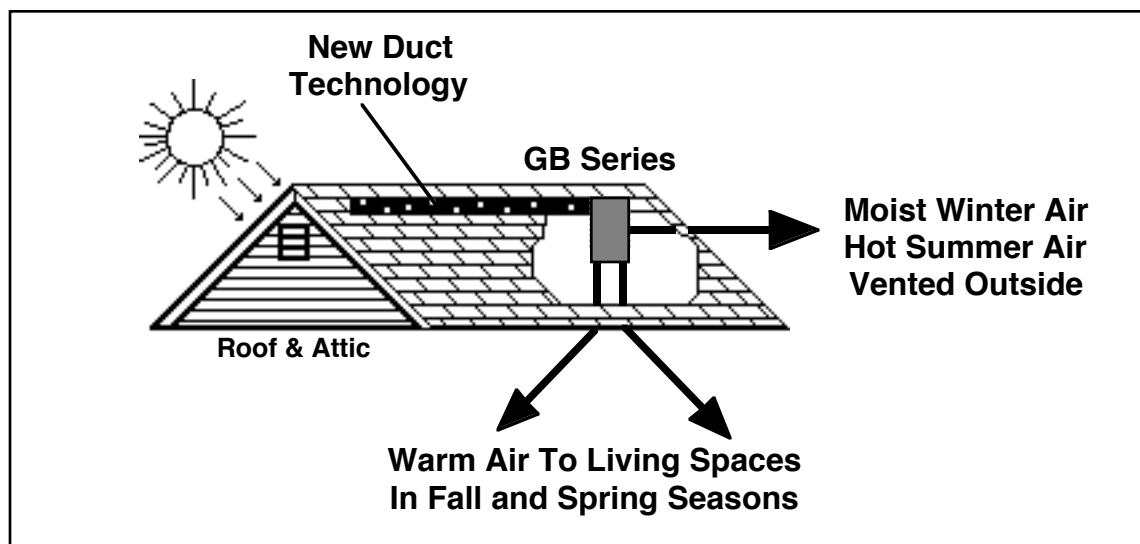
The Company reproduces and sells a small collection (10 titles) of technical manuals, reports and "how-to" booklets that address the Company's technology. The placement of these materials on the Company's web site for free non-commercial use and distribution has reduced the sales of these literature products.

## Product Cycles

While each individual product line, in itself, may have its seasonal cycles, the combination of all product lines is expected to allow the Company to operate a fairly consistent and non-cyclical overall manufacturing business. However, no assurance can be given that the Company's strategy will be successful and that the Company will develop a non-cyclical or non-seasonal manufacturing business.

## Expanding Space Heating Concept

As the Company was developing its new duct technology, it became readily apparent in some engineering tests that the duct could greatly enhance the efficacy of space heating. This was then coupled with the idea of venting the attic in off seasons. I.E. - In the winter and summer when attic heat might not be available (winter) or even wanted (summer). The GB Series was born.



**Figure 3: GB Series Space Heating / Ventilation Concept**

## The GB Series Product

The three GB Series space heating / ventilation systems will also take warm attic air and redistribute it back into living spaces that need heat. These systems are automatic, providing heat only when attic heat is available and when it is required in the living space.

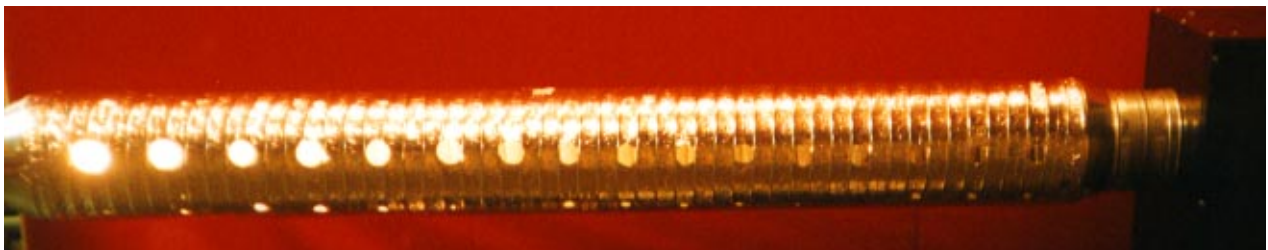
However, unlike the SolarAttic Space Heater Model BD465, which is limited to heating your house, the GB Series has the Company's new duct technology built in and deployed which improves the efficiency of the attic heat collection and air transfer process. The GB Series products also have an internal damper that switches automatically from heating to ventilation so that your attic is also automatically vented when needed.

The GB Series provides for an expanded year around operation inside the attic by combining two of SolarAttic's proprietary technologies and patents. During the fall and spring when free attic heat is available for the home, the system automatically collects this free heat and moves it into the living space. In the winter, when ice dams are a concern, the system will automatically vent the attic to equalize both moisture and temperature to that of the outside ambient. In theory, such winter ventilation will eliminate the poor attic ventilation issue that contributes in large extent to the build up of ice dams. In the summer, when the attic builds up excessive amounts of heat, the system will then automatically vent the hot attic air to the outside. No sales of the GB Series have occurred and the product is in its final prototype stage.

The Company believes that its GB Series products offer the following key benefits to home owners:

- Reduced annual home heating costs (15 - 25%).
- Reduced summer air conditioning costs.
- System is easy for do-it-yourselfers to install.
- Maintenance free simple energy saving technology.
- Year around controlled attic ventilation.

## **GB Series product uses newly patented duct technology.**



The above section of perforated duct attached to a GB980 product for display purposes illustrates the Company's new duct technology. Close to the blower unit (right end), the duct has an "open air flow through area" that is smaller due to the pressure at the blower. However, as you progress down the duct (moving right to left) the duct's "open air flow through area" increases in size. The increasing area compensates for the pressure losses along the duct. This allows air to be collected evenly all along its length. The duct above has been cut to show the increasing open area. It is not a picture of the actual duct used with the GB Series product.

## The “SolarAttic Space Heater / Ventilator”



### **SOLAR Without PANELS**

#### **U. S. Patent Re. 32,607 PLUS New Duct (Patent Pending)**

The above parts photo shows some basic attic-to-home ceiling installation hardware. Not all parts shown are used or supplied. Not shown: 8" mating duct hardware. Shown: Ceiling air diffusers, filters, thermostats, flexible insulated duct & other hardware. A flexible attic air collector duct (illustration shown on the previous page) is perforated to collect air evenly all along its length. It simply unfolds and is hung at the attic's peak. One end is attached to the GB Series air moving unit shown above and the other end is capped.

#### **Automatic Operation**

**Spring and Fall:** When the attic temperature is greater than 70°F and the house thermostat creates a heat demand, warm solar heated attic air is collected and routed back into the house to reduce space heating costs. **In the Summer:** When the peak attic temperature exceeds 100°F and there is no house heat demand, the attic is automatically vented to remove excess heat and reduce air conditioning costs. **During the Winter:** When outside temperatures are less than 42°F and/or the attic humidity is greater than 35% RH (relative humidity), the attic is automatically vented to remove excess moisture and prevent ice dams. Winter ventilation can be a function of low temperatures, excess humidity or both. Once installed, the user only sets the inside house thermostat. It's that simple! All parts are warranted for 36 months.

## GB Series Provides Benefits All Year

The GB Series product provides controlled attic ventilation in the Winter and Summer and eliminates concerns about major structural damage caused by excess attic moisture and heat. PLUS - IT SAVES you money nine months of the year by reducing space heating costs in the Spring and Fall and reducing cooling costs in the Summer.

<b>The Seasons &amp; Benefits</b>	<b>GB Specifications: GB980 / GB495 / GB465</b>
<p><b>Winter</b></p> <ul style="list-style-type: none"> <li>■ Eliminates excessive attic moisture</li> <li>■ Prevents ice dams from forming</li> </ul> <p><b>Spring</b></p> <ul style="list-style-type: none"> <li>■ Provides free solar heat for home</li> <li>■ Reduces home heating costs</li> </ul> <p><b>Summer</b></p> <ul style="list-style-type: none"> <li>■ Eliminates excessive attic heat</li> <li>■ Reduces air conditioning costs</li> </ul> <p><b>Fall</b></p> <ul style="list-style-type: none"> <li>■ Provides free solar heat for home</li> <li>■ Reduces home heating costs</li> </ul> <p><b>Save \$\$</b></p> <ul style="list-style-type: none"> <li>■ Provides controlled ventilation</li> <li>■ Eliminates need for roof vents</li> <li>■ Reduces burning of fossil fuels</li> <li>■ Full Automatic Operation</li> <li>■ Easy To Install</li> <li>■ Simple To Use</li> <li>■ Fast Payback</li> </ul>	<ul style="list-style-type: none"> <li>■ Air Mover Dimensions: 36"Hx14"Wx18"D</li> <li>■ Minimum Attic Space Sq Ft: 800/400/400</li> <li>■ Collection Duct Length Feet: 25 / 25 / 15</li> <li>■ Maximum Rooms Heated: 6 / 4 / 4</li> <li>■ Nominal Static Pressure Inches: .50/.50/.28</li> <li>■ Nominal Operating CFM: 730 / 430 / 350</li> <li>■ Free Air CFM: 980 / 495 / 465</li> <li>■ Free Air RPM: 1050 / 1570 / 1530</li> <li>■ Power Required Volts AC: 115 / 115 / 115</li> <li>■ Power Required Hertz: 60 / 60 / 60</li> <li>■ Full Load Amperage: 6.80 / 3.25 / 2.90</li> <li>■ Nominal Rated HP: .25 / .10 / .07</li> <li>■ Rated Watts: 455 / 225 / 175</li> <li>■ Shaded Pole Motor: Yes / Yes / Yes</li> <li>■ Overload Protection: Auto / Auto / Auto</li> <li>■ Thermal Reset: Auto / Auto / Auto</li> <li>■ Motor UL Listing: Yes / Yes / Yes</li> <li>■ Motor CSA Listing: Yes / Yes / Yes</li> <li>■ Internal Damper: Yes / Yes / Yes</li> <li>■ Damper Defaults To Vent: Yes / Yes / Yes</li> <li>■ Attic Temperature Sensing: Yes / Yes / Yes</li> <li>■ Attic Humidity Sensing: Yes / Yes / Yes</li> <li>■ House Heat Thermostat: Yes / Yes / Yes</li> <li>■ Weight Lbs: 103 / 93 / 90</li> <li>■ Shipping Weight Lbs: 138 / 123 / 115</li> </ul>

## Specifications Subject to Change

The above product specifications are subject to change without notice. This statement is true for all of the Company's product specifications.

## Product Warranties

All products are accompanied by a limited warranty of 36 months in addition to the Company's 100% Performance Guarantee. It covers parts and manufacturing workmanship.

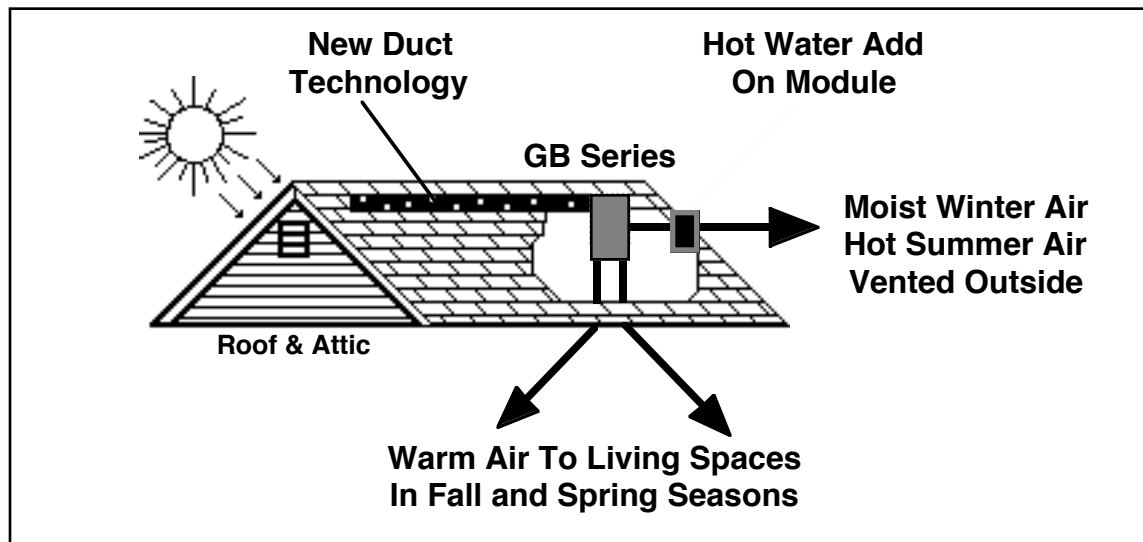
## Features & Benefits

The Company believes that all of the features and benefits listed in the product specifications and descriptions disclosed herein are accurate. However, due to the Company's limited market exposure with these products and the preliminary nature of some of this information, there can be no assurance of 100% accuracy in the features and specifications or that all of the benefits listed will actually be realized.

## Final Assembly & Test

The Company receives fabricated sheet metal products and other parts and basically performs a final assembly and test of its products. Some of the parts used are off the shelf items and others are manufactured to the Company's specifications. Some parts are accompanied by manufacturer warranties similar to those offered by the Company on its assembled products.

## A Modular Attic Heating Concept



**Figure 4: Modular Space Heating, Ventilation and Hot Water Concept**

The above graphic shows one technological direction that the Company's products are headed in. That is one of a modular approach to assembly. Every component of the above system can be thought of as a module or piece of an ever enlarging product with ever increasing features and benefits. The systems can be built in a modular and uniform way to increase economies of scale in the manufacturing process. The BD465 space heater can share the same cabinet assembly as the GB Series for starters. Then, the product could be assembled with the following variations:

- SolarAttic Space Heater
- SolarAttic Space Heater With Ridge Duct For Improved Efficiency
- SolarAttic Space Heater With Ridge Duct & Automatic Ventilation
- SolarAttic Space Heater With Ridge Duct & Automatic Ventilation & Hot Water

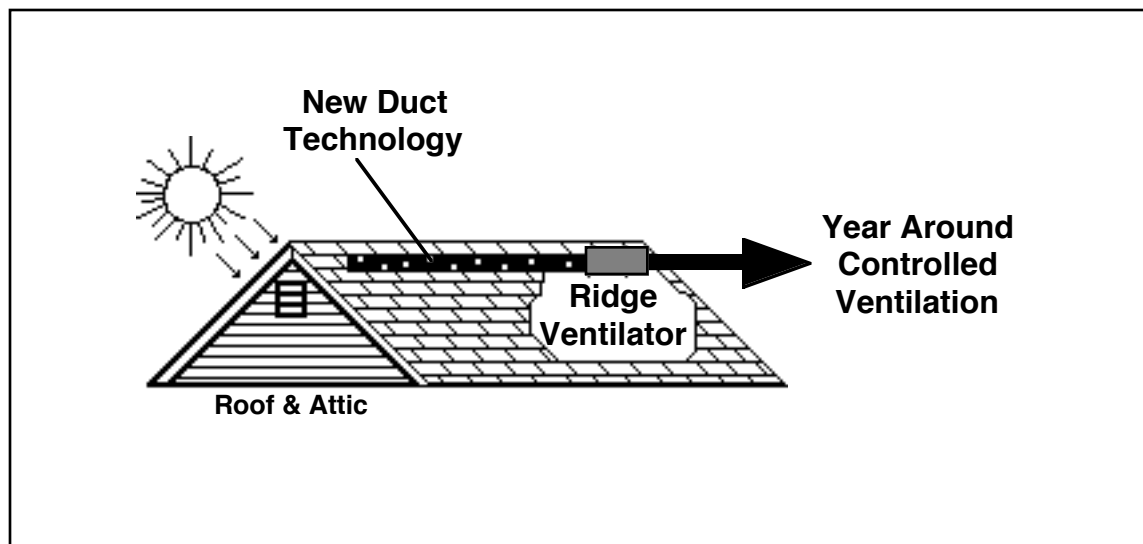
The GB Series is the Company's first attempt at modular construction that affords several product variations such as different blowers. Design of the hot water module isn't addressed yet.

## Hot Water Module

The issue of heating hot water as shown in the preceding graphic is covered by three of the Company's patents. Hot water ranges from just a summer issue of a few months in colder climates to year around possibilities depending upon geographical location. In the Minneapolis area, it is estimated that such a hot water module would be productive for 5-7 months of the year if used in an environment where a well and electric hot water are deployed. For further discussion, see "MARKETING AND SALES" & "RESEARCH AND DEVELOPMENT."

## The SolarAttic Ridge Ventilator

Looking at the ventilation issue more closely, the Company decided that a ventilation system in and of itself would be very useful and marketable. There is no need, for example, to couple venting the attic with space heating or hot water heating. Venting the attic, in fact, is a more universal application. All homes could use such a product. Not just the homes of those who are environmentally conscious. The SolarAttic Ridge Ventilator concept was born. It eliminates the need for roof vents and for the first time in history provides control over attic ventilation.



**Figure 5: SolarAttic Ridge Ventilator Concept**

The above graphic shows the SolarAttic Ridge Ventilator concept which is simply a fan coupled with the Company's proprietary perforated duct technology and the appropriate controls. Like the GB Series product, it can be modular and offer a domestic hot water heating module as an optional attachment. An obvious engineering question may arise. Where does the makeup air come from? It comes through the traditional eave vents. In homes without eave vents, an appropriate sized opening must be created to allow air intake into the attic. This opening could also be a gable vent that is already in existence.

SolarAttic's Ridge Ventilator can be supplied in standard or custom duct lengths and diameters with a variety of air flow rates in cubic feet per minute. They can also be supplied in various geometric shapes. The Company has developed a proprietary computer program that specifies where to perforate the holes and what their size needs to be. Currently, the duct is hand perforated. However, the Company believes that this can be automated in the near future.

## **Systems Solution To Attic Ventilation Problems**

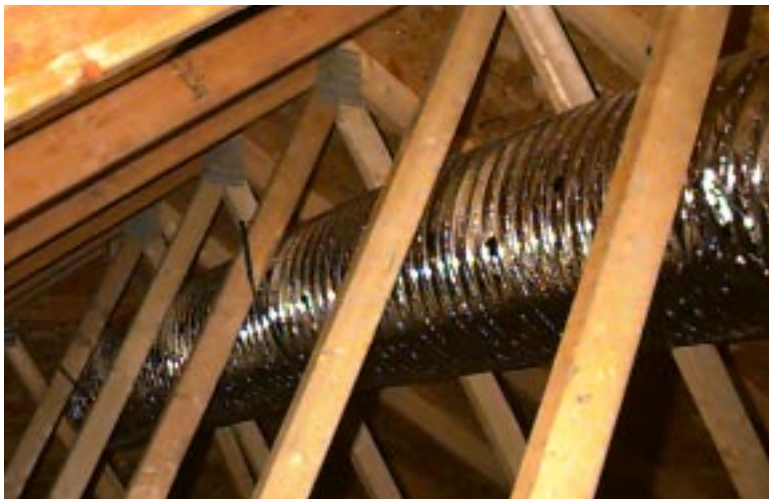
The initial price for a fully automatic (year around temperature and humidity control) SolarAttic Ridge Ventilator with a nominal 900 CFM air flow rating and a 25 foot standard duct has been set at \$599.95 wholesale. So the question has been asked: “Why shouldn’t I just put a \$39 fan at the gable of my house?” Or, “Why can’t I just install a roof mounted power exhaust fan? What’s the difference?”

Ignoring the fact that these other products have been available for years and buildings still suffer from poor ventilation, the answer is relatively simple. The SolarAttic Ridge Ventilator is the first attic ventilation product that provides a systems solution to attic ventilation. The key factor is the new duct technology. Stretched along the attic’s apex, the duct collects air evenly throughout the attic. Power roof vents do not. The Company believes it could take several power roof vents to be as effective as the Company’s Ridge Ventilator. Then there are the issues of control technology, aesthetics, holes in the roof, etc. The Company’s SolarAttic Ridge Ventilator provides a systems solution to attic ventilation problems. The Company believes that the technology is easily adjustable and adaptable to any conceivable building structure. And, the Ridge Ventilator, because it is in the attic, eliminates the need for roof holes or roof vents.

### **Control Technology**

Current controls used in the SolarAttic<sup>®</sup> Ridge Ventilator are off-the-shelf mechanical devices. Humidity sensors have a lower operating limit of typically 50° F. The mechanical temperature sensors have a broad dead band before switching with relative accuracy limited to  $\pm 2\text{-}4^\circ\text{ F}$  or even higher. While these devices are still useful initially, the Company recognizes their inherent limitations and anticipates having an independent control firm develop a custom electronic control for its products. Such a control would include electronic humidity sensing at a broader temperature range and an accuracy rate of  $\pm 1^\circ\text{ F}$  or better for temperature sensing. This is a high priority need for the Company’s products. The Company believes that reaching these control objectives will be relatively easy given some minimal capital resources.

## **The SolarAttic Ridge Ventilator**



**SolarAttic’s new duct technology at apex of attic.**

## Description of Ridge Ventilator

The SolarAttic Ridge Ventilator is designed for controlled ventilation of the attic. It can also be used to collect attic heat and to redistribute this heat to another location. Unlike simple roof fans, the ridge ventilator provides a “systems solution” to the problems encountered in attics. It does this by using a patented custom duct technology that allows for the even collection of heat along its length. SolarAttic owns 100% of this new technology. Now, for the first time in history, ventilation of the attic is no longer a guess. The ridge ventilator eliminates the need for roof based passive vents (holes).



**Ridge ventilator in-line blower unit.**



**Ridge ventilator temperature & humidity control.**

The electronic control senses the temperatures of 42°, 70° and 90-130°F. When the attic peak temperature drops to 42°F, the control activates a humidistat. The humidistat then vents the attic whenever the humidity exceeds a preset (adjustable) Rh% (typically set to 35% Rh). As an alternative, the humidistat can be set to the on position and the ventilator would then simply vent the attic any time the temperature is below 42°F. When the attic reaches 70°F, the humidistat is disengaged. Ventilation, then, only occurs when the attic temperature exceeds the 90-130°F setting (adjustable.) This provides fully automated winter and summer ventilation.

## **Manual Or Automatic Ridge Ventilator**

SolarAttic Ridge Ventilators are complete with an in-line blower unit (nominal 900 cfm) which is matched to a 25 foot length of custom perforated 14" non-insulated flex duct. Includes end cap and gable mounting flange. The automatic system operates on temperature and humidity settings for year around automatic ventilation of the attic. The manual system allows for user supplied controls. Purchaser is responsible for proper installation and compliance with applicable codes.

### **Model 14-900 Ridge Ventilator Specifications**

- Nominal air flow: 900 cfm
- Blower: Inline 14" Assembly
- Blower Motor UL File: E-59097
- Fan: Axial In-line 12" Diameter
- Duct Size: 14" Non-insulated Flexible
- Duct Length: 25 feet (standard)
- Air Discharge Method: Gable (typical)
- Distance To Air Discharge: 10 feet max
- Power Requirements: 115 vac
- Full Load Amperage: 1.9 amps
- Operating Current: Nominal 1.5 amps
- Automatic or Manual
- Optional: Custom duct lengths
- Optional: Custom discharge methods

### **Main Ridge Ventilator Benefits**

Once the product's potential is fully developed using custom electronic controls with robotic or automated perforation of the flexible duct, the Company believes that the main benefits of the Ridge Ventilator technology will be realized. The Company believes these product benefits are:

- Eliminates Ice Dams
- Reduces Air Conditioning Costs
- Eliminates Roof Vents
- Extends Roof Life.

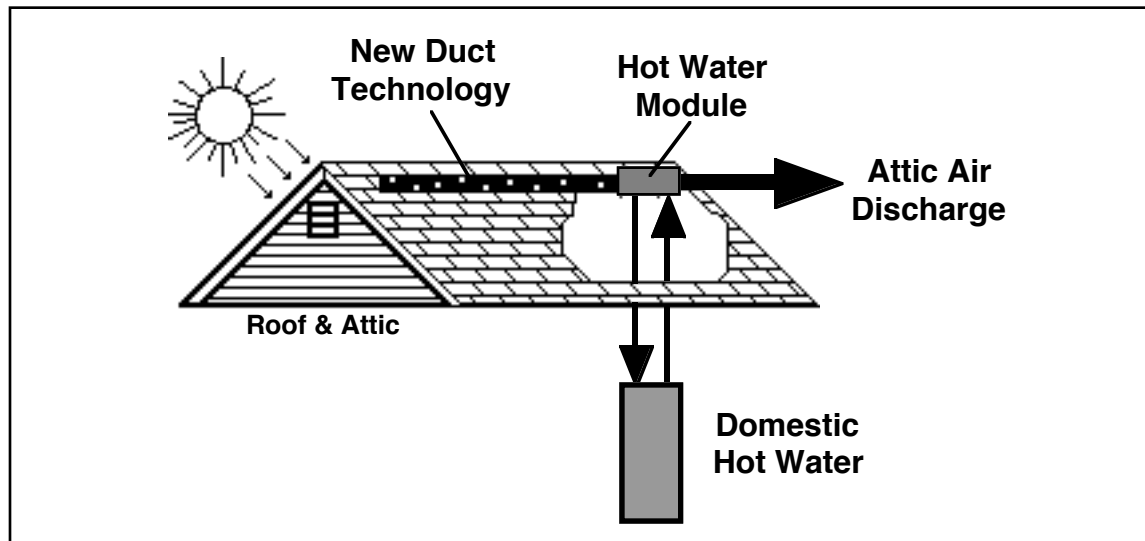
### **First Installed In New Energy Home**

The above photos are taken from the Company's August 1997 Ridge Ventilator system installation in the new Energy City Home located at 20898 Hoover Street NW in Elk River, Minnesota 55330. This is the first system installation. The energy home is a joint project of Energy City (Elk River), Energy Alley (a project of the Minnesota Environmental Initiative) and the Suburban Northwest Builders Association of Elk River, Minnesota. SolarAttic is actively involved in Energy Alley and Energy City and serves on two committees helping to direct this project which is designed to promote energy efficient and renewable energy technologies (EERE). More information on Energy Alley, Energy City and the new Energy Home can be found at the Company's World Wide Web site. The Company expects additional product exposure as a result of participating in this project.

### **State Fair Sales**

The Company formally introduced its Ridge Ventilator product during the 1997 Minnesota State Fair which ran from August 22 through September 1. As a result, three systems were initially sold. These systems shipped on October 17. The product was received enthusiastically by fair visitors and the Company expects additional sales to be forthcoming.

## The SolarAttic Hot Water Heater



**Figure 6: Domestic Hot Water Heater Concept**

SolarAttic has patented the heating of domestic hot water using solar generated hot attic air. Three patents apply to heating hot water: U.S. Patent 5,014,770; U.S. Patent 5,452,710; and the upcoming new duct technology patent. Note: Notice of Allowance has already been received. All three patents are technology patents. In combination, they provide the basis for creating a system that provides for free domestic hot water. In some areas, this can be a significant market. The Company has already received many product inquiries regarding this new hot water technology. See “MARKETING AND SALES” & “RESEARCH AND DEVELOPMENT.”

### **Limited Power Consumption; PV Cells**

Two amperes of electrical current or 400 watts of power for the pool heater appears to be the typical upper limits of current and power consumption that SolarAttic is using in residential attics. The exception would be a large space heater blower unit moving more volume of air in larger homes. For the ridge ventilator and domestic hot water heater, 1 1/2 amperes of electrical current and 180 watts maximum of power would appear to be the normal expected maximum energy consumption. This low amount of electrical current and power consumption allows SolarAttic’s systems to be easily powered by photovoltaic cells (PV Cells).

The Company believes that its future systems will provide free space heating, free domestic hot water heating and free ventilation when powered with PV cells. Free in this context means free from any utility company power connection and/or energy consumption (monthly cost).

### **Warranty Costs; Additional Product Information On Internet**

The Company has had no significant product warranty costs related to any of its products and does not maintain a warranty reserve, inventory or budget. Warranty costs would include parts replacement, service, etc. Additional product information including some limited full page testimonials from satisfied customers may be found at the Company’s World Wide Web site on the Internet. Product information may be found at <http://www.solarattic.com/products.htm>.

## MARKETING AND SALES

**In General.** Many of today's heating system consumers are concerned with the impact their heating system may have on the environment. The Company believes that this concern for the environment creates a market receptive to environmentally sound, renewable energy sources such as its products and traditional solar heating systems. One barrier to market acceptance, which traditional solar heating systems have encountered, is the necessity of installing solar panels. The Company believes and market information indicates that more heating system consumers would purchase solar heating systems if such systems did not require users to install solar panels — which have been called “ugly and obtrusive” by some consumers. The Company's technology and products provide solar heat without panels and thus, the Company believes, will resolve consumers' aesthetic concerns and overcome the market barrier encountered by traditional solar heating systems. Market data indicates that over 90% of solar panels sold for use in thermal heating applications are now used to heat swimming pools. Aesthetics are a major issue.

### MARKETING

#### The Swimming Pool Heater Market

Based on data in an 1987 industry study sponsored by the National Pool and Spa Institute, the Company estimates the swimming pool heater market to be at least \$195 Million at retail.

#### Estimate of Annual Pool Heating Market (in millions of dollars)

<u>Type of Heater</u>	<u>New Pools</u>	<u>After Market*</u>	<u>Total</u>	<u>Market Share</u>
Gas	\$41.9	\$60.6	\$102.5	52.6%
Solar Panels	20.5	29.8	50.3	25.8
Heat Pumps	8.3	12.0	20.3	10.4
Electric	6.1	8.9	15.0	7.7
Fuel Oil	<u>2.8</u>	<u>4.0</u>	<u>6.8</u>	<u>3.5</u>
Totals	\$79.6	\$115.3	\$194.9	100.0%

\* Pool heaters sold after the initial pool purchase.

#### Estimate of Annual Pool Heating Market (in units sold)

<u>Type of Heater</u>	<u>New Pools</u>	<u>After Market*</u>	<u>Total</u>	<u>Market Share</u>
Gas	42,340	61,262	103,602	74.4%
Solar Panels	6,849	9,917	16,766	12.0
Heat Pumps	2,366	3,428	5,794	4.2
Electric	4,234	6,167	10,401	7.4
Fuel Oil	<u>1,121</u>	<u>1,600</u>	<u>2,721</u>	<u>2.1</u>
Totals	56,910	82,374	139,284	100.0%

\* Pool heaters sold after the initial pool purchase.

The majority of pool heaters sold are fueled either with natural gas or propane gas. Solar panel systems rank second, both in terms of dollar volume and units sold. Less than half (43.4%) of new pools built come equipped with pool heaters, which may explain the large number of heaters that are sold in the after market (after the initial swimming pool is purchased).

The Company's own market research regarding residential pool heating systems reveals the following factors: A) Pool owners object to the high costs associated with heating their swimming pools. B) Most home owners don't like the appearance of solar panels and some communities object strenuously to solar panel systems. C) Consumers are looking for ways to save money. D) Consumers are interested in environmental and health related issues. E) CFC or HCFC chemicals which are used in pool heat pumps are an environmental problem and the use of these chemicals is being phased out internationally. G) Concerns over air pollution is causing some California locales to require the use of solar energy for pool heating. H) Higher energy and fuel taxes make renewable solar energy more attractive. I) Restrictive building covenants in various locales prevent the use of roof-mounted solar panels. The Company believes that its products respond favorably to each of these factors.

Pools are frequently sold with the idea that no heater is required. Generally speaking, a non-heated pool, with few exceptions, has limited recreational value to its owner. In northern tier states, for example, a pool owner can only depend on approximately two weeks in the middle of summer when the pool will be warm enough for swimming (80-84° F) without a pool heater. This may be another reason for the high level of after market sales of pool heating systems.

### **Seasonality**

The Company estimates that the SolarAttic Pool Heater can operate from April to September in Minnesota. Longer operating seasons exist in more temperate climates. In South Florida, for example, the Company believes its pool heater could be used year around, especially if the pool owner has a spa attached to the pool. According to market data, approximately 25% of new pools may have attached spas. In these installations, when heat is not required for the pool in the hot summer, it can usually be used for the spa since spa water is typically kept much warmer than pool water.

### **The Space Heating Market**

The global market for solar space heating systems is substantially under-addressed and undefined. Solar space heating data is sparse and confined only to solar panel sales. As such, the existing data for solar space heating is not meaningful to the Company. The Company believes its SolarAttic space heater represents a significantly new product category in both solar space heating and conventional space heating markets.

### **The Water Heating Market**

According to Manufacturing U.S.A. (1992), U. S. manufacturers of hot water heaters ship over \$393 Million worth of electric hot water heaters annually.

This is the market the Company has targeted to introduce its domestic hot water heating system into when it becomes completed. When used in concert with an electric water heater, the Company believes its water heating system will lower the cost of electric domestic hot water. The Company believes that this reduction in electric hot water heating costs can be dramatic and may exceed 90% in certain situations. The Company believes that the cost savings possible with electric hot water heaters does not exist with gas heaters. However, if the Company succeeds in substantive reductions in the cost of heating water electrically by using hot attic air (heat energy), the Company feels that this could be an attractive alternative to gas water heaters. Consumers have expressed concerns about the explosive potential of using gas heaters. If the economics of using the two heaters could be equalized, the resulting market forces may cause a paradigm shift.

If the Company successfully develops its domestic hot water heater, the domestic hot water heating system will be effective from only a few limited months of operation (estimated to range 5-7 months in Minnesota) to possibly year around (as in some areas of Florida).

In Minnesota and other colder climates, the domestic hot water system would begin to preheat water in the Spring (March-April). As the year progresses, the Company expects its domestic hot water system would provide a substantial part of, if not all, of the domestic hot water heating needs for the typical home. This could be expected during the months of May to September. Sometime in September or October, the heater would fall back to a preheat mode. By November and through the months of February, the system would fall back on the electrical heating elements normally supplied in an electric domestic hot water heater.

In Florida and other warmer climates, the results could be year around heating of domestic hot water. Such a system may see very little fall back onto the electrical elements of the electric water heater. The system could conceivably function without electrical backup altogether and be powered exclusively by PV (photovoltaic) cells. In such case, free domestic hot water would become a reality. See "PATENTS & INTELLECTUAL PROPERTY" and "PRODUCTS."

Regardless of the geographical area, the Company believes that, when the SolarAttic water heater is used in concert with a traditional electric hot water heater, the combined results will be a significant reduction in the costs of heating hot water with electricity. Electric domestic hot water tanks typically have two 4500 watt elements which could turn on consuming electrical energy at the rate of 9000 watts per hour. At 220 volts a-c, these two heating elements could demand 40 amperes of electrical current from the power plant. In a SolarAttic domestic hot water heater, the Company expects to supplant the two 4500 watt elements with a simple fan and recirculating pump both of which may only demand a maximum combined current of 1 ampere or less. The Company's third U.S. Patent discloses how to create free domestic hot water using hot attic air. See "PATENTS & INTELLECTUAL PROPERTY."

The reduction of electrical consumption and its utility load impact could be a significant marketing factor for the Company depending upon geographical area. For illustrative purposes, consider Florida Power & Light (FPL) based in Miami, Florida. FPL has an estimated 2,500,000 residential customers with electric domestic hot water. Every one of these customers could be a candidate for the Company's new hot water technology. If the Company's technology can be successfully demonstrated to FPL, the utility itself may help promote it as a load demand side management (DSM) technique.

Consider these energy dynamics that are already at work in just this one utility company. Customers returning home late in the afternoon start increasing their electric load demand. This includes making dinner, washing clothes, turning the television on, air conditioner on, etc. Utility loads start to peak. At any given moment, depending upon local hot water needs, any number of the 2,500,000 electric hot water heaters could add their demand into FPL's load. The Company currently has an estimated 13 power plants. Daily consumption of power for residential hot water is estimated at 470 Megawatts. This is the equivalent output of three coal fired power plants in FPL's inventory. The Company notes the difficulty that utility companies are now encountering with the idea of building new power plants especially with environmental groups. The Company also notes that it may be more beneficial to reduce demand than to build a new power plant. SolarAttic's water heating technology offers utility companies another option.

Most utility companies are already endorsing conservation and other energy saving techniques such as DSM. They have found this to be a more profitable long term strategy than simply just building to increased electrical load demand. Many utilities now offer rebates on energy saving appliances. Some utility company marketing efforts include stuffing customer utility bills and receiving direct product rebates from those manufacturers whose products they promote.

Coincidentally, as the load peak cycle occurs for FPL, maximum solar radiation is occurring and maximum attic temperatures are being reached. In this one particular utility's area, the Company believes that an estimated 90% or more of the power currently expended for domestic hot water can be eliminated if the Company's hot water technology was deployed on a system wide basis. To put this in another perspective, the electrical output of 2-3 coal fired power plants in FPL's inventory may be freed up for other use if SolarAttic's hot water technology was deployed. Of course, electric utilities are in the business of selling electricity. Therefore, there can be no assurance that FPL or any other utility will find the Company's technology to be beneficial for use or promotion. The Company believes that even though the hot water technology will be beneficial to utility companies, that the market itself will be decided by home owners. The Company believes that a hot water system can be produced that will pay for itself.

When coupled with PV cells, the Company believes the economics are present to create a fast payback within the range of 5-10 years depending upon hot water usage and costs of PV cells. It is feasible that a large amount of hot water can be built up during the day in storage and carry the customer through to the next day with little or no electrical consumption for the tank's elements. Off peak electrical hot water has been pioneered by United Power Association in Elk River, Minnesota. Two electrical hot water tanks are piggybacked and powered (charged) only during off peak hours. The result is sufficient hot water and reduced electrical hot water costs. The same concept can be used with solar generated hot attic air (heat energy). SolarAttic's system would charge (heat) the tanks during peak solar times. Another useful solar technique is to use thermosiphoning which could reduce the systems' electrical needs even further. Regardless of the final hot water system design that emerges, if and when it emerges, the Company views the electric hot water heater market as a viable place for its patented new solar hot water technology.

Actual shipments of electric hot water heaters during 1996 have been estimated at 27,116 commercial units and 4,146,523 residential units by the National Gas Manufacturers Association. Every one of these shipments is a candidate for the Company's hot water technology providing that an attic cavity or other suitable solar space exists to recover and use solar heat energy.

The Company demonstrated a working prototype of a hot water heating system at the Minnesota State Fair during the period of August 25 through September 5, 1994 in St. Paul, MN. Hot air was taken from the peak of the Home Improvement Building and it was readily transformed into hot water using a simple "air-to-liquid" heat exchanger and a recirculating pump.

### **The Blower & Fan Market; Ventilation**

According to Manufacturing U.S.A. (1996 Edition), U. S. manufacturers of "Blowers and Fans" shipped \$3,513.5 million worth of product during 1996. Their estimate of market size for 1997 is \$3,629.3 million and for 1998 it is \$3,745.0 million.

The Company believes that a large share of its future revenues will be derived in this market area. These revenues would be from both ventilation and space heating product sales.

## **EERE Market Data**

The Company is aware that there is available substantive market information regarding worldwide energy efficient and renewable energy technology markets (EERE). It should be noted that the Company believes the EERE market is large. However, no effort has been made by SolarAttic to obtain, analyze or segment EERE market data to determine how SolarAttic's new technologies might fit in. Therefore, no assurance can be made that all of the key market information available for the Company's products has been absorbed by the Company. And, due to limited experience with the identified markets, no assurance can be made that the Company's products will actually be accepted into them.

The Company notes that some forecasts for future electrical energy needs in developing third world countries state that electrical energy growth needs can only be filled by implementing energy efficient and renewable energy technologies (EERE) like SolarAttic's.

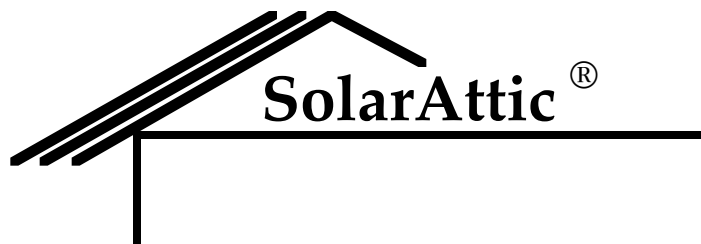
## **Articles Written About The Company**

The Company's web site contains several articles written about the Company and other useful marketing information which may be found at <http://www.solarattic.com/BGinfo.htm>. For example, the Company has had articles written by several magazines including a September 1993 article which appeared in Popular Science magazine.

## **Diversified Yet Focused Products; Brand-Name Identity**

The Company's products will serve in four markets which makes them a diversified line of products. At the same time, these products are all located within the attic making them a focused group of products. Diversified Yet Focused! The four markets are: ventilation of the attic; space heating; water heating; and, pool heating. The Company's marketing strategies will need to address this diversified yet focused group of products. The Company believes all of its products share a synergy with one another and therefore can share some common marketing themes and advertising messages. SolarAttic has trademarked its logo and name for use as a "Brand-Name Identity."

## **Registered Trademark**



The Company has registered the above trademark and logo which is used on the Company's letterhead, envelopes and other documents. The Company believes that the logo is consistent with its mission statement and provides the Company with a Brand-Name Identity!

## **Paradigm Shifts**

The Company notes that if its products are accepted into the market place, several of them may constitute paradigm shifts of one type or another. The nature of the Company's products therefore lend themselves to product differentiation techniques used in marketing efforts.

## **Marketing Strategy**

SolarAttic's marketing strategy is "Focused Differentiation" which is to say—our products will be different. They will be "energy efficient" and "environmentally friendly." The Company's first product focus was "low cost swimming pool heat." The Company believes that, as this product gains a foothold, established marketing forces will be turned upside down in "disequilibrium" as the SolarAttic Pool Heater changes all the rules of doing business [heating swimming pools]. The contrast will be dramatic: you can continue to pay \$150.00 or more per month to use your natural gas heater --or-- you can heat your pool for \$11.00 per month with the SolarAttic pool heater. A product that pays for itself in cost savings in a relatively short period of time. A "solar" heating product that does not have "solar panels" on the roof! Using focused differentiation as a marketing strategy, the Company will strive to point out the differences between the Company's EERE products and competitive [fossil fuel or panel] products.

The Company will also make use of the unique selling proposition (USP) "solar without panels." In the Company's market studies, the number one objection to renewable solar energy was simply: "I do not want solar panels on my roof!" Pointing out the Company's unique solar products means that market share will be taken away from solar panel systems as well as fossil fuel heating systems. Consumer inquiries for product information indicate that this could be a strong market differentiation. Roof panels have been found to strike a "very strong" negative response in consumers. Symptomatic of this is the fact that many new home construction areas make attempts to use "restrictive covenants" prohibiting the use of any roof solar panels [because they are "ugly and obtrusive"]. This problem has become such an issue that Florida and Arizona have been reported to have passed laws forbidding "restrictive covenants" that limit the use of solar energy [panel] systems. The Company believes that long term market forces favor SolarAttic's inside-the-attic solar heating systems which do not pose any aesthetic problems.

A focused differentiation statement for the Ridge Ventilator would be: "The Systems Solution To Attic Ventilation!" This could also be called a marketing positioning statement useful as a tag line in all product advertising.

## **Distribution Issues; UL Listing**

The pool market has high barriers to enter from a traditional distribution perspective. An established distribution network has a firm lock on traditional sales through the pool dealer. The swimming pool dealer is also reluctant to take on any new products because of a limited building season. Many pool dealers also sell the pool as an annual vacation being paid at \$200 per month. When the question of heating the pool arises, they avoid the topic because it can lead into another \$150 per month to enjoy the pool [heat it]. Therefore, the Company believes it will have to go direct to the pool owner initially to sell its pool heater. The Company has developed custom databases to direct market this product until a dealer network starts to develop.

The Company is also aware of new energy code issues in Minnesota that the space heater will have to deal with. On 1/1/99, houses built in Minnesota will have to meet a new energy code.

The new code requires a tightly built house that is mechanically vented. Breaking the attic-to-house vapor barrier which is typical when the space heater is installed may be a MN building code issue after 1998. The Company will have to work through this issue and possibly others before successfully marketing the space heater into areas with such energy codes. The Company is uncertain as to the extent of such building codes nationally. There can be no assurance that the Company will not encounter building code obstacles that prove costly to overcome.

At this time, the Company is unaware of any other special distribution issues that could be problematic or costly. It is the Company's intent to develop a proactive program to seek out and educate building inspectors and officials concerning the Company's new technologies. The Company believes that this educational effort will alleviate many local building inspector concerns. The Company also has plans to get its products UL Listed which will also help with building inspectors.

### Summary Of Market Size Estimates

<b>Market Identified</b>	<b>Market Size Estimate</b>	<b>Patents</b>
Swimming Pool Heating	\$195 Million	5,014,770 08/717,148*
Electric Hot Water Heating	\$393 Million	5,014,770 5,452,710 08/717,148*
Space Heating	New Category	Re. 32,607 5,014,770 08/717,148*
Blowers & Fans; Ventilation	\$3.513 Billion	08/717,148*
<b>Total U. S. Market Estimate</b>	<b>\$4.101 Billion</b>	
<b>Worldwide Market Estimate</b>	<b>Exceeds \$10 Billion</b>	

\* On 12/5/97, a "Notice of Allowance" for all claims was received.

### New Market Opportunity

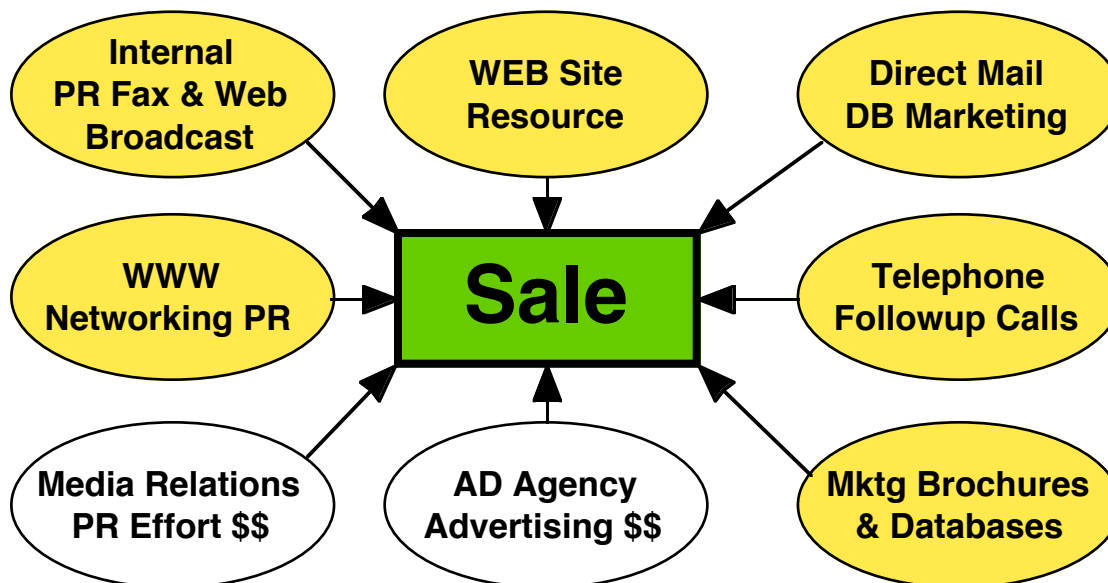
Although Minnesota's new energy code may require some product installation adjustments, it also presents some new product opportunities. Ventilation of the house is a key issue. The new energy code strategy is "to build tight and ventilate right." The new code requires mechanical ventilation of the living space. That is because the house is sealed very tight and it is equivalent to walking into a large plastic bag (literally). Without the introduction of fresh air, there would be health problems. The ventilation of these homes is typically accomplished using an "air-to-air" heat exchanger that brings in fresh outside air, periodically exchanging it and exhausting old air.

One opportunity the Company is exploring is a marriage of the Company's technologies with that of providing fresh air ventilation to the house. It is the marriage of the Company's space heating technology with that of the air-to-air ventilation technology required to provide fresh air inside the house. The Company believes that this would create another new category of product in the \$3.5 Billion "Blowers & Fan" market that would be very useful in the new energy homes. Free solar heat from the attic combined with fresh air, or preheated fresh air, for the house.

The Company's space heater already collects outside fresh air which is drawn in through the eaves and heated by the time it is collected at the attic's peak. The missing part is the exhaust provision from inside the house and the internal house recirculating air system.

The Company has already approached a well established Minnesota manufacturing company that specializes in this air-to-air home ventilation technology. As a result, SolarAttic and this company will be exploring this product concept further at some time in the future. The Company believes such a product would be complimentary and synergistic with its other products. However, there can be no assurance that such a product will ever be developed.

### Marketing & Sales Elements



This graphic illustrates the various marketing & sales elements that SolarAttic has in play or plans to put into play in order to complete the Company's cohesive marketing & sales strategy. All elements are in place and working for the Company except the "Media Relations PR Effort \$\$" and the "AD Agency Advertising \$\$. Both of these elements are important to SolarAttic's marketing and sales efforts and both require additional capital to fully implement.

### SALES

#### Pricing Matrix

Product Description	Factory Single Quantity
SolarAttic Pool Heater - Manual	\$1760.85
SolarAttic Pool Heater - Automatic	1886.85
SolarAttic Pool Heater - Auto+	2327.85
SolarAttic Space Heater - BD465	815.85
SolarAttic Space Heater / Ventilation System - GB980	1886.85
SolarAttic Space Heater / Ventilation System - GB495	1760.85
SolarAttic Space Heater / Ventilation System - GB465	1560.85
SolarAttic Ridge Ventilator - Manual (14-900M)	499.95
SolarAttic Ridge Ventilator - Automatic (14-900A)	599.95

The above pricing matrix shows the Company's current pricing strategies which are the result of only building in limited quantities. The Company expects to be able to reduce prices when it is able to purchase in higher volume and still maintain margins. The Company has higher volume pricing available that reflects reduced volume production costs. Parts are typically job shop oriented and involve set up charges to produce. Costs are substantially reduced as the parts runs increase in volume. The Company is able to forecast this "learning curve" [part cost reductions].

### **Definable Payback Periods; No Green Incentives Needed**

The Company notes that all of its products provide consumers with tangible and measurable energy benefits. They have a definable & reasonable payback period. Having a cost savings that is predictable or other strong financial incentives [i.e.-venting attic to eliminate problems] is very important from a marketing perspective. It has been the Company's experience that product sales are not motivated only by the fact that they are "environmentally friendly" or "energy saving" appliances. In the marketplace, consumers are voting for such products but only to the extent that they make economic sense and have a relatively short (5-10 year) payback period.

An example of a tough sell is a solar panel hot water heater that costs \$3500 to a customer currently using natural gas hot water and who spends \$14 a month. In such instance, payback is  $3500 \div 14$  or 250 months which is about 21 years. No sale! The marketing reality is that all of the Company's products must make economic sense. The Company believes its products will do well in the marketplace and that they can sell on their own strengths. The Company does not believe it needs federal tax credits or other "green marketing" incentives to sell its products.

### **Gross Margins**

SolarAttic endeavors to maintain a gross margin of 50%. This has not been hard to achieve and the Company believes it can meet or exceed this sales objective in volume production.

### **Unique Solar Technology**

SolarAttic believes that its method of using hot attic air to heat hot water, pools and space offers the Company a unique marketing position. The Company's technology — offering solar energy without having to use roof-mounted solar panels — is a differentiating factor in the market. The Company has taken steps to protect its marketing slogan, "Solar Without Panels." The Company believes its new solar heating technology will appeal to consumers who would purchase solar technology if it did not involve using solar collection panels.

### **Unique Duct Technology**

SolarAttic believes that its new duct technology offers the Company a unique marketing position in the air distribution, air collection and air ventilation markets. The Company believes that providing a method to equalize air distribution or collection can greatly enhance the comfort level in just about any living area that is occupied by humans. This would be most useful in new home construction where retrofitting existing air moving systems would not be an issue. The Company envisions that sales of the duct technology will emerge quite rapidly as the Company determines how to best automate the duct's perforation and construction process. There are no plans to immediately sell custom duct technology as SolarAttic does not have the staff resources to deal with the engineering issues. Ducts are perforated to design criteria that includes the fans performance ability. SolarAttic believes custom ducts will be a viable product area in the future.

## **Unique Ventilation Technology**

SolarAttic believes that its method of providing controlled attic ventilation using its new duct technology offers the Company a unique marketing position. The Company believes that the “systems solution to attic ventilation” approach is a strong differentiating factor in the market.

## **Pool Heating Sales**

The Company has operated with a minimal marketing budget and without any media advertising programs or dealer network. The Company has, nevertheless, sold 167 SolarAttic PCS1 Pool Heating System to customers spread across 30 states as of December 31, 1997. The Company offered no installation, maintenance, service or financing for these systems. The prices ranged from approximately \$1,400 to \$2,400.

To date, the Company has used publicity-driven, direct marketing techniques to sell its products. In general, prospective customers learn about the Company’s products through published articles that list, mention or feature the Company’s products. Prospective customers then contact the Company via mail or telephone to request product information. Sales literature is sent to each inquiry and follow-ups are handled over the telephone. The Company intends to continue selling its products directly to consumers until it can establish a network of independent dealers to provide the sales function.

## **Company to Consumer—Direct Sales; Independent Dealers**

The Company intends to employ a two-step direct marketing approach to pool owners. Step one includes advertising, publicity and trade shows. The Company plans to advertise regularly in various publications to generate product inquiries. The Company also intends to generate product inquiries through product publicity and participation in trade shows that focus on the home, garden, pool and patio. Step two is the answer to these product inquiries, with a series of direct mail sales pieces — including, in some cases, a demonstration videotape — to convert the inquiry into a sale. There is no assurance that this sales strategy will be successful.

The Company intends to employ a similar two-step approach to recruit independent dealers. As step one, the Company intends to advertise regularly in the industry publications. Planned advertisements in these publications will demonstrate to dealers and servicers the Company’s products and highlight the economic advantages of selling and servicing them. The Company also expects to exhibit its pool heater products in at least one national trade show each year. Step two comprises the follow up to inquiries developed through the advertising and trade shows. Prospective dealers will be sent a series of direct mail sales pieces and video promotions -- with telephone follow up. The Company plans to concentrate its formal pool heater dealer sign-up and initial training activities during the national trade shows it plans to attend.

If and when the independent dealer network grows, step two of the direct marketing program will identify the local dealer to the prospective customer and vice versa. Ultimately, the Company plans to support its dealer network with cooperative advertising and customized, direct mail marketing tools to assist dealers in generating sales activities.

Similar marketing and sales methods will be used to present and launch the Company’s other products such as space heaters, ventilation systems, hot water systems, etc.

## **Space Heating Sales**

Sales of the Company's space heating systems have been very limited to date. Virtually little or no promotion has occurred up to this point in time. The Company's existing BD465 space heater inventory that was acquired in exchange for common stock is in need of repackaging. All of the existing cartons carry the original manufacturer's name and some of the cartons are damaged from shipment and storage. The Company handles its space heater sales one at a time and repackages the equipment as sales require.

The Company believes that, in addition to factory direct sales, its space heating products may ultimately be distributed through do-it-yourself home care centers (I.E. Home Depot, etc.).

## **Hot Water Heating Sales**

Sales of the Company's hot water heaters do not exist because the product is not complete. The Company believes that, if and when the hot water heater is developed, it will eventually be distributed through existing plumbing dealer distribution networks. The Company believes that the installation of the hot water heater will be required and that the plumbing dealers are best suited to market this new technology when it is ready. In addition, this product may also be sold through home care centers.

## **Ridge Ventilator Sales**

Sales of the Company's Ridge Ventilator have just begun. The product was successful in its debut at the 1997 Minnesota State Fair. Consumers were enthusiastic about the product and its pricing was judged as fair. The Company has initially sold three systems and expects that additional sales will be forth coming.

The Company believes that, in addition to factory direct sales, its ridge ventilation products may ultimately be distributed through home care centers.

## **Internet Web Site**

SolarAttic has built a comprehensive Internet World Wide Web site. Virtually all of the Company's products and their specifications are available at the site for review. It is currently possible to surf the Internet, find the Company's site, and then review the appropriate product information. You can even locate a local dealer if one is available for sales information. The Company believes that, as time progresses and the site is further refined, sales via a Company dealer network will be enhanced.

## **Internet Web Site; Dealer Sales Support**

SolarAttic's web site has been built to support dealer sales. Customers can browse product information without obtaining price or purchasing information. When a customer desires pricing or purchasing information, they are directed to a USA state map. The customer then clicks on their home state. They are then directed to existing dealers. If no dealers exists in their area, the customer is directed to the factory for sales information. The Company will provide links to a dealer's web site free or put two dealer pages on the Company's web site for only \$25 / month.

## **Manufacturer's Representative**

On January 21, 1998, SolarAttic signed a written manufacturer's representative agreement with Energy Conservation Products, Inc. of Sarasota, Florida to represent the Company's products within the counties of Sarasota and Manatee.

## **Florida Distribution Agreement**

On July 17, 1997, SolarAttic announced the completion of an exclusive marketing agreement with P&P Inc of Gainesville, Florida for the distribution of its PCS1 swimming pool heater. P&P Inc operates in a multi-state area and will be establishing an independent dealer network for retail sales of the company's pool heater. All dealers will be purchasing product directly from P&P Inc which will be given exclusive sales territories to market the Company's product. The first exclusive territory established is the Gainesville-Ocala area. Fun State Pools of Gainesville is P&P's dealer set up to service sales in the following Florida counties: Alachua, Bradford, Citrus, Gilchrist, Levy, Marion, Putnam and Union. The first order of five SolarAttic pool heaters (PCS1) were shipped to P&P in July 1997. Fun State Pools is listed on the Company's web site as servicing these counties. SolarAttic will not take any direct orders for its pool heater from these counties. Instead, the Company will refer all customer inquiries to Fun State Pools.

The nature of the Company's marketing agreement is that areas serviced by P&P Inc are eligible for exclusive distribution of the Company's pool heater. An initial order for each exclusive area is set at five systems. SolarAttic, upon acceptance of the defined area, will grant exclusive marketing rights for such area. The minimum annual sales required for each exclusive area established is 100 units. Territories are defined through negotiation with P&P Inc, using county lines, using metropolitan statistical area outlines and estimating the relative market potential for solar products. In some situations, multiple counties [such as above] will be rolled into one exclusive area; in others, city or county borders may be the exclusive area. As part of the Company's agreement, P&P Inc was granted a sales performance option on the Company's common stock. See "CERTAIN TRANSACTIONS."

## **Arizona Distributor**

On October 24, 1997, SolarAttic shipped 8 swimming pool heaters to an independent distributor called "Arizona SolarAttic Systems." The Company has a written distribution agreement for an exclusive marketing of the Company's pool heater in the Phoenix area with 40 sales in 1998.

## **Orlando Distributor**

On December 30, 1997, SolarAttic signed a written distribution agreement with Mark Overmyer of Longwood, Florida for the exclusive marketing of the Company's pool heater in the Orlando area. An initial order for 10 systems was received. A minimum quota of 50 systems was agreed to for 1998 and 100 annually thereafter.

## **Speculative 10 Year Forecast; \$100 Million Annual Revenue Goal**

The Company believes, based upon market sizes, that it can be a small fish in a big pond. The Company believes its products will compete in Global markets that are now estimated to be well over \$10 Billion in size. The following sources of revenue are entirely speculative in nature and estimated for ten years from now or for the year 2008. These are sales revenue goals based upon the relative size of identified markets. These are NOT pro forma financial revenue projections!

The Company does have a detailed pro forma projection and business plan for the pool heater market itself. It shows a detailed plan to evolve pool heater sales up to \$20 Million annual sales. All other numbers shown below are revenue estimates based upon management intuition. The fact is that very few pro forma financial plans that are "building NEW technology" actually unfold as written. There are too many "pioneering elements" that lack predictability.

At some point in time, “repetitive sales processes” will unfold in the various product categories as a direct result of the Company’s efforts. When they do occur, a refined and updated pro forma projection will be very useful to the Company in predicting its revenues. However, because of the unpredictable nature of introducing new technologies and the fact that the numbers shown below are not based upon pro forma projections but rather management’s best estimates, absolutely no assurance can be given that the numbers will be accurate or that they are even reasonable.

Many times the question is asked: “Where will the Company be in ten years from a revenue perspective?” This is always a difficult question to answer. More often than not the answer will turn out to be wrong. However, the Company does have a vision and a mission. It sees a large market opportunity for “energy” that it can approach with patented technology and unique products in a systematic way. The Company believes that the revenue goals shown below represent a fair estimate of where the Company could be in the year 2008. They also represent an anticipated picture of the percentage revenue estimates in the markets where the Company expects its future revenues to be derived from.

### **Year 2008 Revenue Goals**

<b>Market</b>	<b>Year 2008 Revenue Goal</b>	<b>Estimated % Revenues</b>
Blowers & Fans; Ventilation	\$60,000,000	60%
Swimming Pool Heating	20,000,000	20
Hot Water Heating	10,000,000	10
Space Heating	5,000,000	5
Ducts	5,000,000	5
<b>Totals</b>	<b>\$100,000,000</b>	<b>100%</b>

There can be no assurance that the above revenues will be derived from the sources indicated or that the corresponding percentage estimates will actually develop as listed. Nor can there be any assurance that the Company can actually grow to the size of \$100 million in annual revenues.

### **COMPETITION**

While the Company manufactures proprietary solar and ventilation products and, to its knowledge, has no known direct competitors selling the same equipment or using the same technology, the Company faces stiff competition from well-entrenched and well-established competitive products within the markets the Company plans to serve. These competitors include the following: manufacturers of gas, oil or electric pool heaters; manufacturers of pool heat pumps; manufacturers of solar panel pool heating systems; manufacturers of standard space heating or solar space heating systems; and, manufacturers of attic ventilation or air moving equipment. Most competitors have substantially greater financial and human resources than the Company. Therefore, there can be no assurance that the Company will operate profitably within this competitive environment.

The Company believes that its technology offers substantive competitive advantages over existing products. Over pool heaters that burn fossil-fuels, the Company's competitive advantage is low operating cost as solar energy is much less expensive to use than fossil fuels. Over competing solar technologies, the Company's competitive advantage is appearance as the Company's technology is hidden in attic spaces and does not use roof or yard-mounted solar collection panels. Over ventilation systems, the Company's competitive advantage is its newly patented duct technology which the Company believes is very broadly protected intellectually along with its systems solution to attic ventilation. All of the company's products are derived from the Company's four patents and SolarAttic expects some degree of product exclusivity for many years. However, there can be no assurance that the Company's patents will remain valid. There can also be no assurance that such product exclusivity will be a major contributor to sales or that they will in any other way help the Company become profitable.

## **RESEARCH AND DEVELOPMENT**

### **Domestic Hot Water Heater**

If and when development of the Company's hot water heater is complete, the Company believes this new domestic hot water heater will make use of hot attic air in the preheating or heating of electrically heated domestic hot water. Two versions of the heater are expected to emerge. One model, designed for use in frost-belt regions, will automatically protect itself from freezing. The other is a simpler unit that can be used in non-freezing climates. Both product versions are covered by three of the Company's technology patents. It is uncertain as to when this product will be complete. No assurance can be made that it will be completed.

### **New Duct Technology; Eave Vents**

The new duct technology patent that the Company has received "Notice of Allowance" for also discloses the manner in which the entire attic cavity can be closed off to form an "energy box" with the sole exception of an air inlet and air outlet. Technologically speaking, this has some important energy implications. First, the Company's technology can not only eliminate roof holes used for ventilation purposes; it can also eliminate eave vents that are used for ventilation purposes. The Company has disclosed a method for venting the attic based solely on its new duct technology located inside the attic. The Company believes, that eventually, this aspect of the new technology will be deployed in new home construction.

Second, the benefit of eliminating roof and eave vents is to selectively close and open the attic cavity and use it more fully as a "solar energy device." I.E. - See "Attic Solar Energy Vehicle" under "PATENTS." No attempt has been made in this prospectus to address the markets or products that would evolve if this aspect of the new technology is actually used. The Company believes that, until architects are fully educated in this new technology, that nothing substantive will happen in this area. The Company believes that this is an area of development opportunity. However, there can be no assurance that all of the Company's technology will actually be used.

### **R & D Expenditures**

Research and development costs are charged to operations as incurred and totaled \$7,817 and \$1,853 for fiscal years 1996 and 1997 respectively.

## **Pressurizing The Attic**

Some engineers have “speculated” that the Company’s systems may pressurize the house or the attic in some undesirable manner. If the Company’s Ridge Ventilator is deployed in a new air tight energy home attic, some may speculate [for example] that it could draw air into the attic from the house. In other words, it could cause a vacuum inside the attic thereby creating a negative pressure situation attracting air flow from the home to the attic. The Company does not share any of these negative pressure concerns since the amount of system power is relatively low in terms of blower or fan horsepower; its working static pressure capacity; and, air movement in cubic feet per minute (cfm).

Conversely, others may speculate that if the Ridge Ventilator draws in more air than it exhausts, that this could be a plus since it would create a positive pressure condition in such an attic. Under such positive pressure conditions, it could pressurize the attic in a way that would inhibit air influx from the home. The Company’s space heaters are known to cause a slight positive pressure in a home. This is normally beneficial since it helps to prevent the influx of outside air or drafts into the home. The Company knows of space heating systems that have been installed for over ten years without any reports of serious concerns over pressurizing the attic. However, due to the limited experience with volume installations, there can be no assurance that pressure in the attic might not become a development issue needing to be addressed.

## **Other R & D Information**

The Company’s web site contains patent drawings from the Company’s patents, in depth engineering discussions of the patents and technical issues, engineering reports and links to the U.S. Patent and Trademark Office data on the Company’s patents. The address for this information is <http://www.solarattic.com/patents.htm>.

## **OTHER TECHNOLOGY AREAS**

The Company’s U.S. Patent 5,014,770 discloses additional Company technology involving the hybrid marriage of its SolarAttic convection technology to that of existing heat pump technology. For heating swimming pools, the Company believes that the result of such a marriage of technologies could mean lowered manufacturing costs for heat pumps. The Company further believes that this would ultimately translate into reduced energy (operating) and chemical costs for heat pump users. In the future, the Company expects to explore a possible joint venture or licensing arrangement with one or more heat pump manufacturers. The Company has no plans to manufacture such a hybrid system itself and there is no assurance whatsoever that the Company will be successful in joining the two technologies economically or in the forming of any joint venture to use this new hybrid technology.

## **BUSINESS OPERATIONS AND SYSTEMS**

### **Performance Guarantee**

In 1991, the Company placed a performance guarantee on its SolarAttic PCS1 Pool Heater. The Company guarantees that its pool heater will heat a pool as well as any roof-mounted solar panel system. The guarantee is for up to 90 days, and the Company will either fix the system or repurchase it. The only conditions that apply are that the pool owner’s attic must be at least as large as the pool in square footage, the roof must be sunny (non-shaded) and that the installer must follow the Company’s basic installation instructions.

All SolarAttic pool heaters are sold today with this performance guarantee and none of the limited sales and installations to date have requested any refunds or service under this guarantee. The Company now includes some type of performance guarantee with all of the products it sells.

### **Seasonal Cycles**

The pool industry is seasonal, and this characteristic will be felt by the Company each year. The higher sales periods are Spring through Summer; Fall and Winter are the lean periods. The Company, with its national approach, expects to flatten this seasonal cycle somewhat by shifting its marketing activities to specific geographical markets during certain periods of the year. For example, pool heating near Fort Myers, Florida takes place from October through March. In contrast, Minneapolis' pool heating takes place from April through September.

As previously discussed, the Company feels that the combination of all of its products will lead to a stable non-seasonal overall business. The Company fully expects that within its overall business that different products may have seasonal cycles attached to them. There can be no assurance, however, that the Company will not have a seasonally affected business.

### **Legal Proceedings**

The Company is not presently involved in any legal proceedings.

### **Manufacturing & Source of Supplies**

The Company currently receives subassemblies or piece parts from a number of suppliers in several states and does a final assembly and test of its products before they are shipped. None of the Company's current suppliers are considered essential to the Company's success at this time because the Company operates with limited production and does not have substantial vendor or tooling investments. All of the Company's Officers and Directors have extensive manufacturing experience.

### **Proprietary Rights**

SolarAttic currently holds three U.S. Patents and has received "Notice of Allowance" for a fourth U.S. patent through Mr. Palmer, the Company's president. The Company's space heater patent Re. 32,607 expires in the year 2002. The Company's solar technology patents 5,014,770 and 5,452,710 both expire in the year 2008. These three patents are U.S. Patents and the Company does not have any patent protection outside of the United States. When the Company's fourth continuation in part (CIP) patent is issued, it will expire September 2016 or 20 years from its filing date under current patent law. The Company started its filings for international patent protection for this fourth U.S. patent during September 1997. See "PATENTS AND INTELLECTUAL PROPERTY."

The Company has successfully registered its logo and name as a U. S. Trademark which the Company plans to use for Brand Name identification. See "Registered Trademark." The Company has significant internal data regarded as trade secrets such as proprietary customer lists, custom marketing databases and engineering test data. The Company believes that although the patents and other proprietary information it holds and may obtain will be of value, they will not solely determine the Company's success, which also depends upon the Company's management and its emphasis on quality, service and value to the Company's customers.

## Employees

As of the date of this prospectus, the Company has three employees. Two are paid monthly salaries and one is uncompensated for his services. None of the Company's employees are represented by any collective bargaining organization or any employment contracts. The Company believes that its relations with these three individuals are satisfactory. Mr. James S. Kantorowicz serves as a marketing communications assistant and product assembler and is paid a monthly salary for his services. Mr. James F. Stanley serves as the Company's vice president of marketing and sales and is paid a monthly salary for his services. Mr. Edward G. Palmer is the Company's CEO, CFO, president, secretary and chairman and is currently uncompensated for his services. Upon completion of this Offering, the Company expects to immediately start paying a salary to Mr. Palmer for his services. See "MANAGEMENT" & "COMPENSATION." The Company believes it could grow to 10 employees during the next 12 months depending upon resources. The additional employees would be an engineer, secretary, 1-2 assemblers and the balance marketing & sales staff. No assurance can be given as to the timing of adding employees.

## Employee Relationships

Mr. James S. Kantorowicz is Mr. Palmer's son-in-law. Mr. James F. Stanley is Mr. Palmer's younger brother.

## Granting Of Stock Options; Policy

It is the Company's policy to not grant any stock options at the time of issue, at any value that would be less than either: A) the fair market value (FMV) of the stock; or, B) the current price that the Company is selling its common stock.

## Maintenance & Repair Expenditures

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Maintenance & Repair Expenditures for Year Ending December 31,

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	<u>1996</u>	<u>1997</u>
Maintenance	\$ 504.05	\$ 996.80
Repairs	6,464.59	287.24
<b>Total</b>	<u>\$ 6,968.64</u>	<u>\$ 1,284.04</u>

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Repair expenditures during 1996 were related to facility repairs necessitated by the Company's use of Mr. Palmer's home and garage for both office and manufacturing operations. In addition to the Company's obligation to pay for normal maintenance and repairs of the facility, the Company is also required to restore Mr. Palmer's home to its living condition upon moving to a new location. The Company has left Mr. Palmer's home but has not fully completed its repair, maintenance and restoration obligations. The Company believes that these remaining obligations are limited and will be completed in the near future.

## **Facilities**

The Company's principal offices are located at 16820 Highway 10, Suites 130 & 140, Elk River, Minnesota 55330 where the Company occupies 3,546 square feet of space. This is the new Elk River Business Center, an incubator set up to assist small companies. SolarAttic currently pays cash rent of \$472 per month under a two year lease agreement. Under this agreement, the cash rent will rise to \$591 per month on April 15, 1998 for the remaining one year period. Under the lease, SolarAttic prepaid 80% of its rent in the form of common stock. See "Notes to Financial Statements" & "CERTAIN TRANSACTIONS."

The lease expires on April 15, 1999. While the lease has provisions for extensions, the Company expects to move at the end of its lease to a more permanent location. No such location has been identified at this time albeit the Company plans to remain in the Elk River area. The Company believes that Elk River has several suitable locations to either relocate the business to or to construct and build a new facility on. The Company believes that such a relocation or build will not be extremely difficult in Elk River. If the Company determines that it will be necessary to build a new facility, additional capital will be required. No assurance can be given that an adequate location can be found or that sufficient capital will be available to build a new facility at the end of the Company's current lease.

## **Employee Stock Option Plan**

The Company's board of directors and shareholders have approved an "Incentive Stock Option Plan" (the "Plan") in order to provide for the granting of stock purchase options to employees of the Company. The Plan permits the granting of "incentive stock options" meeting the requirements of Section 422 of the Internal Revenue Code. Presently 1,000,000 shares of Common Stock has been set aside for issuance under this Plan. The per share exercise price of an option shall not be less than 100% of the fair market value of the shares on the date of grant, or 110% of the fair market value in the case of incentive stock options granted to an individual then owning more than 10% of the voting power or value of the Company's stock.

The Plan terminates on February 13, 2001 and is administered by the Company's board of directors. The board of directors may elect to grant stock options under the Plan to existing employees as a bonus for past work performed or as an incentive for the faithful performance of future services and may also grant stock options to new employees as an incentive of hire. No employee stock options have been granted under the provisions of this plan.

## **CUSIP Service Bureau Number**

The Company has been assigned CUSIP number 833971-10-4 for its common stock.

## **Dun & Bradstreet Number**

The Company has been assigned DUNS number 87-675-5547 from Dun & Bradstreet.

## MANAGEMENT

### Directors and Executive Officers

The officers and directors of the Company, their ages, residential addresses and present positions within the Company are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>
Edward G. Palmer 15548 95th Circle NE Elk River, MN 55330	52	Chairman of the Board (Director), CEO, President, COO, Treasurer, Secretary, & Chief Financial Officer (CFO)
James F. Stanley 19096 Carson Street NW Elk River, MN 55330	36	Vice President, Marketing & Sales
Lawrence J. Matthews 7601 5th Avenue South Richfield, MN 55423	69	Director
Lawrence Garde 8021 Oakmere Road Bloomington, MN 55438	61	Director

EDWARD G. PALMER, Chairman of the Board (Director) and President of the Company, is the sole founder of the Company. From June 1985 to the present, he has been the President of the Company. From January through May of 1985, he was the Director of Quality for the Winchester Division of Applied Magnetics Corporation in Santa Barbara, California. From April of 1979 to December of 1984, he served in the positions of Senior Quality Engineer, Quality Control Manager and Quality Assurance Manager at Magnetic Peripherals Inc., Bloomington, Minnesota. Mr. Palmer's principal responsibilities are those of President, CEO, CFO and the Chairman of the Board of Directors.

JAMES F. STANLEY, is the Vice President of Marketing & Sales for the Company. He has been with SolarAttic from February 1997 to present. From 1994 to 1997, Jim was employed by Systems West, Inc of Litchfield, MN where he served in the sales and project management of commercial and agricultural building projects. From 1991 to 1994, Jim served in sales and project management for Metropolitan Steel Fabricators, Incorporated of White Bear Lake, MN. From 1981 through 1990, he was employed by Central Industrial Engineering Company of Los Angeles, CA where he was systematically trained in all facets of commercial steel construction manufacturing, including supervising the manufacturing floor, inventory control, estimating and sales. In 1985, Jim was promoted into sales.

With a sales force of five people, and annual sales of \$25 Million, his individual efforts accounted for 30-40% of sales. Jim's responsibilities included the day to day sales management, setting bid pricing, overseeing the company's sales force, negotiating the terms of all contracts, reviewing and modifying contracts, and scheduling projects for estimating. He graduated in 1981 from the North Dakota State College of Science with an Associates Degree in Architectural Drafting and Estimating.

LAWRENCE J. MATTHEWS has been a director of the Company since 1988. From 1993 until its sale in 1998, Mr. Matthews was involved in building a manufacturing company called Vendtronics Corporation based in Brooklyn Center, Minnesota. Mr. Matthews was its principal owner. From 1984 until his retirement in 1993, he was the Vice President of Engineering for Zytec. He also served as a director. Mr. Matthews was a co-founder of Zytec based in Eden Prairie, MN which recently merged with Computer Products of Florida. Before January 1984, he was employed by Control Data Corporation in engineering design, engineering management and operations management. He has a degree in mechanical engineering and management experience at the executive level. Computer Products is publicly traded on the NASDAQ/NMS. Mr. Matthews continues to serve as one of its directors.

LAWRENCE GARDE has been a director of the Company since 1989. From November 1989 to the present, he has been self employed as a consultant and trainer to small companies and individuals in the area of patent protection. He has a degree in electronic engineering and eight patents in his name. Until November 1989, when he retired, he was a design engineering manager for Control Data Corporation's Imprimis (Magnetic Peripherals, Inc.).

The Company has three directors. All directors hold office until the next annual meeting of shareholders or until their successors have been duly elected and qualified. The officers of the Company are elected annually and serve at the discretion of the Board of Directors. None of the Company's officers are employed pursuant to a written employment contract.

**NOTE: AFTER REVIEWING THE INFORMATION CONCERNING THE BACKGROUND OF THE COMPANY'S OFFICERS, DIRECTORS, AND OTHER KEY PERSONNEL, POTENTIAL INVESTORS SHOULD CONSIDER WHETHER OR NOT THESE PERSONS HAVE ADEQUATE BACKGROUND AND EXPERIENCE TO DEVELOP AND OPERATE THIS COMPANY AND TO MAKE IT SUCCESSFUL. IN THIS REGARD, THE EXPERIENCE AND ABILITY OF MANAGEMENT ARE OFTEN CONSIDERED THE MOST SIGNIFICANT FACTORS IN THE SUCCESS OF A BUSINESS.**

### **Limitation of Liability and Indemnification**

The Company's Restated Articles of Incorporation, as amended, limit the liability of directors in their capacity of directors to the Company or its shareholders to the full extent permitted by Minnesota law. They provide that a director shall not be liable to the Company or its shareholders for monetary damages for breach of fiduciary duty as a director, except (i) for any breach of the director's duty of loyalty to the Company or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for dividends, stock repurchases and other distributions made in violation of Minnesota law or for violations of the Minnesota securities laws, (iv) for any transaction from which the director derived an improper personal benefit or (v) for any act or omission occurring prior to the effective date of the provision in the Company's Restated Articles of Incorporation, as amended limiting such liability. These provisions do not affect the availability of equitable remedies, such as an action to enjoin or rescind a transaction involving a breach of fiduciary duty, although, as a practical matter, equitable relief may not be available. The above provisions also do not limit liability of the directors for violations of, or relieve them from the necessity of complying with, the federal securities law.

Insofar as indemnification for liabilities arising out of the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy, as expressed in the Act, and is, therefore, unenforceable.

## COMPENSATION

### Executive Compensation

The following table sets forth the cash and noncash compensation for 1997 awarded to or earned by SolarAttic's Chief Executive Officer, Vice President of Marketing & Sales and the Company's Directors.

**Summary Compensation Table—1997**

<b>Name and Principal Position</b>	<b>1997 Annual Compensation Salary (1)</b>	<b>Long-Term Compensation Number of Stock Options Granted (2)</b>	<b>All Other Compensation (3)</b>
Edward G. Palmer President and Chief Executive Officer	0	0	0
James F. Stanley Vice President, Marketing & Sales	\$26,284	0	0
Lawrence J. Matthews Director	0	0	0
Lawrence Garde Director	0	100,000	0

(1) There was no direct employee compensation paid to Mr. Palmer in 1997. The Company reimburses Mr. Palmer and Mr. Stanley for medical insurance expenses. The Company has also agreed to reimburse Mr. Palmer for any other medical expenses up to \$10,000 annually. To date, Mr. Palmer has had limited medical expenses except for insurance costs.

(2) Stock options were granted on August 22, 1997 to Mr. Garde for 100,000 shares in exchange for services connected to the Company's international patent filings. The stock options are exercisable at \$1.00 per share through December 31, 2003.

(3) The Company does not currently compensate Mr. Palmer. If all Shares are sold, the Company plans to start paying Mr. Palmer an annual salary of \$60,000. The Company currently pays a monthly salary of \$2,408 to Mr. Stanley. If all Shares are sold, Mr. Stanley's monthly salary will increase to \$4,000. Officer salaries may be paid, in part or whole, from the following Use of Proceeds' categories: Working Capital (Mr. Palmer); and, Marketing/Sales (Mr. Stanley). See "USE OF PROCEEDS."

### Compensation to Directors

The Company has not historically and does not currently compensate directors for director services.

**NOTE: AFTER REVIEWING THE ABOVE, POTENTIAL INVESTORS SHOULD CONSIDER WHETHER OR NOT THE COMPENSATION TO MANAGEMENT AND OTHER KEY PERSONNEL DIRECTLY OR INDIRECTLY, IS REASONABLE IN VIEW OF THE PRESENT STAGE OF THE COMPANY'S DEVELOPMENT.**

## CERTAIN TRANSACTIONS

On September 8, 1997, the Company agreed to extend its pool heater warranty to 36 months for the first 50 systems sold by P&P, Inc. The Company subsequently extended permanently its warranty to 36 months for all products and all purchasers.

On August 22, 1997, the Company issued 5,000 shares of common stock at \$1.00 per share to Lawrence Garde as compensation in exchange for certain international patent filing services required for the Company's duct technology patent. Under the patent services agreement with Mr. Garde, the Company also granted an additional stock option for 100,000 shares of common stock exercisable at \$1.00 per share until December 31, 2003.

On August 1, 1997, Norman L. Schultz exercised 130,000 shares of his common stock options valued at \$.20 per share in exchange for \$26,000 cash.

During July 1997, the Company issued 10,500 shares of common stock valued at \$1.00 per share to private investors in exchange for \$10,500 cash.

On June 25, 1997, the Company signed a distribution agreement with P&P, Inc. of Gainesville, Florida for the exclusive distribution of the Company's pool heater. As part of the agreement, the Company granted P&P Inc a performance option clause with the following terms: If, prior to September 30, 1998, P&P Inc shall sell 100 of the Company's swimming pool heaters, SolarAttic will grant P&P Inc an option in the Company's common stock of 300,000 shares exercisable at \$1.65 per share through September 30, 2003. If P&P Inc shall sell 500 swimming pool heaters prior to this same date, the option shall be for a total of 600,000 shares exercisable at \$1.65 per share and expiring on September 30, 2003. If P&P Inc fails to sell 100 units, there shall be no options. There are no extensions and other provisions to this agreement. Prior to this time there was no affiliation between P&P Inc, its principals and the Company or the Company's employees, officers or directors.

On March 31, 1997, the Company issued 124,110 shares of common stock valued at \$.40 per share to parties involved with the Elk River Business Center in exchange for \$49,644 in prepaid rent over the company's two year lease. The common stock payment constituted 80% of the rent value over the two year period of the lease. The balance of the rent due under the Company's lease is paid in monthly cash rent payments. Stock was issued to the following accredited investors involved with the Elk River Business Center: City of Elk River Economic Development Authority (35,460 shares); Genesis Business Centers, Ltd. (35,460 shares); and, Larry Hickman (53,190 shares). See "Facilities."

On March 31, 1997, the Company issued 12,500 shares of common stock valued at \$.40 per share to Larry Hickman in exchange for \$5,000 cash.

On March 13, 1997, the Company issued 55,200 shares of common stock valued at \$.40 per share to investors in exchange for \$22,080 cash.

On February 19, 1997, the Company issued 71,226 shares of common stock valued at \$.40 per share to investors in exchange for \$28,490 cash.

## CERTAIN TRANSACTIONS (CON'T)

On April 22, 1996, the Company issued 82,500 shares of common stock valued at \$.40 per share to Frank Stepanek in exchange for a customer list of 600,000 inground pool addresses, 40,000 commercial pool addresses and 200 market surveys. The Company valued the stock at \$33,000.

On June 29, 1994, EJ Partners Limited Partnership gave (as gifts) 3,000,000 shares of common stock to the Company and 200,000 shares of common stock to the Alliance Christian Academy of Elk River, Minnesota. The Company canceled the 3,000,000 shares upon receipt.

In July of 1993, Mr. Palmer, the Company's founder, gave away his personal stock (10,000,000 shares). The following individuals or entities received gifts of stock from Mr. Palmer: EJ Partners Limited Partnership 7,455,000 shares; Jacqueline L. Palmer 1,000,000 shares; Solid Rock Church 545,000 shares; Mr. & Mrs. Jim Kantorowicz 200,000 shares; Patty J. Palmer 200,000 shares; Brian A. Palmer 200,000 shares; Mr. & Mrs. Kim Vickroy 200,000 shares; Barbara J. Lapse 100,000 shares; and, Mr. & Mrs. Jim Stanley 100,000 shares.

On September 26, 1997, Mr. Palmer commenced civil proceedings seeking return of the above 545,000 shares of common stock he transferred to Solid Rock Church. Mr. Palmer believes that fraud and deception were involved in its transfer and that the stock should be returned. If returned, it is Mr. Palmer's intention to transfer the stock immediately to one or more Christian ministries within the City of Elk River, Minnesota. Mr. Palmer disclaims any beneficial ownership in said stock.

In September 1992, the Company issued 204,000 shares of the Company's common stock valued at 30 cents per share to Mr. David C. Smith for all the rights to U. S. Patent 4,502,476 which is now U.S. reissue patent number Re. 32,607. Prior to this time there was no affiliation between Mr. Smith and the Company.

The "unsecured note payable to officer" identified in the financial statements is an operating loan secured by a first mortgage on Mr. Palmer's residence. All proceeds of the loan were used by the Company for its operations. SolarAttic is obligated to repay the mortgage in accordance with its terms directly to Ameriquest Mortgage Company. The "due from officer" is an accrued loan to Mr. Palmer. On occasion, funds are loaned to Mr. Palmer without interest. "Due from officer" is scheduled for monthly repayment at the rate of 1/20th of Mr. Palmer's salary when Mr. Palmer starts to receive a salary. See "Notes to Financial Statements."

**The Company's management believes that the terms of all affiliated or related transactions are no less favorable to the Company than would have been obtained from any non-affiliated or non-related third party for similar goods or services.**

## PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of the Company's Common Stock as of December 31, 1997 (9,385,752 Shares outstanding before and 9,585,752 after Offering) by (i) each person who is of record owning more than ten percent of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the executive officers named in the Summary Compensation Table, and (iv) all directors and executive officers as a group. All persons indicated have sole voting and dispositive power over such shares. The table below assumes that all Shares in the Offering are sold. See "OPTIONS" & "CERTAIN TRANSACTIONS."

NAME	SHARES	Before Offering	After Offering
EJ Partners Limited Partnership (1) 15548 95th Circle NE Elk River, Minnesota 55330	4,301,666	45.8%	44.9%
The Jacqueline L. Palmer Trust (2) 15548 95th Circle NE Elk River, Minnesota 55330	1,000,000	10.7%	10.4%
Lawrence J. Matthews, Director	120,000	1.3%	1.3%
James F. Stanley, VP Mktg & Sales	113,674	1.2%	1.2%
Lawrence Garde, Director	77,500	0.8%	0.8%
Edward G. Palmer, President (1), (2)	0	0.0%	0.0%
Officers & Directors as a Group (3)	311,174	3.3%	3.2%
Officers & Directors as a Group, with all options exercised (4)	1,295,000	11.7%	11.5%

(1) Mr. Palmer, in his capacity as Trustee for the EJ Palmer Trust (General Partner of EJ Partners Limited Partnership), directs how the shares of EJ Partners Limited Partnership will be voted. EJ Partners Limited Partnership is a Minnesota Limited Partnership. EJ Palmer Trust is the General Partner. The EJ Palmer Trust, also called "The Edward G. Palmer Family Trust", consists of "The Edward G. Palmer Trust" and "The Jacqueline L. Palmer Trust." The General Partnership interest (2%) of EJ Partners Limited Partnership resides within "The Edward G. Palmer Trust." Edward G. Palmer, the Company's President, is the Trustee. Mr. Palmer's wife, Jacqueline L. Palmer is a Co-Trustee.

(2) Mr. Palmer is a Co-Trustee of his wife's trust "The Jacqueline L. Palmer Trust" which is part of the EJ Palmer Trust (also known as "The Edward G. Palmer Family Trust") and has influence on how such shares will be voted.

(3) Mr. Palmer, the Company's President, is the Trustee of the General Partnership (2%) interest in EJ Partners Limited Partnership and directs how this stock will be voted. This, in effect, allows the Company's officers and directors to currently exercise majority control of the Company's affairs even though Mr. Palmer does not personally own stock in the Company.

(4) If all of the existing options and warrants on December 31, 1997 were exercised prior to the Offering, there would be 11,021,745 shares outstanding. Officers and directors as a group would own 1,295,000 shares or 11.7% of the Company. After the offering, there would then be 11,221,745 shares outstanding. Officers and directors as a group would own 1,295,000 shares or 11.5%.

## OPTIONS

The following table sets forth certain information regarding ownership of the Company's Common Stock Options and/or Warrants as of December 31, 1997 by (i) each person who is of record owning more than ten percent of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the executive officers named in the Summary Compensation Table, and (iv) all directors and executive officers as a group. See "PRINCIPAL SHAREHOLDERS."

NAME	EXERCISE DATE	EXERCISE PRICE	SHARES (1)
Edward G. Palmer, President (2)	—	—	0
Lawrence Garde, Director	12/31/98	20¢	47,500
	12/31/00	40¢	200,000
	12/31/03	\$1.00	100,000
Lawrence J. Matthews, Director	12/31/98	20¢	45,000
	12/31/00	40¢	200,000
James F. Stanley, VP Mktg & Sales (3)	12/31/98	20¢	200,000
	12/31/98	20¢	191,326
Officers & Directors as a Group	—	—	<b>983,826</b>

(1) Options exercisable for additional Common Stock until the dates shown. (2) Mr. Palmer is not the beneficial owner of any options or warrants in the Company's stock. (3) Mr. Stanley's shares include 191,326 options that were issued to "The Stanley Group" which is a partnership formed by Mr. Stanley and his wife. Mr. Stanley exercises control over these options. (4) All other options or warrants are owned by other private investors and shown in the table below. (5) Dates shown as "00" expire in the year 2000; "03" in 2003.

## OTHER OPTIONS & WARRANTS

INVESTOR LAST NAME	EXERCISE DATE	EXERCISE PRICE	SHARES (a)
Benjamin	12/31/98	20¢	20,500
Birkeland	12/31/98	20¢	75,000
Brezman	12/31/98	20¢	10,000
Christensen	12/31/98	20¢	20,000
Conway	12/31/98	20¢	10,000
Fredell (b)	12/31/98	30¢	250,000
Johnson	12/31/98	30¢	40,000
Pollock	12/31/98	20¢	25,000
Schultz	12/31/98	20¢	51,667
Schuster	12/31/98	20¢	17,500
Shubinsky	12/31/98	20¢	35,000
Stipakov	12/31/98	20¢	25,000
Sullivan	12/31/98	20¢	20,000
Tetzloff Trust	12/31/98	20¢	35,000
Wanous	12/31/98	20¢	17,500
Total Other Options & Warrants	—	—	<b>652,167</b>

(a) Date of grant is 11/11/88 with the exceptions of Birkeland 7/14/89, Johnson 2/4/94 and Fredell 3/28/94. (b) Fredell listing is considered a GAAP (Generally Accepted Accounting Principles) Option vs. Warrant [all others].

**All of the options and warrants shown in both tables were approved by the Company's directors. None were approved by an action of stockholders. Stockholders approved the "Employee Stock Option Plan."**

## DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 100,000,000 shares of Common Stock, no par value.

### Dividend Policy

For the foreseeable future the Company expects to follow a policy of retaining earnings, if any, in order to finance the expansion and development of its business. Payment of dividends is within the discretion of the Company's Board of Directors and will depend upon, among other factors, the earnings, capital requirements and operating and financial condition of the Company. See "RISK FACTORS."

### Special Rights

These securities have: (yes or no):

- Yes  No **Cumulative voting rights**
- Yes  No **Other special voting rights**
- Yes  No **Preemptive rights to purchase in new issues of shares**
- Yes  No **Preference as to dividends or interest**
- Yes  No **Preference upon liquidation**
- Yes  No **Other special rights or preferences (specify)**

### Common Stock

All outstanding shares of Common Stock are, and the shares offered hereby will be, fully paid and non assessable. The holders of Common Stock are entitled to one vote for each share held of record on all matters voted upon by shareholders and may not cumulate votes for the election of directors. Thus, the owners of a majority of the Common Stock outstanding may elect all of the directors, if they choose to do so, and the owners of the balance of such shares would not be able to elect any directors. Subject to the rights of any future series of undesignated shares of preferred stock which may be designated, each share of outstanding Common Stock is entitled to participate equally in any distribution of net assets made to the shareholders in liquidation, dissolution or winding up of the Company and is entitled to participate equally in dividends as and when declared by the Board of Directors. There are no redemption, sinking fund, conversion or preemptive rights with respect to the shares of Common Stock. All outstanding shares of Common Stock have equal rights and preferences.

### Transfer Agent

The transfer agent and registrar for the Shares, Common Stock and Warrants, is the Company.

### Undesignated Shares

The Board of Directors, without any action by the Company's shareholders, is authorized to designate and issue shares of stock of the Company of such classes or series as it deems appropriate and to establish the rights, preferences, and privileges of such shares, including dividend, liquidation and voting rights. No shares of preferred stock or other senior equity securities are currently designated and there is no current plan to designate or issue any such securities. However, the ability of the Board of Directors to designate and issue such senior equity securities could adversely affect the voting power and other rights of holders of Common Stock.

## **SHARES ELIGIBLE FOR FUTURE SALE**

Of the current 9,385,752 shares outstanding, 8,977,216 shares (95.6%) are aged past one year from their date of issue and qualify under SEC Rule 144 for conditional sales. Of the current 9,385,752 shares outstanding, 8,460,006 shares (90.1%) are aged past three years and qualify for immediate resale under Rule 144 without registration except as may be required for certain “control stock.” Sales of stock under Rule 144 may have a depressive effect on the price of the Common Stock in any trading markets that may develop for the Company’s stock. See the more in-depth discussion under “RISK FACTORS.” None of the warrants and options that are outstanding were approved by an action of the stockholders. All were approved by director action. The “Employee Stock Option Plan” was approved by stockholder action.

## **SIGNIFICANT PARTIES**

### **Directors & Officers**

The full names and residential addresses for all directors and officers are shown in the table under “MANAGEMENT” on page 60. The Company does not have any arrangements with its officers that would preclude them from competing against the Company if terminated. However, the Company does not believe that this is an issue for any concern.

### **Record Owners of 10% or More**

The full names and addresses for all record owners of 10 percent or more of the Company’s stock are shown in the table under “PRINCIPAL SHAREHOLDERS” on page 65.

### **Affiliates & Beneficial Owners**

EJ Partners Limited Partnership owns 4,301,666 shares of the Company’s common stock and is an affiliate of the Company because Mr. Palmer, the Company’s president, is EJ Partners Limited Partnership’s General Partner. Mr. Palmer, as General Partner of the Partnership, votes all 4,301,666 shares of the common stock owned by the Partnership and is therefore a beneficial owner. See “MANAGEMENT” and “PRINCIPAL SHAREHOLDERS” for their addresses.

### **Validity Of Shares**

The validity of the Shares offered hereby will be passed upon for the Company by the law firm of FURBER TIMMER ZAHN, PLLP, 2100 Metropolitan Centre, 333 South Seventh Street, Minneapolis, Minnesota 55402-2474.

### **Experts**

The financial statements of the Company, as of December 31, 1997, included in this Prospectus and Registration Statement, have been so included in reliance upon the reports of Leininger & Leininger, Ltd., 10850 Old County Road 15, Plymouth, Minnesota 55441, independent certified public accountants, and given on the authority of that firm as experts in accounting and auditing.

## **Index To Financial Information**

**SolarAttic, Inc.** **Page**

**AUDITED FINANCIAL STATEMENTS**

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## Independent Auditor's Report

To the Board of Directors and Stockholders  
SolarAttic, Inc.  
Elk River, Minnesota

We have audited the accompanying balance sheets of **SolarAttic, Inc.** as of December 31, 1996 and 1997, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. 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.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 SolarAttic, Inc. as of December 31, 1996 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Plymouth, Minnesota  
January 15, 1998

*Leininger & Leininger, Ltd*

**SOLARATTIC, INC.**  
**BALANCE SHEETS**

At December 31	1996	1997
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 29,698	\$ 14,148
Accounts receivable	430	8,236
Inventories	40,927	34,995
Prepaid expenses	3,025	8,525
Prepaid rent	—	24,822
Prepaid stock issuance costs	—	5,694
Total current assets	74,080	96,420
<b>Furniture and Equipment</b>	45,873	66,268
Less accumulated depreciation	25,692	34,064
Net furniture and equipment	20,181	32,204
<b>Other Assets</b>		
Prepaid rent	—	6,205
Due from officer	43,206	56,198
Patent, net of amortization of \$27,647 and \$34,089	33,553	27,111
Customer list, net of amortization of \$2,357 and \$7,071	30,643	25,929
Total other assets	107,402	115,443
<b>Total assets</b>	<b>\$ 201,663</b>	<b>\$ 244,067</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accrued liabilities	\$ 409	\$ 2,009
Current maturities of note payable to officer	647	788
Other liabilities	—	42,400
Total current liabilities	1,056	45,197
<b>Note Payable to Officer, Net of Current Portion</b>	89,353	100,462
<b>Stockholders' Equity</b>		
Common stock, no par value; authorized 100,000,000 shares; issued and outstanding 8,977,216 and 9,385,752 shares	544,353	691,067
Retained earnings (deficit)	(433,099)	(592,659)
Total stockholders' equity	111,254	98,408
<b>Total liabilities and stockholders' equity</b>	<b>\$ 201,663</b>	<b>\$ 244,067</b>

See Notes to Financial Statements.

**SOLARATTIC, INC.**  
**STATEMENTS OF OPERATIONS**

Year Ended December 31	1996	1997
<b>Revenues</b>	\$ 46,967	\$ 61,853
<b>Cost of Goods Sold</b>	24,168	28,857
Gross profit	22,799	32,996
<b>Operating Expenses</b>	95,139	180,897
Operating loss	(72,340)	(147,901)
<b>Interest Expense</b>	6,073	11,659
<b>Net loss</b>	\$ (78,413)	\$ (159,560)
<b>Weighted Average Common Shares Outstanding</b>	8,947,695	9,247,613

See Notes to Financial Statements.

**SOLARATTIC, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**

Year Ended December 31, 1996 and 1997

	Common Stock		Deficit Accumulated	Total Stockholders' Equity
	Shares	Amount		
<b>Balance December 31, 1995</b>	8,767,506	\$ 466,911	\$ (354,686)	\$ 112,225
Sale of stock	112,210	38,442	-	38,442
Stock issued for services	15,000	6,000	-	6,000
Stock issued for customer list	82,500	33,000	-	33,000
Net loss	-	-	(78,413)	(78,413)
<b>Balance December 31, 1996</b>	8,977,216	544,353	(433,099)	111,254
Sale of stock	279,426	92,070	-	92,070
Stock issued for rent	124,110	49,644	-	49,644
Stock issued for services	5,000	5,000	-	5,000
Net loss	-	-	(159,560)	(159,560)
<b>Balance December 31, 1997</b>	9,385,752	\$ 691,067	\$ (592,659)	\$ 98,408

See Notes to Financial Statements

**SOLARATTIC, INC.**  
**STATEMENTS OF CASH FLOWS**

Year Ended December 31	1996	1997
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (78,413)	\$ (159,560)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation	4,972	8,372
Amortization	8,799	11,156
Amortization of prepaid rent from stock	-	18,617
Issuance of common stock for services	6,000	5,000
(Increase) decrease in operating assets:		
Accounts receivable	(430)	(7,806)
Inventory	(6,627)	5,932
Prepaid expenses	(3,025)	(5,500)
Prepaid stock issuance costs	-	(5,694)
Increase (decrease) in operating liabilities:		
Accrued liabilities	(2,984)	1,600
Other liabilities	-	42,400
Net cash flows from operating activities	(71,708)	(85,483)
<b>Cash Flows From Investing Activities</b>		
Increase in due from officers, net	(9,704)	(12,992)
Purchase of equipment	(13,069)	(20,395)
Net cash flows from investing activities	(22,773)	(33,387)
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of common stock	38,442	92,070
Proceeds from note payable to officer	65,430	11,718
Payments on note payable to officer	(2,451)	(468)
Net cash flows from financing activities	101,421	103,320
<b>Change in cash and equivalents</b>	6,940	(15,550)
<b>Cash and Equivalents</b>		
Beginning of year	22,758	29,698
End of year	\$ 29,698	\$ 14,148

See Notes to Financial Statements.

**SOLARATTIC, INC.**  
**STATEMENTS OF CASH FLOWS (Continued)**

Year Ended December 31	1996	1997
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for interest	\$ 6,073	\$ 11,659
Income taxes paid	\$ -	\$ -

**Supplemental Schedule of Noncash Investing and Financing Activities**

Issuance of common stock for services	\$ 6,000	\$ 5,000
Issuance of common stock for prepaid rent	-	49,644
Issuance of common stock for customer list	33,000	-

See Notes to Financial Statements.

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## NOTES TO FINANCIAL STATEMENTS

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

#### **Nature of operations:**

SolarAttic, Inc. (the Company), a Minnesota corporation, was formed on August 11, 1986 and was in the development stage through December 31, 1996. The year 1997 is the first year during which it is considered an operating company. Sales are currently throughout the continental United States. However, markets for the Company's technology and products are international in nature.

#### **Basis of financial statement presentation and accounting estimates:**

The accompanying financial statements are presented in accordance with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could vary from those estimates.

#### **Cash equivalent policy and cash flows:**

For purposes of reporting cash flows, cash and equivalents is comprised of bank checking accounts.

#### **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 is recorded at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of three to seven years.

#### **Patent:**

The Company has capitalized costs related to acquiring a patent, which are being amortized using the straight-line method over 9.5 years. All other patent costs are expensed as incurred.

#### **Customer list:**

The Company has capitalized costs related to acquiring a customer list which are being amortized using the straight-line method over 7 years.

#### **Other liabilities:**

The Company has credit cards payable which are backed by the personal guarantee of an officer.

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## NOTES TO FINANCIAL STATEMENTS (CON'T)

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### **Note 1 *Nature of Business and Significant Accounting Principles (CON'T)***

#### **Research and development:**

Research and development costs are charged to operations as incurred and totaled \$7,817 and \$1,853 for 1996 and 1997, respectively.

#### **Stock based compensation:**

In 1995, the Financial Accounting Standards Board issued SFAS No. 123, *Accounting for Stock-Based Compensation*. As permitted by this Standard, the Company will continue to measure compensation cost using the intrinsic value-based method of accounting prescribed by the Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*.

#### **Prepaid stock issuance costs:**

The Company has recorded prepaid stock issuance costs for legal and other expenses incurred in connection with its SCOR (small corporate offering registration) stock offering. These SCOR costs will be deducted from the proceeds of the SCOR stock issuance.

#### **Income taxes:**

The Company has adopted FASB Statement No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. Under the asset and liability method, deferred tax assets are recognized for deductible temporary differences and operating loss or tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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**NOTES TO FINANCIAL STATEMENTS (CON'T)**

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**Note 2 *Related Party Transactions***

Note payable to officer at December 31, 1996 and 1997, consist of the following:

	<u>1996</u>	<u>1997</u>
Unsecured note payable, maturing January 1, 2027, monthly installments of \$708 including interest at 8.75%. The rate adjusts every six months, based on the 6 month LIBOR rate plus 6%.	\$ 90,000	\$ —
Unsecured note payable, maturing January 1, 2028, monthly installments of \$735 including interest at 7.90%. The rate adjusts every six months, based on the 6 month LIBOR rate plus 6.25%.		101,250
Less current maturities	<u>647</u>	<u>788</u>
	<u>\$ 89,353</u>	<u>\$ 100,462</u>
<b>Future maturities are as follows:</b>		
1998		\$ 788
1999		927
2000		1,003
2001		1,085
2002		1,174
Thereafter		<u>96,273</u>
		<u>\$ 101,250</u>

Interest expense for related parties was \$4,939 in 1996 and \$11,659 in 1997.

Amounts due from officer are unsecured, non interest bearing and mature December 31, 1999. Due from officer is scheduled for monthly repayment at the rate of 1/20th of Mr. Palmer's salary when Mr. Palmer starts to receive a salary.

The Company rented office and warehouse facilities from an officer of the Company on a month to-month basis in 1996 and the first four months in 1997. In addition, the Company paid certain real estate taxes and repairs. Total occupancy related expense was \$10,432 in 1996 and \$2,354 in 1997.

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## NOTES TO FINANCIAL STATEMENTS (CON'T)

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

#### **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. It is the Company's policy to not grant options at a price less than the current market or sales price. No options have been granted as of December 31, 1997. The incentive stock option plan matures in 2001.

#### **Stock options:**

Certain stockholders are able to purchase additional stock with stock options from options granted which are considered associated with compensation issues under reporting requirements. At December 31, 1997, there were 950,000 options outstanding and exercisable. Of this total, 200,000 options are exercisable at 20¢ per share expiring December 31, 1998; 250,000 options are exercisable at 30¢ per share expiring December 31, 1998; 400,000 shares are exercisable at 40¢ per share expiring December 31, 2000; and, 100,000 options are exercisable at \$1.00 per share expiring December 31, 2003. These options were granted outside of the stock option plan. During 1996, options to purchase 400,000 shares were granted at an exercise price of 40¢ per share. During 1997, options to purchase 100,000 shares were granted at an exercise price of \$1.00 per share. No option shares expired, were canceled or exercised in 1996 and 1997.

#### **Stock warrants:**

Certain stockholders are able to purchase additional stock with stock warrants attached to common stock issued. At December 31, 1997, there were 685,993 warrants outstanding and exercisable. Of this total, 645,993 warrants are exercisable at 20¢ per share expiring December 31, 1998. The remaining 40,000 warrants are exercisable at 30¢ per share expiring December 31, 1998. No warrants were granted in 1996 and 1997. 32,210 shares were exercised in 1996 at 20¢ per share and 130,000 shares were exercised in 1997 at 20¢ per share.

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

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

#### **Stock based compensation:**

The Company applies APB Opinion No.25 in accounting for its stock incentive plans. Accordingly, no compensation cost has been recognized for options granted. There are no charges or credits to expense with respect to the granting or exercise of options since the options were issued with exercise prices at or exceeding fair market value on their respective dates of grant. However, using an option pricing model to determine the fair value of the options and considering the expected option life, anticipation of dividends, and the risk-free interest rate, determining compensation cost for stock-based compensation plans consistent with SFAS 123 would not have had a material impact on reported net income of the Company.

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## NOTES TO FINANCIAL STATEMENTS (CON'T)

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### **Note 4 *Income Taxes***

The Company recorded no provision for income tax expense for the periods ended December 31, 1996 and 1997.

Deferred tax assets and liabilities were comprised of the following at December 31		
	<u>1996</u>	<u>1997</u>
Deferred tax asset - net operating losses	\$ 172,000	\$ 235,800
Less valuation allowance	<u>172,000</u>	<u>235,800</u>
Net deferred tax assets	-	-
Deferred tax liabilities	-	-
Total deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

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A valuation allowance has been established for the deferred tax asset because management determined it is more likely than not that the deferred tax asset will not be realized. The Company's valuation allowance increased \$63,800 from December 31, 1996 to December 31, 1997, due to net operating losses incurred during 1997. At December 31, 1997, for income tax purposes, the Company had federal and state net operating loss carry forwards of approximately \$592,000 available that expire through the year 2012.

### **Note 5 *Commitments and Contingencies***

#### **Warranty:**

The materials assembled by the Company generally carry warranties provided by the manufacturers against product failure. In addition, the Company provides a warranty of its assembled product workmanship. Management has determined that no warranty reserve was necessary as of December 31, 1996 and 1997.

### **Note 6 *Performance Stock Option Agreement***

On June 25, 1997, the Company signed a distribution agreement for the exclusive distribution of the Company's pool heater. As part of the agreement, the Company granted the distributor a performance option clause with the following terms: If, prior to September 30, 1998, the distributor sells 100 of the Company's swimming pool heaters, SolarAttic will grant an option in the Company's common stock of 300,000 shares exercisable at \$1.65 per share through September 30, 2003. If the distributor sells 500 swimming pool heaters prior to this same date, the option shall be for a total of 600,000 shares exercisable at \$1.65 per share and expiring on September 30, 2003. If the distributor fails to sell 100 units, there shall be no options. There are no extensions or other provisions to this agreement. Prior to this time there was no affiliation between the distributor, its principals and the Company or the Company's employees, officers or directors.

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**NOTES TO FINANCIAL STATEMENTS (CON'T)**

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**Note 7 *Operating Leases***

In April of 1997, the Company began leasing space under a non-cancelable operating lease expiring April 15, 1999. Under this agreement, the Company issued 124,110 shares of common stock totaling \$49,644. This was recorded as prepaid rent expense and is being amortized to rent expense over the lease term. In addition to the common stock, the Company makes a monthly cash payment for rent.

Rent expense totaled \$0 and \$23,852 for the years ended December 31, 1996 and 1997.

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Future minimum cash lease payments as of December 31, 1997 were as follows:

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1998	\$	6,337
1999		<u>2,069</u>
	\$	<u><u>8,406</u></u>

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# Investor Subscription Agreement

## SolarAttic, Inc.

Persons interested in purchasing shares of the Common Stock of SolarAttic, Inc. (the “Shares”) must complete and return this Subscription Agreement along with their check or money order to:

SolarAttic, Inc., 15548 95th Circle NE, Elk River, Minnesota 55330

If and when accepted by SolarAttic, Inc., a Minnesota corporation (the “Company”), this Subscription Agreement shall constitute an irrevocable subscription for shares of Common Stock, no par value, of the Company. The minimum investment is \$3,000 (600 shares). If accepted, a copy of this Agreement will be returned as a receipt and a stock certificate will be issued shortly thereafter.

The undersigned (referred to herein as the “Subscriber”) desires to become a SHAREHOLDER and hereby irrevocably (after 72 hours) tenders this subscription agreement and subscribes for that number of shares (the “Shares”) of the Company’s common stock as stated below, at the price of five-dollars (\$5.00) per share, upon the terms, conditions and representations set forth herein. (Investors can revoke their purchase of the shares for 72 hours by filling out the form on page X-3.)

1. The Subscriber acknowledges and represents as follows:

(a) That the Subscriber has received and carefully reviewed the Company’s prospectus, dated January 31, 1998, (the “Prospectus”) and that the Subscriber does not rely upon the verbal representation made by any officer, employee or agent of the Company. Notwithstanding the availability of other sources of information on the Company, Subscriber represents that this subscription is based solely upon the information contained within said Prospectus.

(b) That the Subscriber has the net worth and/or income to be able to bear the economic risk of an investment in the Shares; and

(c) That the Subscriber has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of an investment in the Shares; and

(d) That the Subscriber has determined that the Shares are a suitable investment for him, her or it and meets his, her or its investment objectives and financial needs, and that the Subscriber has adequate means for providing for current financial needs and personal contingencies and has no need for liquidity if a market for the Shares does not develop; and

(e) The Subscriber recognizes that an investment in the Shares is highly speculative and involves no escrow of funds and a high degree of risk, including those in the Prospectus discussed under the heading “Risk Factors;” and

(f) The Subscriber is purchasing the shares herein for investment purposes only and not for purposes of resale and/or distribution to others.

2. The Subscriber represents and warrants that he, she or it is a bona fide resident of, and is domiciled in the State, or jurisdiction, stated below and that the Shares are being purchased solely for the beneficial interest of the Subscriber. If said residency, domicile or jurisdiction is California—Subscriber further represents and warrants that he, she or it meets or exceeds one of the following “super suitability” standards: A) Liquid Net Worth of \$250,000 [excluding home, home furnishings or autos] (“LNW”) Plus \$65,000 gross annual income; or, B) \$500,000 LNW; or, C) \$1,000,000 net worth (inclusive); or, D) \$200,000 gross annual income. If domiciled in Arizona or Colorado, the Subscriber further represents and warrants that he, she or it meets the definition of an “Accredited Investor” that is contained in Rule 501 of SEC Regulation D.

3. The Subscriber understands that the Company will use and rely upon the representations, warrants, registration and subscriber information provided herein.

**4. REGISTRATION INFORMATION:**

**(Please print)**

<b>Name of Subscriber</b>	
Street Address	(Mail notices and reports to)
City/State/Zip Code	
Telephone Number(s)	
Social Security Number	
Tax Identification Number	(If applicable)
Shares Purchased	<b>(600 Share Minimum)</b>
Amount of Funds Enclosed	\$ <b>(\$3,000 Minimum)</b>
State of Residence/Domicile	
<b>Register Shares As*</b>	

\*(If different from the above "Name of Subscriber", Register Shares as shown here.)

**5. THE SUBSCRIBER(s) IS (are):**

( ) Corporation	( ) Trust:
( ) A single person	Trustees(s) _____
( ) Husband and wife, community property	Trust Date _____
( ) Joint Tenants	Name of Trust _____
( ) A married (man) (woman) as (his) (her) separate property	For the Benefit of _____
( ) Tenants in Common	( ) Custodian for _____
( ) Other _____	under the Uniform Gift to Minors Act of the State of :

**Check all that apply:**  Accredited Investor as defined by Rule 501 of SEC Regulation D.  
 A bank, savings & loan, insurance co., investment co. or a SBIC.  
 Investment represents more than 10% of net worth excluding house.

**SIGNATURE(S):**

Date: \_\_\_\_\_

\_\_\_\_\_  
 Signature of Subscriber(s)

\_\_\_\_\_  
 Print Name(s)

**ACCEPTANCE BY COMPANY:**

Subscription accepted this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_, by SolarAttic, Inc.

By \_\_\_\_\_  
 Its \_\_\_\_\_  
 (Officer)

**Make check or money order out, in the appropriate amount, payable directly to "SolarAttic, Inc." Mail signed subscription agreement and funds to SolarAttic, Inc., 15548 95th Circle NE, Elk River, Minnesota 55330-7228. Phone (612) 441-3440 if you have any questions about this form.**

**INSTRUCTIONS: To rescind your purchase of the Shares, fill out the top form and mail it to the Company within 72 hours. Georgia residents fill out and mail bottom form also.**

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**NOTICE OF RESCISSION**

**TO: EDWARD G. PALMER, CEO  
SOLARATTIC, INC.  
15548 95TH CIRCLE NE  
ELK RIVER, MN 55330**

I hereby exercise my right to rescind my purchase of \_\_\_\_\_ shares of SolarAttic, Inc.

This rescission is made within seventy-two (72) hours of the earliest of my execution of a written agreement to purchase said shares, the delivery of a confirmation of sale of said shares to me or the payment for such shares. I understand that the effective date of the rescission shall be the date of delivery of this Notice or the depositing of same, properly addressed and with adequate postage thereon, in the United States Mail.

**DATED**, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
(NAME)

\_\_\_\_\_  
(ADDRESS)

\_\_\_\_\_  
(CITY) (STATE) (ZIP CODE)

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**NOTICE OF RESCISSION**

**TO: COMMISSIONER OF SECURITIES  
OFFICE OF THE SECRETARY OF STATE  
2 MARTIN LUTHER KING, JR. DR., S.E.  
SUITE 802, WEST TOWER  
ATLANTA, GA 30334**

I hereby exercise my right to rescind my purchase of \_\_\_\_\_ shares of SolarAttic, Inc.

This rescission is made within seventy-two (72) hours of the earliest of my execution of a written agreement to purchase said shares, the delivery of a confirmation of sale of said shares to me or the payment for such shares. I understand that the effective date of the rescission shall be the date of delivery of this Notice or the depositing of same, properly addressed and with adequate postage thereon, in the United States Mail.

**DATED**, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
(NAME)

\_\_\_\_\_  
(ADDRESS)

\_\_\_\_\_  
(CITY) (STATE) (ZIP CODE)

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No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, any Selling Shareholder or any Underwriter. This Prospectus does not constitute an offer to sell or solicitation of an offer to buy any securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of the Company since that date.

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Until the first anniversary after the effective date of this Prospectus, any dealer that is effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus.

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# SolarAttic

Up to 200,000 Shares

## COMMON STOCK

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### PROSPECTUS

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January 31, 1998

**SolarAttic, Inc.**  
15548 95th Circle NE  
Elk River, MN 55330  
(612) 441-3440

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