



SolarAttic, Inc.[®]

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Daniel E. Sexton, Securities Supervisor
Minnesota Department of Commerce
Securities Registration Division
133 East 7th Street
Saint Paul, Minnesota 55101

June 4, 1998

Dear Dan:

This is our response to Robert's letter of April 29, 1998 which stated that you would be reviewing our reply. Therefore, this letter has been directed to your attention. For convenience, a copy of Robert's letter is attached with his comments identified as numbers 1-11. Our responses to each comment are listed below as corresponding ITEMS 1-11.

ITEM 1

This comment deals with the escrow of cheap stock issued to officers, directors and 10% shareholders as may be required under 2875.2410 Subp 1 or 2875.2420 if deemed necessary by the commissioner for the protection of public investors. According to Minn. Rule 2875.3010 Subp. 4, cheap stock does not include securities which have been outstanding more than three years.

In the table shown below under Item 3, a total of 909,769 shares are identified as having been issued within the last three years. A listing of these securities is attached hereto and identified as "Cheap Stock Listing." All of the securities listed thereon are considered cheap. However, only two stock certificates on this list totaling 15,000 shares were issued to officers, directors or 10% shareholders. These two items are identified as Cert No 136 dated 8/21/95 for 10,000 shares issued to Larry Matthews, a director, and Cert No 349 dated 8/22/97 for 5,000 shares issued to Larry Garde who is also a director. The Company makes note that the certificate dated 8/21/95 is now approaching three years of age. The Company also notes that the certificate dated 8/22/97 is already legended and cannot be resold due to Rule 144 limitations and without the removal of the restrictive legend.

Together, at 15,000 shares total, this stock is insignificant to the to-be-outstanding shares in the amount of 9,585,752 shares shown on p5 of the Prospectus. This equates to about 1/10th of 1%. Therefore, due to its relevant insignificance, the Company hereby requests a waiver of this escrow.

Minn. Statute Chapter 13, the Data Practices Act, provides for disclosure of pertinent government information. If escrow is not waived, please provide a full disclosure of why such an escrow is required for the protection of investors. Please also include all of the criteria used when making such determination to protect investors along with criteria considered for waivers.

ITEM 2

The issuer has fully complied with Minn. Rule 2875.3000 concerning minimum investment.
See the analysis and calculation under ITEM 3 for further information.

ITEM 3

The issuer has fully complied with Minn. Rule 2875.3010 concerning cheap stock.
See the following analysis and calculation for further information.

<u>Item</u>	<u>Component of total cheap stock</u>	<u>Shares</u>	<u>Amount Owed</u>
A	Stock issued since 4/8/95 (less than 3 years)	909,769	
B	Options listed on Prospectus p66	983,826	\$375,000
C	Other Options/Warrants on Prospectus p66	<u>652,167</u>	<u>137,099</u>
	Total cheap stock (shares)	2,545,762	\$512,099

All of the above listed items are considered cheap stock under 2875.3010. If all options and warrants listed on p66 of the Prospectus are exercised (Items B & C), the total shares then outstanding would be 11,221,745 shares as described on p15 of the Prospectus. The total amount of cheap stock as a percentage thereof would be then be calculated as $2,545,762 \text{ total cheap shares} \div 11,221,745 \text{ total shares outstanding}$ or 22.7%.

The *fair value of equity investment* as defined by 2875.3000 Subp. 2 (B) is the stockholder's equity as stated on pF-3 of the Prospectus or \$98,408. The *equity investment* is defined in Subp 3 of the Rule and is shown on p6 of the Prospectus as \$1,028,408.

Fair value of equity investment \div *equity investment* is therefore $\$98,408 \div \$1,028,408$ or 9.6% *minimum investment*. 2875.3000 Subp 1 paragraph 2 states: "If the percentage is ten percent or less, the maximum quantity of cheap stock allowable shall be three times the percentage." This is then calculated as $9.6 \times 3 = 28.7\%$ allowable cheap stock. Therefore, the Company has complied with this cheap stock rule.

However, according to 2875.3000 Subp 2, the *fair value of equity investment* "shall mean the higher of Subp 2 (A) or Subp 2 (B). Under Subp 2 (A), the cost of the options exercised above would be added into the calculation along with any independent valuation of the Company's patents or other intangible assets. These factors would add an additional \$512,099 (cost of options) along with \$490,000 (independent GAAP Valuation of U.S. Patent 5,014,770 by Exponential Partners, Inc.).

Adding the cost of the options (\$512,099) to the \$98,408 and \$1,028,408 would then calculate $610,507 \div 1,540,507$ or 39.6% *minimum investment*. Under 2875.3010 Subp 1, third paragraph, it states: "If the percentage is greater than ten percent, the maximum quantity of cheap stock allowable shall be two times the percentage plus ten percent." If we included the equity funds invested via the above options, the allowable cheap stock would then be calculated as $((39.6 \times 2) + 10) = 89.3\%$. Subp 1 paragraph 4 states that the maximum allowable cheap stock would be 90%. In this calculation, the Company is well within the cheap stock rule.

The Company possesses an independent GAAP appraisal for one of its patents. The stated minimum value of the patent is \$490,000 which can also be included under 2875.3000 Subp 2 (A). Adding this equity factor to the above calculation would yield the following *minimum investment*: $(610,507 + 490,000) = \$1,100,507$. Dividing $\$1,100,507$ (*fair value of equity investment*) by $\$1,540,507$ (*equity investment*) = 71.4% *minimum investment percentage*.

ITEM 4

The issuer has fully complied with the disclosure requirements of Minn. Rule 2875.3070 concerning interest of management in transactions.

The second part of this comment presupposes “an independent disinterested board” and then suggests that the Company adopt prospectus language that would, in practically all small companies, simply not be true. The comment letter states: “This language should show that all affiliated transactions will be ratified by a majority of an independent disinterested board of directors.” The terminology “independent disinterested board” is an oxymoron. I assume this part of the comment refers to a board with independent members on it. I.E.- Board members that are not employed by the Company and who do not own any shares of stock in the Company. SolarAttic, like most small corporations, does not yet possess such a board of directors. And, the Company is unaware of any legal requirement that mandates such a board constituency. The language as stated on Prospectus p64 adopts the substance of 2875.3070 Subp 2 (Form of notice). Therefore, the language in our disclosure document is sufficient under the law and no further change will be made in this regard.

ITEM 5

The comment states: “The issuer will be required to establish a minimum and provide for the impoundment of this minimum, pursuant to Minn. Rule 2875.2440 (proceeds impoundment).” The comment then states the issuer must then amend the “Use of Proceeds” section.

The issuer is unaware of any Minnesota rule or statute requiring a minimum offering amount to be established that would be greater than the minimum of zero. The issuer also notes that while 2875.2440 states: “The commissioner may require as a condition of registration (an impoundment); It also states: “unless reason for exception can be demonstrated.”

SolarAttic hereby requests a waiver, from the commissioner, of any interpretation of this rule that would attempt to impose a minimum other than the minimum of zero as presented within the Company’s offering documents. Pursuant to 2875.2440 Subp. 1, the following substantive reasons for exception are provided:

1. With a stated offering minimum of zero, there are no funds to impound.
2. There is no legal requirement under Minnesota Laws Chapter 80A or Minnesota Rules Chapter 2875 that would require the Company to establish a specific minimum offering amount. Especially a higher minimum amount than the minimum offering amount of zero which is already incorporated into the Company’s disclosure document (DD).
3. Any attempt to impose a different or higher offering minimum amount simply so that funds could be required to be escrowed under 2875.2440 would appear to be a violation of Minn. Statute 80A.25 Subp. 4 which specifically states: “All rules and forms of the commissioner shall be published.”

4. The Company has been in continuous business since 1985 developing its new solar and ventilation technologies. The Company, despite many obstacles over a period of 13 years, has now completed its fourth U.S. Patent and has product already deployed in 30 states. Minn. Rule 2875.2440 Subp 1 provides for impoundment of funds ONLY IF, “In the opinion of the commissioner, the protection of public investors so requires.” The Company fails to perceive any endangerment to public investors in its offering that would require such “protection.”

Minn. Statute Chapter 13, the Data Practices Act, provides for disclosure of pertinent government information. If escrow is not waived, please provide a full disclosure of why such an impoundment is required to protect the public and where the department’s statutory authority is located that authorizes the commissioner to “require” a higher and/or different minimum offering amount than that of which the Company itself chooses. Please also provide a full disclosure of all departmental criteria that is used when making this determination and whether any of that criteria would be considered a Minnesota Rule as defined by Minn. Statute Chapter 14.02 Subd 4.

5. Minn. Statute 80A.115 Subd. 5 states that the small corporate offering registration form must comply with the instructions of NASAA (North American Securities Administrators Association). NASAA Restriction C language pertains specifically to when an escrow (impoundment) would be required. One escrow criteria is when the issuer is “commencing a business.” This NASAA escrow requirement does not apply to SolarAttic since we are not commencing a business.

6. The disclosure document is clear that the Company only seeks additional expansion capital and not capital needed to implement a “minimum required program” which is another escrow criteria under the language of NASAA Restriction C.

7. NASAA Restriction C language states a third criteria for an escrow where it is evident that the business needs a certain amount of funds to “proceed with the business in the manner [we have] proposed.” This is simply not the case with SolarAttic. The Company does not need a minimum amount of offering funds to proceed with its business and this is explicitly stated within the disclosure document at the bottom of page 5. See “THE OFFERING.”

8. Imposing an escrow when none is required by Minnesota Law, Minnesota Rules and NASAA Restriction C language -- would forcibly change the nature and character of the Company’s offering away from the manner in which the Company itself proposes. This would translate into massive and substantial changes throughout the Company’s Prospectus and its several state security filings. It would also result in added expenses estimated at \$20-35,000. It would delay the offering by months and pose an undue regulatory burden upon a small Minnesota manufacturer.

9. The Company has \$204,000 worth of stock options that will be exercised by December 31, 1998.

10. The Company has several contractual sales agreements which are now driving sales.

11. The Company’s cash flow projection indicates clearly that CASH-IN will exceed CASH-OUT and still provide for substantial business expansion. Even with zero SCOR offering funds. Therefore, a minimum offering amount of zero was established for the offering.

12. The Company's offering document (with minimum of zero) is entirely consistent with the Company's historical approach to raising expansion capital.

For the above substantive reasons, the issuer will not modify its offering documents to include a higher minimum than the minimum of zero which is already stated. An escrow of funds is not required by the very nature of the Company's offering.

ITEM 6

The issuer has fully complied with the requirements of Minn. Rule 2875.3020 concerning compensation through receipt of securities.

To illustrate compliance, the following table is provided which lists all employees and directors and their outstanding options. Minn. Rule 2875.3020 states: "Outstanding options to all employees and directors shall not exceed 20 percent of the to-be-outstanding common shares of the issuer." Twenty percent of 9,585,752 shares to-be-outstanding (p5 of Prospectus) would be 1,917,150 shares. It can be observed that the Company is in compliance with this 20% rule since only 983,826 total option shares are outstanding in this group. Regarding the 85% rule, the Company notes that this pertains to the fair market value "on the date of grant." The table below states the date on which these options were granted. In virtually all cases, the exercise price was the same price that the Company was selling its stock for. In other words, all option prices represent 100% of the fair market value of the stock at the time of option grant. See Prospectus page 58 for the Company's policy on granting options. Therefore, the Company is also in full compliance with the 85% rule.

NAME OF EMPLOYEE OR DIRECTOR	DATE OF GRANT	DATE EXPIRES	EXERCISE PRICE	OPTION SHARES
Edward G. Palmer, Director & CEO	—	—	—	0
James S. Kantorowicz, Mktg Assistant	—	—	—	0
Lawrence Garde, Director	11/11/88	12/31/98	20¢	47,500
	6/5/96	12/31/00	40¢	200,000
	8/22/97	12/31/03	\$1.00	100,000
Lawrence J. Matthews, Director	11/11/88	12/31/98	20¢	45,000
	6/5/96	12/31/00	40¢	200,000
James F. Stanley, VP Mktg & Sales	10/11/91	12/31/98	20¢	200,000
	11/11/88	12/31/98	20¢	191,326
Employees & Directors as a Group		—	—	983,826

ITEM 7

The total value of all securities sold since 4/1/97 is \$45,600. Therefore, SolarAttic hereby amends and reduces the amount to be registered in Minnesota to \$954,400 (\$1,000,000 minus this \$45,600). The Company is aware of the limitations of 80A.115 Subd. 4(2) and corresponding Rule 504. The Company also recognizes that options may be exercised during the course of its offering and that any amount exercised may then have to be integrated into the overall offering proceeds.

ITEM 8

Pages 53-54 of the Prospectus are explicitly clear that the information provided therein is NOT PROJECTIONS as stated in the comment letter. Instead, they are GOALS. These goals have been on the Company's web site for over one year and are now considered "public information." They can be found at <http://www.solarattic.com>. In addition, these goal statements are well qualified and provide market context. Therefore, the issuer will not remove nor modify this section.

ITEM 9

All states listed on page ii of the Registration Statement Summary have been filed in for a full public offering with the exception of Arizona, Colorado and Texas. These states are identified by an * indicating that an exemption filing has been made. There is no need to amend the page.

ITEM 10

This comment asks the question of why we did not follow the FAS #7 disclosure requirements in our GAAP audit report. The staff CPA should be aware that the additional disclosure requirements of FAS #7 pertain specifically to development stage entities. Once a company has left the development stage, there are no continuing or ongoing GAAP disclosure requirements under FAS #7.

The SCOR audit report is for the most recent fiscal year of which SolarAttic is considered an operating entity. Therefore, FAS #7 does not apply to the audit report. Please inform Mr. Lee Spelbrink that he may call our auditors if he wants to discuss this matter further. He can contact Mr. Don Leininger at (612) 593-2868 or by fax at (612) 593-2869.

ITEM 11

Our securities attorney recommended that a power of attorney be established to simplify multiple state filings. We followed his advice.

CONCLUSION

SolarAttic feels that it has fully and properly addressed all Minnesota comments and is in full compliance with Minnesota Laws, Minnesota Rules and NASAA Form U-7 Instructions. Therefore, we request that the Company's offering be declared effective immediately so that the Company may proceed with the marketing of its offering in Minnesota. For informational purposes, I have also enclosed a copy of the Company's fourth U.S. Patent which is now in its international filing phase. Dan, thank you for your assistance in this matter. If you have any questions, give me a call at 441-3440.

Sincerely yours,

Ed Palmer
President