

CITIGROUP INC  
Form FWP  
December 07, 2018  
**Table of Contents**

Filed pursuant to Rule 433

Registration Statement Nos. 333-216372 and 333-216372-01

---

**Table of Contents**

2

**CitiFirst Offerings Brochure | December 2018**

Table of Contents

<u>Introduction to CitiFirst Investments</u>	3
<u>CitiFirst Protection Investments</u>	
<u>Dual Directional Market-Linked Notes Linked to the S&amp;P 500<sup>®</sup> Index (3.0 Years)</u>	4
<u>CitiFirst Performance Investments</u>	
<u>Buffer Securities Linked to the SPDR<sup>®</sup> Dow Jones<sup>®</sup> Industrial Average<sup>SM</sup> ETF Trust</u>	6
<u>Enhanced Barrier Digital Plus Securities Linked to the SPDR<sup>®</sup> S&amp;P 500<sup>®</sup> ETF</u>	8
<u>Autocallable Contingent Coupon Equity Linked Securities Linked to the Worst Performing of the S&amp;P 500<sup>®</sup> Index and the EURO STOXX 50<sup>®</sup> Index</u>	10
<u>General Overview of Investments</u>	12
<u>Important Information for the Monthly Offerings</u>	13
<u>Overview of Key Benefits and Risks of CitiFirst Investments</u>	14
<u>Additional Considerations</u>	15

For all offerings documented herein (other than the Market-Linked Certificates of Deposit):

Investment Product

Not FDIC Insured

May Lose Value

No Bank Guarantee

**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents**



**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents**



**Table of Contents**





**Table of Contents**

**Table of Contents**

---

**Table of Contents**

living organisms or fragments of organisms suspended in the air. Dust mites, molds, fungi, spores, pollen, bacteria, viruses, amoebas, fragments of plant materials, and human and pet dander are examples of bioaerosols. Bioaerosols are capable of causing severe health problems. Some bioaerosols, such as viruses and bacteria, cause infections, like a cold or pneumonia, and others cause allergic reactions. An allergic reaction occurs when a substance provokes formation of antibodies in a susceptible person. Bioaerosols may cause allergic reactions on the skin or in the respiratory tract. Rashes, hay fever, asthma, breathing difficulties, and runny noses are common allergic reactions. 18 Bioaerosols build up in closed indoor environments and are passed through an entire building through central ventilation systems. The contamination of an entire building through bioaerosols is commonly referred to as "sick building syndrome." Bioaerosols are found in a variety of settings such as residences, office buildings, medical and dental offices and hospitals, but cannot be seen without a magnifying glass or microscope. Exposure to bioaerosols is much higher in most enclosed locations where people congregate, such as schools, theaters, airplanes, restaurants and shelters. Occurrences of sick building syndrome have escalated largely because of the increased demand for reduced operating costs in public buildings, particularly ventilation systems. The demand for reduced operating costs created construction of "tight" buildings which are dependent on mechanical air circulation systems rather than windows. These air circulation systems recycle bioaerosols throughout the building creating sick building syndrome. Research has made it evident that air contaminants found in heating, ventilation and air-conditioning systems and airtight buildings are responsible to a large degree for sick building syndrome. The heating and air conditioning community and the American Society of Heating, Refrigeration and Air Conditioning Engineers have suggested that the use of higher ventilation rates utilizing fresh outside air would dilute air contaminants and alleviate the sick building syndrome to a great extent. In response to this suggestion and in an effort to improve air quality, building operators have increased ventilation by bringing in more fresh outside air. This process has resulted in increased building costs created by having to heat or cool and dehumidify the outside air. The process is also somewhat ineffective to the extent that polluted inside air is diluted with polluted outside air. Products Our product line consists of the following: Series 12: Our Series 12 is designed to fit into a 2 x 4-foot space of a ceiling. This unit filters approximately 1200 cubic feet of air each minute removing particulates, gases and odors. Markets for this unit include the food and beverage industry, hospital and nursing homes, print shops, office buildings and other industries with problems involving cigarette or cigar smoke, odors and particulates. The retail price of our Series 12 is \$2,475.00. For the 30 months ended February 28, 2001, we have sold 314 of these units to our franchisees and national accounts. Series 14: Our Series 14 is designed to mount against a wall at the joining point of the wall to the ceiling. The unit is approximately 36" x 14" x 14". The unit filters approximately 400 cubic feet of air per minute. Markets for this unit

include those users having problems with any particulate, gas or odor found in rooms under 400 square feet, such as hotel rooms, offices, classrooms, patient rooms and small shops. Multiple units can be installed to accommodate larger rooms. The retail price of our Series 14 is \$1,090.00. For the 30 months ended February 28, 2001, we have sold 117 of these units to our franchisees and national accounts. Series 18: Our Series-18 is a commercial unit which can service up to five offices or rooms with inexpensive flex duct work. The unit is installed above the ceiling and is out of view. The unit requires no modifications to the existing heating and air conditioning system and operates in a very quiet fashion. The retail price of our Series 18 is \$1,850.00. For the 30 months ended February 28, 2001, we have sold 50 of these units to our franchisees. Series 30: Our Series 30 is in the preliminary marketing stage. The Series 30 is a residential unit which is adaptable to existing duct work used in existing heating, air conditioning and ventilation systems. The retail price of our Series 30 is \$970. For the two months ended February 28, 2001, we have sold 50 of these units. Series 999: We developed our Series 999 as an automotive after market product for mounting in the trunk of new and used cars. The unit was designed to move 100 cubic feet of air per minute with complete air changes in an automobile every 20 seconds. The retail price of our Series 999 is \$354. For the 30 months ended February 28, 2001, we have sold 600 of these units. These sales were primarily to 19 Airsopure 999, L.P. of which Airsopure, Inc., the Company's wholly owned subsidiary, is the general partner. Medicare Series 950: Our Medicare Series 950 is a free standing, portable unit. In October 1999, our Medicare Series 950 unit was submitted to Medicare for approval and issuance of a Medical reimbursement code number. The Medicare reimbursement code number would enable Medicare recipients to receive reimbursement for the cost of the Medicare Series 950 unit. In February 2001, we also applied to the Health Care Financing Administration for an HCPCS Code. The HCPCS Code would allow us to market our Medicare Series 950 directly to private medical insurance carriers. We propose to offer our Medicare Series 950 to Medicare and private insurance recipients for a retail price of \$795. As of February 28, 2001, we have not sold any of our Medicare Series 950 units to either the Medicare or private insurance markets. Consumer Series 950: Our Consumer Series 950 unit is similar to the Medicare Series 950 with alterations for a larger array of filtration for contaminants. The estimated retail price of the Consumer Series 950 is \$950.00. As of February 28, 2001, we have sold 438 of these units. Down Draft Tables: Our down draft tables were designed for the nail manicure industry and first introduced in January 1996. The units have largely been discontinued with our remaining inventory of approximately 10 units available for a retail price of \$2,000.00. We discontinued our down draft table line based upon a decline in market demand which resulted in production and marketing expenses exceeding proposed sales. Replacement Filters: We manufacture our sorbent media filters by purchasing pre-filter material in bulk and cutting the material in our production facility to proper sizes to fit our units. Our hospital grade HEPA filters are out-sourced for production. The trisorbent filters are also outsourced for manufacture, but assembled at our production facility. The life of the filters required by our air purification units varies with the type of unit and the degree of contamination; however, we estimate that each unit sold will require an average of one to two complete filter changes per year. The filters required by our ceiling units have a retail price of \$268 to \$462 depending on uses. The automobile unit will require approximately \$100 in replacement filters per year and the portable residential units approximately \$150 per year. Product Development and Redesign We do not anticipate any major expenditures during fiscal year 2001 to develop or redesign our existing products or our products in the developmental stage which will not be offset by estimated product sales. Instead, we intend to focus our available capital resources on the marketing and distribution of our current line of marketable air purification products. We will, however, adapt or redesign our products to meet changing customer demands or to respond to requests in the market for made-to-order products. Our decision to redesign or develop a particular product will be based upon whether estimated sales to respond to a particular product need will be sufficient to offset estimated development or redesign costs. We anticipate redesign costs on our Series 14 units and possibly our other units which utilize a hardened plastic case requiring injection molding. We estimate the engineering and mold tooling costs for these units to be in the range of \$500,000. We will not commit to these costs unless our estimated sales of these units are sufficient to offset the related development and design costs. We also intend to evaluate the inclusion of photocatalytic oxidation technology into both our existing and developmental products for the purpose of increasing the air purification efficiency of these products. Photocatalytic oxidation occurs when ultra violet light waves are passed through a titanium screen creating a chemical reaction. The chemical reaction increases air purification efficiency by eliminating volatile compounds within the unit. 20 Operations We currently maintain a warehouse production facility of approximately 10,000 square feet in Dallas, Texas. In this facility, we are able to assemble a combined total of approximately 1,000 of our Series S-12, S-14, and S-18 units. We believe our

warehouse facility is adequate for our current and estimated future production needs. The anticipated unit volume sales of the Series 999 automobile unit, the Series 950 unit and the S-30 unit during fiscal year 2001 caused management to select out-sourcing for production of these units. Competing Products and Technologies The current air filtration products and technologies available in the market which compete with our products include the following: . Activated carbon filters for use in heating, ventilation and air conditioning units . High Efficiency Particulate Air ("HEPA") filters . Ozone generators . Anti-microbial chemically treated filters . High energy UV light . Ionizers . Electrostatic precipitators . Media filtration . Photocatalytic oxidation technology . Various combinations of the above These products and technologies are individually designed to provide various levels of "air filtration" of air contaminants and not "air purification." We believe a combination of several of these products and technologies must be implemented to achieve effective "air purification". The individual air purification ineffectiveness of these products is the result of the following factors: Activated carbon filters absorb a number of volatile compounds and large microorganisms such as dust mite droppings, which stick to dust particles in the air, but do not remove other microorganisms from the air. The efficiency rate declines over time as the carbon filters are clogged with pollutants. The process alone is non-regenerating and the filters can be expensive to operate due to increased power usage resulting from pressure drops. These pressure drops occur when filters are clogged, thereby cutting the unit's capacity and ability to deliver air to remote areas. We use activated carbon filters in our products in combination with other air purification components. HEPA filter technology reportedly removes up to 99.7% of air borne particles and is the dominant technology used in portable room air cleaners over the past six years. HEPA filters, however, are expensive to use in large applications such as multi-floor office buildings. HEPA filters are also ineffective in removing extremely small organic compounds, microorganisms and some viruses. HEPA filters are thick and produce pressure drops when installed within heating and air conditioning systems. These pressure drops increase maintenance and operating expenses. The increased expenses occur because the heating and air conditioning system must work continuously to compensate for pressure drops. On its own, HEPA technology does not have the ability to destroy bioaerosols or trap and breakdown volatile compounds or odors. Our products use HEPA filtration combined with other components of air purification. Ozone generation is a type of air cleaner that uses a high-voltage electrical charge to change oxygen to ozone. A number of companies market ozone generators as indoor air cleaners. These ozone-producing units break down volatile compounds because ozone is highly oxidizing. To achieve the high efficiency required, a very high level of ozone has to be released into the air. Ozone itself, however, is a respiratory irritant. OSHA has established a limit of workplace ozone levels over an eight-hour day. The FDA has also set a limit for ozone levels of electronic air cleaners. We do not employ ozone in our products. Anti-microbial chemically treated filters can serve as a pre-filter to the more effective and expensive HEPA filter, capturing the larger particles flowing through the product and thereby prolonging the life of the HEPA filter, which captures the very small particles. On its own, an anti-microbial pre- filter can introduce additional contaminants into the air, such as volatile compounds, toxins, endotoxins, and allergens, by degrading microbial organisms trapped on the anti-microbial filter. We use these filters in our products in combination with other air purification components. High energy UV light has proven to be effective in killing microbial life but is ineffective in destroying volatile compounds. High energy UV light, however, can pose a danger to humans similar to staring directly into sunlight. We use a level of UV light in several of our products which is not harmful to humans in combination with other air purification components. Air cleaners such as ionizers can be up to 90% efficient which means they remove 90% of some types of pollutants. We are not aware of any medical evidence which recommends the use of ionizers to improve air quality for people suffering from asthma, allergies or upper respiratory problems. Most of these air cleaners ionize the air and place electrical charges on particles but do not have any charged collection plates. This means charged particles migrate through the air and stick to the first surface they run into such as walls, furniture or lung tissue. The charged particles remain on the surface until dislodged to re-enter the air again. We do not use ionizers in our products. Electrostatic methods have no effect on the destruction of volatile compounds nor are they effective on small bioaerosols that are not attached to particulate matter. When electrostatic methods trap bioaerosols, either the bacteria will grow on the collection plates or if the bacteria is incapable of growing because of the rushing air past the surface, the bacteria will die, decompose and change to an organic compound and reenter the air stream. Electrostatic methods have no effect on reducing organic compounds or odors. We do not use electrostatic methods of air cleaning. Charged media filters are made from an electric conducting material stretched across a frame. Applying a high electric voltage to the material creates an electrostatic field. However, these electrostatic fields are generally not sufficiently strong to eliminate most particles,

severely reducing effectiveness. We do not use charged media filters in our products. Photocatalytic oxidation creates a reduction in most volatile compounds. Photocatalytic oxidation occurs when ultra violet light waves are passed through a titanium screen creating a chemical reaction. The chemical reaction eliminates the volatile compounds collected in the air purification unit by reducing them to harmless components or carbon dioxide and water. We use photocatalytic oxidation in our products in combination with other air purification components. Competition Our business is becoming increasingly competitive. Competition has increased with society's growing awareness of air quality problems and the related demand for air purification technology. We compete in both the commercial and residential markets for air filtration and purification products. The major competition for our products and markets is the domestic commercial and residential heating, ventilation and air conditioning market. This market is composed of a small number of large manufacturers. The two market leaders are the Carrier division of United Technologies and Trane Corp., a unit of American 22 Standard. Carrier and Trane compete in all segments of our industry including commercial, residential, air conditioning, furnaces and heat pumps. Our other competitors include the following companies: Fedders, Inc. (NASDAQ:FJC) is a holding company which manufactures and sells a full line of room air conditioners and dehumidifiers, principally for use in domestic residential markets. Trion Inc., a newly acquired subsidiary of Fedders, Inc., has air purification operations which consist of two principal segments: engineered products and consumer products. The engineered products group designs, manufactures and sells commercial indoor air quality and dust collection equipment. The consumer products division manufactures and markets appliance air cleaners, including both table top and free standing console units. Environmental Elements designs equipment and supplies systems and services to the air pollution industry through the design of large scale systems to control gaseous emissions. In addition, Environmental Elements designs electrostatic precipitators, fabric filters and scrubbing systems. Honeywell, Inc. (NYSE:HON) has both commercial and consumer divisions of air filtration products with primary sales generated from the consumer division. CECO Environmental Corp. (NASDAQ:CECE) has been in the air quality technologies and services business for over 30 years. CECO has expanded the applications for its technology to include wastewater treatment. CECO, through its four subsidiaries, provides a wide spectrum of air quality and wastewater treatment products and services. These products and services include industrial air filters, high performance filter fabrics, environmental maintenance, monitoring and management services, waste water treatment and air quality improvement systems. CECO is a full-service provider to the steel, aluminum, automotive, aerospace, semiconductor, chemical and metalworking industries. United Air Specialists was established in 1966 to provide commercial and industrial environmental air cleaning solutions worldwide through a diverse product offering dust collection systems, industrial fluid coating systems and industrial oil cleaning equipment. The United Air product line includes the Smokeater, an electromatic precipitator cleaner. Designed to meet the needs of each customer, United Air equipment is backed by strong performance guarantees, technical support and years of experience. Competition in the commercial indoor air quality market is very specialized with no one company offering a complete line of air filtration equipment. Commercial companies tend to specialize in very distinct market segments. In most major metropolitan areas of the United States, there are also various small commercial air filtration suppliers. We believe none of these suppliers has a product line competitive with our commercial units. In the residential indoor air quality market, many suppliers and manufacturers have a variety of air filtration products, generally in the lower retail price range of approximately \$250. We are currently unaware of any company which manufactures or distributes a highly efficient or trunk-mounted air purification unit for the automobile comparable to our Series 999. We anticipate, however, that our proposed penetration of the automobile market will generate significant interest with competition coming from established automobile manufacturers. We believe that the applications for our product lines will have broad appeal, since the implementation costs of our products are small compared to the cost benefits that typically accrue to the user. We also believe our technological approach of combining several air purification components into a single product is a superior method for removing and destroying pollutants in an indoor air environment. Some of the advantages and benefits of our products are as follows: . Biological air contaminants are substantially destroyed and removed 23 . The process cleans and purifies the air through multiple air changes . The process is effective for microbes, endotoxins, toxins, allergens, and organic compounds . No toxic chemicals are employed . No ozone is generated or introduced into the air . The process works well at room temperature . The energy needs are low in stand alone systems outside of heating and air conditioning systems . Self-cleaning process does not reintroduce air contaminant residue into the air stream . After initial purchase, the products are very economical to operate, including the price of filter replacements Markets Our market research has identified the following markets which may benefit

from our products: . Medical and specialty facilities such as hospitals, clinics, nursing homes, laboratories, day care centers, and emergency rooms. These facilities represent a large market for our products. Also, any facility where indoor air quality is critical to the safety and health of the patients/customers is a potential market. . The commercial heating, ventilation and air conditioning market consisting of office buildings and other public facilities. . The residential market consisting of homes with central heating, ventilation and air conditioning systems occupied by individuals with a need for better indoor air quality. . The industrial air quality market based upon increased local, state, and federal regulations which require cleaner indoor industrial air quality. . The transportation market consisting of automobiles, ambulances, buses, limousines, railroads, aircraft, and cruise ships which have a specific need for improved indoor air quality. . People who suffer from upper respiratory discomfort and allergic reactions due to poor indoor air quality at home, at work and in transportation vehicles. . People in vulnerable categories including older individuals in nursing homes and hospitals, individuals who are susceptible to allergies, asthma and other respiratory ailments, and young children. Our technology provides an inexpensive solution to many of the indoor air quality problems which affect the daily lives of these individuals. Health conscious consumers are also becoming more particular about the air quality in their environments. We believe this trend will lead to an increase in demand for better air purification systems. We also believe that our combined technology approach will outrank the solutions provided by other air filtration systems that use traditional single methods for indoor air filtration and purification. Business Plan and Marketing Strategy Traditionally, air purification systems are marketed and sold through a single distribution channel comprised of heating and air conditioning contractors or repairmen. Our strategy is to approach the market through multiple distribution channels. We are not aware of any of our competitors who utilize a multiple channel approach. We have targeted several distribution channels for direct exposure of our products to educate consumers about the costs and solutions for indoor air contamination. We believe that this multiple channel 24 approach combined with the quality of our products will separate us from our competition. For example, we currently utilize the following distribution channels: Franchises. We currently have 18 commercial franchisees who market and sell our commercial building air purification products in various parts of the United States. We also have 5 residential retail franchisees who market and sell our residential air purification products. We provide a five day Indoor Air Quality Certification program for all of our approved franchisees. Each of our franchisees has a protected territory. We also coordinate an advertising program with our franchisees to provide an unlimited number of leads and future potential accounts to serve. Our franchisees are not required to exclusively market our products and may combine our products with competing products. International Licenses. We have licensed the distribution rights to our name and technology in Turkey, Canada, Spain and Central and South America. Effective May 31, 2000, we entered into a development agreement with Aurora Products, Ltd. (Shanghai) for the distribution of our products in portions of Asia and the Pacific Rim through two subsidiaries of Aurora Products. Aurora Airsopure (China) markets our products in Hong Kong and the Peoples Republic of China. Aurora Airsopure (Asia) markets our products in Taiwan and the Phillippines. Aurora Airsopure (China) and Aurora Airsopure (Asia) each executed a \$500,000 demand promissory note payable to us in exchange for the distribution rights. The notes bear interest at 10% per annum with all principal and interest due May 31, 2008. As of April 30, 2001, we have received initial cash payments under each of the notes of \$40,200. Under the terms of the notes, the remaining principle balances are reduced based upon an allocation of 20% of purchase orders from us and 80% of gross sales by each distributor. As of April 30, 2001, we have allocated \$18,000 in principle reduction to the Aurora Airsopure (Asia) note. Our existing international licenses are with one licensee for the entire country. We may in the future, however, divide a country into several licensed territories with multiple licensees. We intend to aggressively pursue additional international distribution relationships during fiscal year 2001. Our international licenses sell for a minimum of \$100,000 per country or a formula derived from guaranteed projected sales based upon the population of the licensed territory or country. Manufacturer's Representatives. We estimate that there are approximately 260,000 heating and air conditioning representatives in the United States. This unconsolidated group of professionals accounts for a significant amount of the current sales of air purification and cleaning units. We intend to make our products available to these representatives through direct marketing efforts from our principal offices. As of April 30, 2001, we have entered into agreements with 30 local manufacturing representatives. These agreements include distribution agreements with Trinity Resources, Inc. for the exclusive distribution of our products through AES of Oklahoma (Carrier Corporation) in the State of Oklahoma and W&B Service Company for the exclusive national distribution of our commercial and automobile products in the United States and Canada. Internet Sales. Internet usage has increased over the last several years and consumer



purchasing is expected to continue to grow in accordance with this usage. Approximately 73% of website users search for information about products and services and 7.4 million users have made at least one purchase over the Internet. The demographics of website users also fit well with our products. Most website users are well educated and earn significantly more income than the national average. Our websites are [www.airsopure.com](http://www.airsopure.com) or [www.airtechgroup.com](http://www.airtechgroup.com). Since June of 1999, the Airsopure website was accessed 104,994 times and the Airtech website 191,390 times. On these sites, visitors can educate themselves about our products, but cannot order our products on line. We intend to spend additional funds to redesign and enlarge our websites in an effort to direct more Internet traffic to our websites. Our proposed redesign will include "hyper link" access to our products and the ability to order online. Hyper link access will enable website users to use generic words such as "air quality" or "air purification" for immediate referral to our website. Our websites also provide quicker advertising response times, direct feedback from customers and instantaneous updating of 25 information. We believe the keys to successful marketing on the Internet will be exposure and association with other well-traveled websites, security, a clean design, ease of use and product testimonials.

**Direct Sales.** We currently market our products through our corporate offices to national accounts such as company owned or franchised TGI Fridays, Bennigan's and Sullivans, and other local and regional accounts involved in the food and beverage industry. We market our products directly and do not have agreements with any of these accounts. We also intend to employ the direct sales approach to school systems and government facilities during fiscal year 2001.

**Retail Distribution.** In February 2000, we opened our first company retail outlet in Addison, Texas to facilitate the retail sale of our home consumer products. Since February 2000, we also opened three additional retail outlets in Arlington, Texas, Jackson, Tennessee and Kansas City, Missouri. During August 2000, we sold the two stores located in Jackson, Tennessee and Kansas City, Missouri to the managers of those stores and consolidated the store located in Arlington, Texas with the Addison, Texas store. The purchase price for each of the Jackson and Kansas City stores was \$15,000. The purchase price represents the purchase of existing inventory at the stores and the assumption by each purchaser of all lease and utility obligations. The purchase price is payable by each purchaser paying a premium for each unit of inventory purchased from us above the initial inventory. The inventory premium for the Jackson store is \$100 per unit and the Kansas City store is \$50 per unit. As of April 30, 2001, we have received \$2,600 on the sale of the Jackson store and \$2,500 on the Kansas City store. In March 2001, we sold the store located in Addison, Texas for a purchase price of \$20,000. The purchase price was paid in \$4,000 cash and the assumption by the purchaser of all lease and utility obligations. We are also actively pursuing the following additional distribution channels for our products: Medicare and Durable Medical Equipment Distributors. Our research indicates that physicians regularly recommend the use of portable air filtration systems for patients suffering from chronic and acute episodes of illness related to allergies, asthma and general upper respiratory distress, many of whom are Medicare enrollees. These medical conditions are frequently elevated from a chronic status to acute episodes due to the inhaling by patients of various airborne contaminants. In the absence of a Medicare reimbursement code, Medicare patients are generally forced to incur the expense of such technology on a non-reimbursable basis. In October 1999, we applied for a Medicare reimbursement code number for our Medicare Series 950. We have not yet received approval for a specific reimbursement code number to date, although Medicare has allowed us to invoice Medicare using a non-assigned code number. The use of the non- assigned code number does not guarantee Medicare reimbursement to Medicare recipients. We intend to continue the pursuit of the pending Medicare application by collecting and submitting additional information required by Medicare. The date of a final decision on our Medicare application cannot be determined at this time. The submission of additional information will allow Medicare to take additional time to evaluate our application. We cannot predict if, or when, Medicare will approve the Medicare Series 950 for direct cost reimbursement. We believe, however, that the time necessary to duplicate or invent the technology included in the Medicare Series 950, to create and test a prototype and to submit an application to Medicare gives us a competitive lead time advantage over our competitors in this market. The Medicare reimbursement code is awarded through a review process conducted under the direction of the Health Care Financing Administration and its agencies that include the Statistical Agency for Durable Medical Equipment Regional Council and the Durable Medical Equipment Regional Council. Once awarded a Medicare reimbursement code, Medicare patients suffering from respiratory problems are able to secure through a variety of durable medical equipment providers, medical technology prescribed by their attending physicians that will be paid for by Medicare or their insurance carrier of record. Our research also indicates that third party payors such as managed care and indemnity insurance plans will 26 more readily reimburse patients for our Medicare Series 950 after the product receives a Medicare code. We estimate that approximately 31

million Medicare enrollees suffer from some sort of upper-respiratory problem. Although the number of Medicare enrollees has not changed significantly in the past three years, we believe that the number of enrollees will increase significantly in the future with the aging of the "baby boomers." These individuals represent the end-user market for our Medicare Series 950. We have also developed the Consumer Series 950 unit which is similar to the Medicare Series 950 unit with alterations for a larger array of filtration for contaminants. In February 2001, we also applied to the Alpha Numeric Committee of the Health Care Financing Administration for a health care product code system number. The code number is commonly referred to in the medical insurance industry as an HCPCS Code. Although not as large a market as the Medicare market, the HCPCS Code would enable us to market our Medicare Series 950 directly to the private medical insurance industry. If a private insurance carrier accepts our Medicare Series 950 with the HCPCS Code, patients who purchase a Medicare Series 950 would be entitled to receive insurance reimbursement for the cost of the Medicare Series 950. We have identified a national distribution network composed of durable medical equipment distributors that have existing sales forces and marketing infrastructures. Association with these distributors creates an immediate distribution network for the Medicare and Consumer Series 950 units. This distribution network would eliminate management challenges of creating and maintaining our own sales force or recreating the existing client bases of these distributors. The medical equipment distributors currently interact with physicians providing other medical devices such as walkers, wheelchairs, hospital beds and electronic monitoring devices. The Medicare and Consumer Series 950 units will be a new product for medical equipment distributors within an industry where the introduction of new products is not common. If we do not receive approval from Medicare of the Medicare Series 950, we intend to continue our efforts to market the Consumer Series 950 through direct sales to medical equipment distributors and by pursuing insurance carriers and health care providers outside of the Medicare system. To implement this marketing approach, we entered into an agreement with Southern Therapy, Inc. in April 2000 to market our Medicare Series 950 to home and durable medical equipment providers. We cannot predict or forecast the amount of any future sales which may be generated from the Medicare or Consumer Series 950.

Automobiles and Public Transportation. Our research indicates that there exists an increasing problem with abundant air contamination in automobiles and public transportation vehicles across the United States. Our research also indicates that not only is automobile air contamination immense and growing, but also that no real technological solutions are being applied to remove the harmful and irritating smells, gases and micro-particles that can cause and exacerbate respiratory problems. We have concluded that solving these issues for the public could provide tremendous economic rewards and higher auto resale values to a wide variety of customers, such as car rental companies, automobile dealers and government vehicles. One of the foremost complaints in the car rental industry and the new and used car industry, are the odors associated either with new material odors or with fabrics and materials in the automobile cabin that have absorbed pollutants like cigarette smoke for prolonged periods of time. The first indication that a problem exists is the odor detectable when the air conditioning unit or the air circulation system is activated. It is important, however, to note that the bacteria might be present before the odor is detected. This condition is caused by buildup of mold and bacteria in the air conditioner's evaporator. These fungi and spores can trigger allergic reactions and upper respiratory problems for car passengers. Nearly 200 million vehicles are in use across the United States. Of these vehicles, . approximately 150 million are passenger vehicles, . approximately 2 million are owned by the major car rental companies, and . approximately 3 million vehicles are government owned and used. 27 Each year in the United States, approximately 12 million new vehicles are sold by automobile dealers. The majority of automobiles fall into the category of used or more than one year old. The average American spends many hours per day in his vehicle. This much exposure, when added to outside contaminants such as road pitch, microscopic tire dust, allergens and hazardous gases and odors, leaves many car drivers with recurring headaches, eye irritation, nausea and even central nervous system problems. There are approximately 24,000 franchised new car dealers in the United States. We believe that all of these vehicles represent potential installations for our Series S-999. We propose to initially penetrate this market through agreements with nationwide auto after-market companies. Our proposal is to wholesale our Series 999 automobile air purification unit for inclusion with other after-market packages offered in the auto after-market such as automobile customizing packages (custom pinstripping, gold ornamentation and custom wheel coverings), fabric sealants and window tints. We believe a very highly effective and affordable air purification device like our Series S-999 will be widely accepted in the automobile after-market. To implement our marketing strategy for the Series S-999, we are currently developing a marketing strategy with W&B Service Company, our North American distributor, to market the Series S-999 to auto after-market companies and the rental car, government

vehicle, and automobile dealer markets. Government Regulation We operate under the disclosure document guidelines set forth by the Federal Trade Commission under an FTC Rule which became effective October 21, 1979. Under this FTC Rule, we are required to comply with the FTC disclosure format or issue a Uniform Franchise Offering Circular to all potential purchasers of a franchise. The uniform circular format is a standard form disclosure document which is accepted by the FTC and most states as an alternative to the FTC disclosure format. Our current uniform circular is compliant in 37 states. In addition to this format, fourteen states require additional information to be contained within the uniform circular for sales of new franchises within their states. We are approved in the State of California to offer our franchises, one of the additional information states. Although we intend to seek approval of our franchise in other additional information states in the future, we do not have any pending applications. Any violations under the FTC Rule are considered unfair or deceptive acts or practices within the meaning of Section 5 of the Federal Trade Commission Act. In response to the FTC Rule requirements, we formed wholly-owned subsidiaries, AirsoPure, Inc., and AirsoPure International Group, Inc., and registered each entity as a franchisor. Each entity is in compliance with the FTC Rules regarding its uniform circular. Permits, Patents, Trademarks, Licenses and Copyrights We do not own any patents or copyrights for our products or promotional materials. We do, however, have a registered trademark for the name "AirsoPure" and the related service mark "The Essence of Clean Air." In addition, we have common law trademark protection for certain of our other trade names and service marks. We also intend to pursue copyrights for certain of our promotional and franchise training materials. While we believe our products are currently a unique implementation of filter and air purification components in the current market, our products are susceptible to duplication by utilizing current technology and components. Therefore, we do not believe any of our products are ultimately patentable and do not intend to apply for patent protection. Suppliers We purchase the supplies and materials used in our business from a number of suppliers. As of February 28, 2001, our five principal suppliers who provide us with materials used in our products were Revcor, Glasfloss, Tela Tool, Lesson Motor and RSE, Inc. We purchase motors, fans, filters and plastic casings from these suppliers. If we experience production difficulties from any of our principal suppliers, alternative suppliers and vendors exist in the marketplace. We may, however, experience production delays to enable an alternative supplier sufficient time to produce supplies to our specifications. We do not expect any delays to be material based upon our policy to maintain inventory levels necessary to avoid production delays. 28 Estimate of Research and Development Expenditures We incurred various research and development expenditures of approximately \$15,000 for the fiscal year ended May 31, 2000 and \$283,000 for the nine months ended February 28, 2001. These expenditures included salaries, materials, finished units, travel and correspondence. Employees As of April 30, 2001, we had 14 employees including one part-time employee. Fiscal Year Our fiscal year is from June 1 to May 31 of each year. COMPANY PROPERTIES We maintain our executive offices and a warehouse facility at 12561 Perimeter, Dallas, Texas. This facility has a total of approximately 10,400 square feet and a total rental cost for fiscal year 2000 of \$89,250. We are committed to our executive office and warehouse lease until August 15, 2001 and are currently in negotiations to renew our existing lease. We consider our facilities sufficient for our present and currently anticipated future operations and believe that these properties are adequately covered by insurance. LITIGATION In 1997, we were named as a defendant in a cause of action styled LLB Realty, L.P.C. v. Interactive Technologies Corp., Cause No. MER-L-1535-97, in the Superior Court of New Jersey, Mercer County. The complaint alleges damages relating to a lease agreement entered into with the plaintiff's for office facilities in New Jersey. We never occupied the space based upon the plaintiff (lessor) failing to finish-out the space pursuant to our specifications. The complaint alleges damages of approximately \$250,000. The court ruled in favor of the plaintiffs and set a hearing in June 2001 to determine damages. Although we are currently in negotiations for a favorable settlement relating to the complaint, the outcome of these negotiations is uncertain. We have established a reserve in our consolidated financial statements in the amount of \$200,000 in anticipation of a settlement. On March 2, 2000, we were named as a defendant in a cause of action styled H.A.A., Inc. v. Airtech International Group, Inc., Cause No. 00CV-1603 (KMW), in the United States District Court for the Southern District of New York. The plaintiff is seeking the specific performance of an alleged contract providing for our sale to the plaintiff of 1,854,386 shares of our common stock for a cash purchase price of \$419,000. After the original filing, the plaintiffs amended their original complaint to include alleged damages of approximately \$1,000,000, as an alternative remedy to specific performance. On July 6, 2001, we entered into a settlement agreement with the plaintiffs. The terms and conditions of the settlement are subject to a confidentiality agreement with the plaintiffs. We do not believe, however, that the terms of the settlement will have a material adverse affect on our financial condition or future

operations. We have been named as a defendant in a number of routine lawsuits arising in the ordinary course of our business. In some of these cases a judgment was rendered against us. We have answered these routine causes of action where appropriate, negotiated settlements where appropriate and agreed to a payment schedule with respect to others. We have fully reserved for these claims and causes of action in our consolidated financial statements in the aggregate amount of \$45,000. 29 MANAGEMENT'S DISCUSSION AND ANALYSIS Background and General In May 2000, we restated and refiled our financial statements for the year ended May 31, 1999 and the comparative period ended May 31, 1998. The reason for the restatement of our 1999 financial statements was to reflect the acquisition by Interactive Technologies Corporation, Inc., our predecessor in name, of all of the outstanding shares of common stock of Airtech International Corporation as a reverse merger as described below. On May 31, 1998, Interactive Technologies acquired all of the outstanding shares of common stock of Airtech Corporation for a purchase price of \$22,937,760. Our prior 1999 financial statements reflected the combination between Interactive Technologies and Airtech Corporation as a merger using the purchase method of accounting with Interactive Technologies as the acquiring entity for legal and financial accounting and reporting purposes. This treatment resulted in reflecting the combination of Interactive Technologies' assets and the purchase of the goodwill and intellectual properties of Airtech Corporation at the appraised fair market value. Our restated 1999 financial statements also reflected the merger between Interactive Technologies and Airtech Corporation utilizing the purchase method of accounting for Interactive's assets. Our 1999 restated financial statements, however, reflected the combination and purchase method as a reverse merger with Airtech Corporation as the acquiring entity for accounting and reporting purposes and Interactive Technologies as the surviving entity for legal purposes. As a result, Interactive Technologies effectively issued shares of common stock for the outstanding shares of Airtech Corporation, with the stockholders of Airtech Corporation ultimately acquiring control of Interactive Technologies. For this reason, Airtech Corporation is considered the acquiring entity for purposes of our 1999 restated financial statements. On March 29, 2001, we entered into a securities purchase agreement with an investment group to raise up to \$1,000,000 through the sale to the investors of our 12% Convertible Debentures Due 2003 with attached warrants to purchase up to 600,000 shares of our common stock. Upon execution of the securities purchase agreement, the investors purchased \$800,000 in principal amount of 12% debentures with attached warrants to purchase 500,000 shares of our common stock. The purchase price paid by the investors for our 12% debentures and attached warrants was \$800,000 which represents the total amount we have received under the purchase agreement through April 30, 2001. Under the terms of our purchase agreement, the investors are obligated to purchase the remaining \$200,000 in principal amount of our 12% debentures with attached warrants to purchase 100,000 shares of common stock for a purchase price of \$200,000. The investors are obligated to purchase the additional 12% debentures on the date the registration statement relating to the warrants and common stock offered by this prospectus is declared effective by the SEC. If the registration statement is not declared effective, the investors have no obligation to purchase the additional 12% debentures or the attached warrants. The conversion price of the 12% debentures and the exercise price of the attached warrants have a beneficial conversion and exercise feature enabling the holder of the securities to convert the 12% debentures or exercise the warrants at a discount to the market value of our common stock. For purposes of our financial statements the aggregate discount is \$1,000,000 which will be written off to interest expense. An amount of \$146,700 will be written off to interest expense as of the date of issuance of the 12% debentures and attached warrants. The remaining discount of \$853,300 attributable to the 12% debentures and attached warrants will be allocated to interest expense on an amortized basis over the three year term of the 12% debentures and warrants. If the 12% debentures are converted or the warrants exercised prior to the end of the three year term, any remaining discount attributable to the converted 12% debenture or exercised warrant will be written off to interest expense on the date of conversion or exercise. Our current distributorship contractual agreement with Southern Therapy Inc. should result in additional sales to the medical market. In addition, our application for approval HCPCS Code for Series S-950 is in process. The actual granting of an HCPCS Code will not increase sales. We and our distributors, however, will be in a better position to market the Series S-950 to the larger medical insurance companies in the United States. The medical market, even without an HCPCS Code, could result in substantial sales. Our agreement with Southern Therapy calls for purchases of \$1,000,000 in the first year and substantial increases thereafter, however, Southern Therapy is under no obligation to purchase that amount. We have also entered into a distributorship agreement with W & B Service, Inc. to serve as the commercial distributor for our commercial products in the United States and Canada. We cannot assure you that there will be additional sales for these markets, however, our contract requires W & B Service to purchase a minimum

\$4,000,000 of our products during the first year, with increases in years two and three. We believe that our recently completed financing resources along with increased sales of our products through industry distributors, increased foreign sales through in country distributors and increasing market acceptance of our new Model S-30 will enable us to aggressively pursue the indoor air purification market with adequate funding. As the result of our distributorship agreements with Southern Therapy and W & B Services, we have decreased as of April 1, 2001 our corporate overhead by approximately \$75,000 per month. This represents a 40% decrease in our overhead expenses compared to August 2000. Our sales and marketing expenses will be absorbed by these new distributors. The lower profit margins on the sales through the distributors are expected to be mitigated by the increase in sales. Results of Operations for Nine Months Ended February 28, 2001 Compared to the Nine Months Ended February 29, 2000 Revenues Our consolidated total revenues for the nine months ended February 28, 2001 increased 84% or \$658,133 to total \$1,437,607 as compared to \$779,474 for the nine months ended February 29, 2000. This increase is due to sales of our products exceeding the prior period by \$808,133. The increase in sales was partially offset by a decrease of \$150,000 in franchise fee revenues and other income compared to the prior comparable nine-month period. We waived during the period franchise fees for prospective franchisees that possess direct marketing skills and indoor air quality experience. The waiver is in lieu of extensive training and start-up time lags which may exceed the waived franchise fee. We sold two new franchises for fees during the period as compared to one in the prior comparable nine month period. Costs and Expenses Our total costs and expenses increased \$575,195 or 24% to \$2,965,742 for the nine month period ended February 28, 2001 compared to \$2,390,547 for the prior comparable nine month period. Our costs and expenses are as follows: Costs of sales increased \$265,108 to \$780,235 for the nine months ended February 28, 2001, compared to \$515,127 for the nine months ended February 29, 2000. The increase for the nine months ended February 28, 2001 is due to the product costs related to increased sales of \$808,135 compared to the nine months ended February 29, 2000. Costs of sales as a percentage of product sales decreased from 85% for the nine months ended February 29, 2000 to 55% for the nine months ended February 28, 2001. This decrease in percentage cost of sales is due to a decrease of \$122,000 resulting from the sale of higher margin products, a \$89,891 decrease due to a lower cost of component parts related to unit redesign costs, and a \$95,000 inventory and receivable write-off for the nine months ended February 28, 2000 compared to zero for the current comparable period. As the result of our operating four franchise retail stores during the nine months ended February 28, 2001, the salaries and wages expense decreased compared to the comparable nine months ended February 29, 2000 during which we operated only one franchise store. The decrease was also related to our officers electing to take shares of our common stock in lieu of wages during the nine month period ended February 28, 2001. In 31 addition, we allocated more salaries and wages to research and development as discussed below. Salaries and wages decreased \$114,239 or 13% to \$787,490 for the nine months ended February 28, 2001 compared to the nine months ended February 29, 2000. Research and development costs increased 183% or \$183,927 to \$283,927 for the nine months ended February 28, 2001 compared to the nine months ended February 29, 2000. This increase was primarily due to increased development and testing of our new in-line Model S-30 unit, testing our portable Series 950 Unit and upgrading our commercial S-12 unit. Other general and administrative expenses also decreased \$5,529 or 1% to \$639,544 for the nine months ended February 28, 2001 compared to the nine months ended February 29, 2000. This decrease is attributable to the added overhead costs of our company franchise stores and offset by decreased general corporate, legal and accounting expenses during the current period. Also, advertising and promotional expenses which includes design and development of brochures increased 51% or \$265,108 to \$241,358 for the nine months ended February 28, 2001 as compared to the nine months ended February 29, 2000. This increase is due to additional advertising for our franchise consumer products and marketing expenses for our new Model S-30 unit and our portable Series 950 unit. Depreciation and amortization expenses increased \$105,767 to \$233,188 for the nine months ended February 28, 2001 compared to \$127,421 for the nine months ended February 29, 2000. This increase is due to the amortization of the prepaid royalties during the period ended February 28, 2001 which was not required during the period ended February 29, 2000. Interest Expense Interest expense increased \$133,652 to \$175,114 for the nine months ended February 28, 2001 as compared to \$41,462 in interest expense for the nine months ended February 29, 2000. This increase is due to the interest expense relating to our 12% and 6% convertible debentures which were outstanding during the nine-month period February 28, 2001 which were not outstanding during the entire period ended February 29, 2000. In total, the net loss for the nine months ended February 28, 2001 of \$1,703,249, or \$0.07 per share, is 3% greater than, or \$0.01 per share less than the \$1,652,535, or \$0.08 per share, net loss for the nine months ended February 29, 2000. In the subsequent event

footnote to our interim financial statements for the nine months ended February 28, 2001, we reflect the pro forma effect of the sale of our 12% debentures with attached warrants. In order to account for the imbedded beneficial conversion feature of the 12% debentures and attached warrants, interest expense will be increased \$146,700 as of the date of issuance of the 12% debentures. The remaining discount of \$853,300 will be written off to interest expense on an amortized basis over the three year term of the 12% debentures and warrants. If the 12% debentures are converted or a warrant exercised prior to the end of the three year term, any remaining discount attributable to the converted 12% debenture or exercised warrant will be written off on the date of conversion or exercise.

**Liquidity and Capital Resources** We experienced a liquidity shortfall during the final four months of our fiscal year ended May 31, 2001. Purchases from our material vendors were primarily on a cash basis during this period. The liquidity short fall was covered by the sale of our 12% debentures in March 2001 and we will receive additional liquidity upon the sale of an additional \$200,000 in principal amount of our 12% debentures. The additional sale of our 12% debentures will take place within five business days after the registration statement relating to the common stock offered by this prospectus is declared effective by the SEC. The sale of the additional \$200,000 in principal amount of our 12% debentures will enable us to invest in the component parts of our products which are necessary to achieve the product sales anticipated in our budget. 32 During the last calendar quarter of 2000 and the first quarter of 2001, we were in discussion with several investment companies for additional capital. These discussions included our request that the investment group which purchased \$2,500,000 of our 6% convertible debentures extend the funding date to purchase an additional \$2,500,000 in principal amount of 6% debentures under a conditional warrant which expired on December 22, 2000. The investment group did not agree to extend the funding date and the conditional warrant expired under its terms on December 22, 2000. To replace the conditional warrant, we completed a \$5,000,000 equity agreement with a private investment company to purchase our 12% convertible debentures. On March 29, 2001, the investment group purchased \$800,000 in principle amount of 12% debentures and agreed to purchase an additional \$200,000 upon SEC approval of the registration statement relating to the securities offered by this prospectus. The remaining \$4,000,000 will be negotiated at a future time. We cannot assure that the SEC will approve the registration statement or that the terms of the remaining \$4,000,000 will be acceptable to us or the investor. As of February 28, 2001 and prior to the recent sale of our 12% debentures, we had total current assets of \$2,640,749 less current liabilities of \$2,354,645 which resulted in net current assets of \$286,104. This is a decrease in current asset liquidity resulting from the use of the proceeds from the sale of our 6% debentures during the nine month period. We have relied upon our current assets, proceeds from debt financings and sales revenues as our primary sources of capital. We expect to have sufficient funds necessary to finance the manufacture, distribution and sale of our products including management and advertising support for fiscal year 2002. As of June 30, 2001, we had total current assets of \$2,983,000 and total current liabilities of \$1,814,000 which results in net current assets of \$1,168,000 as of that date. We expect that our cash balance and income from operations are adequate to sustain our continued operations during fiscal year 2002. We estimate our sales will be approximately \$2,500,000 for fiscal year 2001 which is a decrease from our original forecast of \$30,000,000. Our lower than forecasted sales are the result of the following: . We estimate our existing commercial product line sales to be \$1,300,000 as opposed to forecasted sales of \$2,000,000. The lower sales are due to lower sales for our tobacco abatement products; . We estimate our Model S-30 sales to be \$150,000 as opposed to forecasted sales of \$4,000,000. The lower sales are due to a delay in the introduction of the Model S-30; . We estimate our sales to our residential franchisees to be \$425,000 as opposed to forecasted sales of \$6,000,000. The lower than forecasted sales are due to lower than expected sales of franchises to existing direct sale entrepreneurs. We have temporarily suspended our sale of residential franchises pending new market awareness and interest; . We estimate our international sales to be \$250,000 as opposed to forecasted sales of \$2,000,000. The lower than forecasted sales are due to lower than forecasted sales through our Pacific Rim distributors; . We will not consummate any mergers or acquisitions during fiscal year 2001 because our low stock price made the cost prohibitive to us. Therefore we did not achieve our forecasted combined product sales of \$6,000,000. We do not anticipate any mergers for fiscal year 2002. We have, however, entered into strategic alliances with various companies to market our products or to manufacture our products and component parts; and . We did not receive Medicare approval for our Medicare Series 950. Therefore sales to the medical industry are estimated to be \$500,000 as opposed to forecasted sales of \$10,000,000. In February 2001, we applied to the Health Care Financing Administration for a health care product code system number. The code number is commonly referred to in the medical insurance industry as an qHCPCS Code. The HCPCS Code would enable us to market our Medicare Series 950 directly to the private medical insurance industry. If

a private insurance carrier accepts our Medicare Series 950 with the HCPCS Code, patients who purchase a Medicare Series 950 would be entitled to receive insurance reimbursement for the cost of the Medicare Series 950 to the governmental, private and supplemental insurance and medical industries. We cannot assure that we will receive a HCPCS Code. We will continue to pursue Medicare approval of Medicare Series 950. 33 We expect sales of our products to increase in fiscal year 2001. For the year 2000, our product sales were approximately \$543,615 compared to sales of our products for the year ended May 31, 1999 of \$388,412. Our product sales for the nine month period ended February 28, 2001 were \$1,412,607. This trend indicates the sales of our existing product line is increasing. Although we believe our sales represent a positive trend, we cannot assure you that this positive trend will continue. We have forecasted that fiscal year 2002 sales will be \$17,000,000. This estimate is based on the following: . Estimated sales of \$4,000,000 from our existing commercial product line. We expect these sales due to the continued acceptance of our commercial products in office buildings and sales from our automobile units; . Estimated sales of \$8,000,000 of our new in-line Model S-30. The Model S- 30 is now in the full production and marketing stage; . Estimated product sales to our residential franchisees of \$1,000,000; . Estimated international sales of \$2,000,000, especially to our Pacific Rim distributors and our Central and South American distributors; . Estimated sales of our Medicare Series 950 of \$2,000,000 pending approval of this unit by either Medicare or through the granting of an HCPCS Code. Our sales projections are based upon our good faith estimates of the acceptance and marketability of our products and we cannot assure you that we will achieve these results during fiscal year 2002. Due to our \$18,500,000 of net operating loss carry forwards resulting from our losses in prior years, we are not projecting any federal tax liability for fiscal year 2001. If our current cash and revenues from franchise and product sales are insufficient to fund our continued growth, we will rely on our external funding sources to provide continued liquidity. During fiscal year 2001, we intend to focus on the production, marketing and sale of our existing line of air purification products, our new in line Model S-30 and increased promotion of our distributorship program. For this reason, we do not project significant expenditures during fiscal year 2001 on our products which are in the research and development stage. We believe our existing product line is sufficient to sustain our future sales growth. If we do not receive Medicare approval of, our an HCPCS Code for our Medicare 950, we intend to actively pursue the marketing of this unit through private health insurance companies and health care providers outside of the Medicare system. If we are not successful in these marketing efforts, our failure to obtain Medicare approval of, or an HCPCS Code for, our Medicare 950 could significantly affect our future liquidity. We do not have a large capital expenditures program planned for fiscal year 2002. Therefore, we believe our projected increase in product sales combined with funds generated from external financing sources will be sufficient to offset any cash losses from operations. If our current and new product sales, distributor/franchise sales, new areas of distribution sales and funds from our external sources are insufficient to maintain operations, the resulting lack of capital could force us to substantially curtail or cease our operations. Any curtailment of operations would have a material adverse effect on our ability to manufacture and distribute our products and our profitability. 34

**DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS** Directors and Executive Officers The following table includes the names, ages and positions of our directors and executive officers as of April 30, 2001. A summary of the background and experience of each of these individuals immediately follows the table. Our directors are:

Name	Age	Position	-----	-----	-----	C	J	
Comu.....	40	Chairman	James R. Halter.....	51	Director	Robert Galvan.....	53	Director

Our executive officer and other officers are:

Name	Age	Position	-----	-----	-----	C	J
Comu.....	40	Chief Executive Officer	James R. Halter.....	51	Chief Financial Officer and General Counsel	C J Comu.....	

Mr. Comu has served as our CEO, chairman and a director since May 1998. Mr. Comu was a co-founder, CEO and chairman of Airtech International Corporation, our wholly-owned subsidiary, since its formation in 1995. In January 1994, Mr. Comu co-founded Transworld Leasing Corporation which provided financing and marketing expertise to the medical, computer and corporate sector prior to the formation of Airtech International Corporation. James R. Halter. Mr. Halter has served as our chief financial officer and general counsel since October, 1999 and a director since November 2000. Mr. Halter earned a Masters in Business Administration from the State University of New York at Buffalo in 1977, and a Juris Doctorate from Case Western Reserve University in 1999. Mr. Halter has been a Certified Public Accountant since 1975. From January 1990 to October 1999, Mr. Halter owned his own tax and business consulting practice. Concurrently, from September 1996 to January 1999, Mr. Halter attended and received his juris doctor degree from Case Western Reserve University School of Law in Cleveland, Ohio. Robert Galvan. Mr. Galvan has served as a director since November 1999. Since November 1999, Mr. Galvan has also served as the Associate Dean





35,183 shares of restricted common stock as additional compensation. The fair market value of the shares was \$23,087 on the date of grant, January 6, 2000. All of the shares issued to Mr. Halter were fully vested and are not entitled to dividends. As of May 31, 2000, Mr. Halter owned 135,193 shares of our restricted common stock with a fair market value of \$173,209.

**OPTION GRANTS IN 2000** The following table lists those persons in the previous table who were granted options to purchase shares of our common stock during fiscal year 2000. % of Total Options/ Number of Securities SAR's Granted to Underlying Options/ Employees in Fiscal Exercise Price Marked Price on Name SAR's Granted Year (\$/Share) Date of Grant Expiration Date -----

Name	SAR's Granted	Year	(\$/Share)	Date of Grant	Expiration Date
C J Comu.....	250,000	50%	\$0.25	\$0.44	December 17, 2004
John Potter.....	250,000	50%	\$0.25	\$0.44	December 17, 2004

2000 YEAR-END OPTION VALUES Set forth in the following table is information, with respect to each named executive officer, as to . the number of shares acquired during fiscal year 2000 upon each exercise of options granted to each individual, . the aggregate value realized upon each exercise which is the difference between the market value of the shares at exercise and their exercise price, . the total number of unexercised options held on May 31, 2000, separately identified between those exercisable and those not exercisable and . the aggregate value of in-the-money, unexercised options held on May 31, 2000, separately identified between those exercisable and those not exercisable. Number of Securities Underlying Value of unexercised Shares Unexercised Options In-the-Money Options Acquired on Value at Fiscal Year-End at Fiscal Year-End Name Exercise Received Exercisable/Unexercisable Exercisable/Unexercisable(1) -----

Name	Exercise Received	Exercisable	Unexercisable	Value at Fiscal Year-End	In-the-Money Options
C J Comu.....	0	0	400,000/0	\$374,980/\$0	John Potter.....
John Potter.....	0	0	400,000/0	\$374,980/\$0	

(1) The value is calculated based on the aggregate amount of the excess of \$1.2182 which is the closing sale price per share for the common stock on May 31, 2000 over the relevant exercise price(s). 37

**Employment Agreements** We have a ten (10) year employment contract with C J Comu, our Chief Executive Officer, for annual compensation of \$250,000, terminating May 31, 2008. Under the terms of this contract and by agreements between our board of directors and Mr. Comu, the contract is funded on a cash basis at such time as we are in a financial position to pay the salary under the contract. Unpaid compensation under the contract, dating from June 1, 1997 through December 31, 1998, was paid to Mr. Comu effective January 31, 1999 through the issuance to Mr. Comu of 791,667 shares of our restricted common stock. Effective January 15, 1999, Mr. Comu began receiving cash compensation under the agreement at an annual rate of \$125,000 when cash was available. The remainder of the amounts due Mr. Comu under the contract will be converted to our restricted common stock during fiscal year 2001. Effective June 1, 1999, Mr. Comu further agreed with our board of directors to reduce compensation to \$125,000.

**Company Stock Plans Employee Stock Plans.** Our board of directors periodically establishes employee stock grant plans under which unrestricted shares of our common stock are issued and granted to certain employees, management and consultants for performance rewards or services rendered. The terms and conditions of stock grants under the stock plans are within the sole discretion of our board of directors. We do not have formal written plans and all issuances of shares of common stock under our stock plans are made pursuant to registration statements on Form S-8 filed by us from time to time with the SEC. On June 9, 1998, we filed a Form S-8 registration statement registering 160,000 shares of our common stock. Through July 30, 1998, we issued 56,002 shares of common stock to consultants and 103,998 shares to employees. The shares of common stock issued were accounted for as consulting services and employee wages. As of March 23, 2000, all of the shares registered under the Form S-8 registration statement were issued under our stock plans. On November 12, 1998, we filed a Form S-8 registration statement registering 800,000 shares of our common stock. Through July 30, 1999, we issued 261,009 shares of common stock to consultants and 538,991 shares to employees. The shares of common stock issued were accounted for as consulting services and employee wages. As of March 23, 2000, all of the shares registered under the Form S-8 registration statement were issued under our stock plans. On July 30, 1999, we filed a Form S-8 registration statement registering 900,000 shares of our common stock, all of which were issued as of March 23, 2000 under our stock plans. The shares of common stock were accounted for as consulting services and employee wages. On November 19, 2000, we filed a Form S-8 registration statement registering 900,000 shares of our common stock. As of April 30, 2001, all of the shares registered under the Form S-8 registration statement were issued under our stock plans.

**2000 Key Employee Option Plan.** Effective May 31, 1999, our board of directors adopted the Airtech International Group 2000 Key Employee Option Plan in order to motivate our qualified employees to assist us in retaining employees and to align the interest of key employees with those of our shareholders. The 2000 option plan is authorized for key employees including the chief executive officer, president, chief financial officer, vice president franchising, vice president production, and

vice president finance. The 2000 option plan provides for the grant of "incentive stock options" and "non-qualified stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986. The approval authorized the issuance of . a maximum of 1,000,000 shares of our common stock subject to the options, . with a range of exercise prices from \$0.25 to \$2.50 per share, . vesting over a two to three year period, and . expiring ten (10) years from the date of grant. 38 Our board of directors expects to grant option agreements during fiscal year 2000 to the key employees specifying the respective number of options, vesting periods, exercise prices and incentives, if any. On November 11, 1999, we filed a Form S-8 registration statement for 900,000 shares of our common stock issuable with respect to options granted under the 2000 option plan. As of April 30, 2001, we have granted options to purchase all shares under the 2000 option plan. Indemnification The Wyoming Business Corporation Act provides that we may indemnify our directors, officers, employees and other agents, and persons who serve at our request as directors, officers, employees or other agents of another corporation. Subject to Wyoming law, our officers and directors are not personally liable for monetary damages resulting from breaches of their fiduciary duty unless: . the officer or director has breached his fiduciary duty of loyalty to us or our shareholders; . the breach or failure to perform constitutes an act or omission not in good faith or which involves intentional misconduct or a knowing violation of law; or . for any transaction from which the director or officer derived an improper personal benefit. Our By-Laws also provide indemnification to our directors, officers, employees and agents, including claims brought under state or Federal Securities laws, to the full extent allowable under Wyoming law. We have also entered into indemnification agreements with our directors and executive officer providing, among other things, that we will provide defense cost against any such claims, subject to reimbursement in certain events. Any indemnification of our directors, officers or others pursuant to the foregoing provisions for liabilities arising under the Securities Act are, in the opinion of the SEC, against public policy as expressed in the Securities Act and are unenforceable. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The following table sets forth, as of May 31, 2001, certain information concerning the beneficial ownership of each class of our voting stock held by: . each beneficial owner of 5% or more of our voting stock, based on reports filed with the SEC and certain other information; . each of our directors; . each of our executive officers; and . all executive officers and directors as a group. Amount and Nature of Beneficial Percent of Common Stock Name and Address(1) Ownership of Common Stock(2) Ownership(3)

Name and Address(1)	Ownership of Common Stock(2)	Ownership(3)
C J Comu.....	2,543,864(4)	7.06% John Potter.....
2,190,630(5)	6.14%	Robert Galvan.....
350,000 *	James R. Halter.....	961,475(6)
2.79%	Officers and Directors as a Group (3 persons).....	3,855,339(7)
10.32%	----- * Less than 1% (1) The address of each director, officer and principal stockholder is c/o Airtech International Group, Inc., 12561 Perimeter, Dallas, TX 75228. (2) Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. A person is deemed to be the beneficial owner of securities which may be acquired by such person within 60 days from the date on 39 which beneficial ownership is to be determined upon the exercise of options, warrants or convertible securities. (3) Each beneficial owner's percentage ownership is determined by assuming that stock options and warrants that are held by that person (but not those held by any other person) and which are exercisable within 60 days from the date on which beneficial ownership is to be determined have been exercised. (4) Represents 1,695,146 shares of common stock owned directly. Also represents 150,000 shares owned pursuant to warrants to purchase shares of common stock at \$0.50 per share, 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.25 per share, 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.15 per share, and 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.10 per share, all of which are exercisable within 60 days. Does not include 211,340 shares of common stock owned by Mr. Comu's relatives, Sevim Comu and Cem Comu, of which Mr. Comu disclaims beneficial ownership. (5) Represents 1,540,630 shares of common stock owned directly. Also represents 150,000 shares owned pursuant to warrants to purchase shares of common stock at \$0.50 per share, 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.25 per share and 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.10 per share all of which are exercisable within 60 days. (6) Represents 461,475 shares of common stock owned directly. Also represents 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.10 per share, and 250,000 shares owned pursuant to options to purchase shares of common stock at \$0.15 per share, all of which are exercisable within 60 days. (7) See notes 4, 5 and 6. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS During fiscal 1999, our president advanced cash to us totaling \$100,000. As of May 31, 2000, we owed \$210,338 to our chief executive officer and	

\$216,488 to our former president, Mr. John Potter, on advances from each officer, including accrued interest. We have agreed to repay these advances as cash is available or by issuing our common stock. We have also agreed to pay interest at 15% per annum on the outstanding balances. During fiscal year 2000, we paid our chief executive officer and our former president \$15,000 each representing accrued interest on the notes. We believe that the terms of the above described transactions are fair and similar to or better than the terms we could have obtained from arms length negotiations with third parties.

40 MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information Our shares of common stock are traded in the "over-the-counter" or "Bulletin Board" market under the symbol "AIRG." High and low sales prices for the quarters of fiscal years 2001, 2000 and 1999 were:

Fiscal Year	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
2001	\$0.27	\$0.14	0.53	0.17
2000	\$2.59	\$1.00	3.53	0.60
1999	\$0.90	\$0.25	0.75	0.125

The above market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. Number of Shareholders and Total Outstanding Shares As of April 16, 2001, there were approximately 4,127 holders of record of our common stock and approximately 30,981,573 shares issued and outstanding. Dividends We have paid no dividends on our shares of common stock and we have no current intentions to pay dividends on our shares of common stock in the future. Holders of our Series "M" Convertible Preferred Stock have a preferred dividend right to receive quarterly dividend distributions equal to 3.96% of the gross revenues generated from sales of our Series 950 unit until January 1, 2003. Except for required dividend payments on the Series "M" convertible preferred stock, we intend to retain any future earnings for reinvestment in our business. As of February 28, 2001, we have paid no dividends on the Series "M" convertible preferred stock. Any future determination to pay cash dividends on our shares of common stock will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and other relevant factors.

DESCRIPTION OF SECURITIES We have summarized below the material provisions of our Articles of Incorporation, Bylaws and other instruments defining the rights of our securities holders. Our summary may not contain all of the information that is important to you. See "Where To Find Additional Information" for information about how to obtain a copy of the documents we refer to in this section.

Authorized Capital Stock Under our Articles of Incorporation, we are authorized to issue up to 120 million shares of stock consisting of the following: . 100 million shares of common stock 41 . 20 million shares of preferred stock At a special meeting of our stockholders held on May 18, 2001, our stockholders approved an amendment to our Articles of Incorporation to increase our number of authorized shares from 50,000,000 shares to 100,000,000 shares.

Common Stock Shares of our common stock are not redeemable, do not have any conversion rights and are not subject to call. Holders of shares of our common stock have no preemptive, redemption, conversion or other subscription rights and are entitled to one vote per share on any matter submitted to a vote of our shareholders. Cumulative voting is prohibited in the election of directors. This means that the holders of a majority of the outstanding shares of common stock, voting for the election of directors, can elect all of our directors. In such event, the holders of the remaining shares will not be able to elect any of our directors. The holders of shares of common stock are entitled to receive dividends, if any, as and when declared from time to time by our board of directors, out of legally available funds, but subject to the prior payment of dividends to the holders of any outstanding shares of preferred stock. Subject to the rights of the holders of preferred stock, if any, upon liquidation dissolution or winding up of our affairs, the holders of shares of our common stock will be entitled to participate equally and ratably, in proportion to the number of shares held, in our net assets available for distribution to holders of all shares of our common stock. The shares of our common stock currently outstanding are validly issued, fully paid and nonassessable. Preferred Stock Our Articles of Incorporation authorize our board of directors to issue up to 20,000,000 shares of preferred stock, \$0.01 par value per share. We may issue the preferred stock in one or more classes or series. Each class or series will have the voting rights, designations, preferences and relative rights as fixed by resolution of our board of directors, without the consent of our shareholders. Our preferred stock may rank senior to our common stock as to dividend rights, liquidation preferences, or both. Our preferred stock may also have extraordinary or limited voting rights. Series "M" Convertible Preferred Stock and Attached Warrants We have 990,625 shares of Series "M" convertible preferred stock

outstanding. Holders of our Series "M" preferred have the right to convert their shares into shares of our common stock on a one-for-one basis at any time. The Series "M" preferred automatically converts to shares of our common stock on December 31, 2002. The holders of Series "M" preferred are entitled to receive quarterly dividend distributions equal to 3.96% of the gross revenues generated from the sales of our Series 950 unit until January 1, 2003. The dividends are paid on or before the sixtieth day of each calendar quarter based upon the gross revenues from our Series 950 air purification units from the previous quarter. The holders of Series "M" preferred were also issued related warrants to purchase 993,750 shares of our Common Stock at an exercise price of \$2.00 per share. The warrants expired on May 31, 2000. As of January 1, 2000, we terminated our offering of Series "M" preferred and do not intend to offer any additional shares in the future. As of March 31, 2001, no dividends have been paid to the holders of Series "M" preferred.

**Airsopure 999 Limited Partnership Interests** We have \$75,000 of limited partnership interests outstanding in Airsopure 999, L.P. ("Airsopure LP"). Airsopure, Inc., our wholly-owned subsidiary ("Airsopure"), is the sole general partner of Airsopure LP. During the fourth quarter of our fiscal year 2001, we exchanged 2,800,000 shares of our common stock for \$330,000 of limited partnership interests. Under the limited partnership agreement, the limited partners are entitled to receive 1.62% of the gross revenues generated from sales of our Model S-999 automobile air purification system with the remaining gross revenues paid to Airsopure. The limited partners are entitled to receive distributions until December 31, 2003, at which time 100% of gross revenues are paid to Airsopure. In addition, Airsopure has guaranteed the limited partners a 150% return on their investment by December 31, 2003. The guarantee, if payable, may be in the form of shares of our common stock.

**42 12% Convertible Debentures Due 2005 and Attached Warrants** In January 2000, our board of directors authorized the issuance of up to \$5,000,000 of our 12% Convertible Debentures Due 2004 pursuant to a private placement memorandum. Effective as of June 2000, we terminated the offering of these 12% debentures. At any time after one year from the date of issuance, holders of our 12% debentures are entitled to convert our 12% debentures on a dollar for dollar basis into shares of our Common Stock. Semi-annual interest payments are due and payable on our 12% debentures commencing September 1, 2000. Each 12% debenture in the principal amount of \$25,000 includes a warrant to purchase shares of our common stock at an exercise price of \$2.00 per share. The warrants expire two years from the date of issuance. At our option, our 12% debentures may be converted on a dollar for dollar basis or paid in cash at face value on the maturity date. Prior to maturity, we may with the consent of the holder of our 12% debenture, redeem our 12% debentures in cash at the following redemption prices together with accrued interest to the date of redemption: If Redeemed on or after September 1 of the following years: % of Principal Amount

-----	2000.....	110%	2001.....	108%	
2002.....	106%	2003.....	104%	2004.....	102%

As of February 28, 2001, we had \$300,000 in principal amount of our 12% debentures outstanding.

**6% Convertible Debentures Due 2002 and Attached Warrants** On February 22, 2000, we sold \$2,500,000 in principal amount of our 6% Convertible Debentures Due 2002 to PK Investors LLC. Our 6% debentures have a maturity date of February 22, 2002 at which time the principal amount and all accrued interest is due and payable. No interest payments are due prior to maturity of the 6% debentures. We may, at our option, pay the accrued interest at maturity by issuing shares of our common stock to the debenture holder at a price equal to the conversion price of our common stock as described below. Our 6% debentures are convertible at any time at the option of the holder into shares of our common stock. As of April 30, 2001, we had \$2,000,000 in principal amount of 6% debentures issued and outstanding. The conversion price of our common stock used in calculating the number of shares issuable upon conversion, or in payment of interest, is the lesser of: . 110% of the average closing bid price of our common stock for the five trading days prior to the date of initial payment; and . the product obtained by multiplying 0.80 by the average of the three lowest closing bid prices of our common stock during the thirty trading days prior to the date we receive a conversion notice from a debenture holder. In the event we have a "change of control", the holders of the 6% debentures may require us to redeem the 6% debentures at a redemption price equal to 125% of the aggregate outstanding principal and accrued interest on the 6% debentures. A "change of control" includes: . acquisition by an entity or group of more than 50% of our voting stock; . merger or consolidation; . a change in a majority of our existing board of directors; or . a sale of substantially all of our assets.

**43** The holders of our 6% debentures also have attached warrants to purchase 250,000 shares of our common stock at an exercise price of \$2.6124 per share. The warrants expire on February 22, 2005. The warrants are subject to exercise price adjustments upon the occurrence of certain events including stock dividends, stock splits, mergers, reclassifications of stock or our recapitalization. The exercise price of the warrants is also subject to

reduction if we issue any rights, options or warrants to purchase shares of our common stock at a price less than the market price of our shares as quoted on the OTC Bulletin Board. Also, if at any time, we declare a distribution or dividend to the holders of our common stock in the form of cash, indebtedness, warrants, rights or other securities, the holders of the warrants are entitled to receive the distribution or dividend as if the holder had exercised the warrant. Our 6% debenture holders consented to the sale of our 12% debentures. The 6% debenture holders also agreed that neither they nor their affiliates would for a period beginning March 29, 2001 and ending 8 months from the date the registration statement relating to the securities offered by this prospectus is declared effective by the SEC . offer to sell, contract to sell, pledge, grant any rights or otherwise dispose of any shares of our common stock held by the 6% debenture holders without the prior consent of the 12% debenture holders; or . engage in any hedging transactions which are designed or reasonably expected to lead to or result in a disposition of the shares of our common stock held by the 6% debenture holders. The 6% debenture holders may however . convert the 6% debentures into a maximum of 200,000 shares of our common stock per month on a non-cumulative basis; and . sell up to 100,000 shares per month of common stock converted after March 29, 2001 or 200,000 shares if the selling price is at least \$0.75 per share, with any unsold converted shares held in escrow by our legal counsel 12% Convertible Debentures Due 2003 and Attached Warrants On March 29, 2001, we sold \$800,000 in principal amount of our 12% Convertible Debentures Due 2003. Our 12% debentures have a maturity date of March 30, 2003 at which time the principal amount and all accrued interest is due and payable. Interest payments are due and payable quarterly commencing June 1, 2001 or at the option of the debenture holder upon conversion of the 12% debentures into shares of our common stock. If the debenture holder elects, we will pay any accrued interest on conversion by issuing shares of our common stock to the debenture holder at a price equal to the conversion price of our common stock as described below. The 12% debentures are secured by a security agreement under which we pledged substantially all of our assets, including our goods, fixtures, equipment, inventory, contract rights, and receivables. As of April 30, 2001, we had \$800,000 in principal amount of 12% debentures issued and outstanding. The 12% debentures are convertible at any time at the option of the holder into shares of our common stock. The conversion price of our common stock used in calculating the number of shares issuable upon conversion, or in payment of interest on the 12% debentures, is the lesser of . 50% of the average of the lowest three trading prices of our common stock for the twenty trading days ending one trading day prior to the date we receive a conversion notice from a debenture holder; and . a fixed conversion price of \$0.25. Also, under the terms of the 12% debentures, if we at any time . distribute any shares of our common stock in a consolidation, exchange of shares, recapitalization or reorganization, the 12% debenture holders are entitled to participate in the distribution as if the debenture holders had converted the 12% debentures; 44 . distribute any of our assets to our stockholders as a dividend, stock repurchase, return of capital, or otherwise, the 12% debenture holders are entitled to participate in the distribution as if the debenture holder had converted the 12% debentures; or . issue or sell any shares of our common stock for no consideration or at a price less than \$0.25 per share, then the fixed conversion price of \$0.25 described above shall be reduced to the price per share we receive on the issuance or sale. The holders of our 12% debentures also have attached warrants to purchase 500,000 shares of our common stock at an exercise price equal to the lesser of . 90% of the average of the lowest three trading prices of our common stock for the twenty trading days ending one trading day prior to the date of exercise of the warrant; and; . \$0.102 per share. The warrants expire on March 29, 2004. The warrants are subject to exercise price adjustments upon the occurrence of certain events including stock dividends, stock splits, mergers, reclassifications of stock or our recapitalization. The exercise price of the warrants is also subject to reduction if we issue any rights, options or warrants to purchase shares of our common stock at a price less than the market price of our shares as quoted on the OTC Bulletin Board. Also, if at any time, we declare a distribution or dividend to the holders of our common stock in the form of cash, indebtedness, warrants, rights or other securities, the holders of the warrants are entitled to receive the distribution or dividend as if the holder had exercised the warrant. LEGAL MATTERS The validity of the issuance of the warrants and common stock offered pursuant to this prospectus is being passed upon for us by John G. Rebensdorf, P.C. EXPERTS Our consolidated financial statements for the year ended May 31, 2000 included in this prospectus and in the registration statement were audited by Turner, Stone & Company LLP, independent certified public accountants, as set forth in their report appearing elsewhere in this prospectus and in the registration statement. Our consolidated financial statements for the nine months ended February 28, 2001 were also reviewed by Turner, Stone & Company as set forth in their report appearing elsewhere in this prospectus and in the registration statement. Our consolidated financial statements are included in this prospectus in reliance upon such reports given upon the authority of Turner, Stone & Company as

experts in auditing and accounting. WHERE TO FIND ADDITIONAL INFORMATION We have filed with the SEC a registration statement on Form SB-2 in connection with the securities offered under this prospectus. As permitted by SEC rules, this prospectus does not contain all of the information contained in the registration statement or in the exhibits to the registration statement. For further information you may read and copy documents at the public reference room of the SEC at 450 5th Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC at 7 World Trade Center, Suite 1300, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC charges a fee for copies. Copies of this material should also be available through the Internet at the SEC EDGAR Archive, the address of which is <http://www.sec.gov>.

45 INDEX TO COMBINED FINANCIAL INFORMATION AIRTECH INTERNATIONAL GROUP, INC. Item Page ----

Report of Independent Certified Public Accountants..... F-2 Consolidated Balance Sheets as of May 31, 2000 and 1999..... F-3 Consolidated Statements of Operations for the Years Ended May 31, 2000 and 1999..... F-5 Consolidated Statements of Stockholders' Equity for the Years Ended May 31, 2000 and 1999..... F-6 Consolidated Statements of Cash Flows for the Years Ended May 31, 2000 and 1999..... F-7 Notes to Financial Statements for May 31, 2000 and 1999..... F-8 Report of Independent Certified Public Accountants..... F-18 Consolidated Balance Sheets as of February 28, 2001 and 2000..... F-19 Consolidated Statements of Operations for the Nine Months Ended February 28, 2001 and 2000..... F-21 Consolidated Statements of Operations for the Three Months Ended February 28, 2001 and 2000..... F-22 Consolidated Statements of Cash Flows for the Nine Months Ended February 28, 2001 and 2000..... F-23 Notes to Financial Statements for February 28, 2001 and 2000..... F-24

F-1 INDEPENDENT AUDITOR'S REPORT The Board of Directors and Stockholders Airtech International Group, Inc. Dallas, Texas We have audited the accompanying consolidated balance sheets of Airtech International Group, Inc. and subsidiaries as of May 31, 2000 and 1999, and the related consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Airtech International Group, Inc. and subsidiaries as of May 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. Turner, Stone & Company, LLP Certified Public Accountants Dallas, Texas August 31, 2000

F-2 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS MAY 31, 2000 AND 1999 2000 1999 -----

ASSETS				
Current Assets				
Cash.....	\$1,487,646	\$ 61,808	Trade and licensing fees	
receivables, net of allowance for doubtful accounts of \$20,000 and \$0, respectively.....	269,971	173,951	Notes receivable, current portion.....	437,250
			Inventory.....	538,952
			Prepaid expenses.....	38,212
			-----	Total current
assets.....	2,772,031	622,174	Property and Equipment--net of accumulated depreciation of \$166,589 and \$119,634, respectively.....	156,288
			Notes Receivable--net of current portion, net of allowance for doubtful accounts of \$0 and \$0, respectively.....	1,175,000
			431,250	Other Assets Goodwill, net of accumulated amortization of \$35,810 and \$71,621, respectively.....
			107,432	143,243
			Intellectual properties, net of accumulated amortization of \$146,800 and \$38,060, respectively....	940,597
			1,049,337	Prepaid royalties and other assets, net of accumulated amortization of \$104,167 and \$0, respectively.....
			412,381	514,208
-----	Total other assets.....	1,460,410	1,706,788	-----
				\$5,563,729
				\$2,849,781

===== The accompanying notes are an integral part of the financial statements. F-3

AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS MAY 31, 2000 AND 1999 2000 1999 ----- LIABILITIES AND STOCKHOLDERS' EQUITY Current

Edgar Filing: CITIGROUP INC - Form FWP

Liabilities	Accounts payable, trade.....	\$ 260,102	\$ 510,193	Accrued payroll, other wages and related burden....	407,134	301,769	Other accrued expenses.....	415,076	372,534	Advances payable to officers.....	210,338	216,488	Notes payable.....	277,185	277,185	-----	-----								
Total current liabilities.....	1,569,835	1,678,169	Long-Term Liabilities	Deferred revenue.....	340,000	400,000	Product marketing obligation.....	430,000	405,000	Convertible debentures.....	2,850,000	--	-----	-----	Total long-term liabilities.....	-----	-----								
3,620,000	805,000	Total liabilities.....	5,189,835	2,483,169	Commitments and Contingencies.....	--	--	Stockholders' equity	Preferred stock--5,000,000 shares authorized, \$0.05 par value Series A cumulative, convertible preferred, no shares issued and outstanding liquidation preference of \$1 per share.....	--	--	Series M cumulative, convertible preferred, 1,143,750 and 1,143,750 shares issued and outstanding, respectively; liquidation preference of \$1 per share, aggregating \$ and \$ respectively.....	1,144	1,144	Common stock--\$.05 par value, 50,000,000 shares authorized, 20,939,216 and 13,207,532 shares issued and outstanding, respectively.....	1,046,961	660,376	Additional paid-in capital.....	7,609,256	5,546,965	Retained deficit.....	(8,283,467)	(5,841,873)	-----	-----
-----	-----	Total stockholders' equity.....	373,894	366,612	-----	-----	-----	-----	\$ 5,563,729	\$ 2,849,781	=====	=====	=====	=====	=====	=====	=====								

===== The accompanying notes are an integral part of the financial statements. F-4

AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED MAY 31, 2000 AND 1999

Revenues	Product sales.....	\$ 543,615	\$ 800,439	Franchisee fees.....	1,072,500	229,000	Other revenues.....	11,361	1,030	-----	-----	Total revenues.....	1,627,476	1,030,469		
Costs and Expenses	Salaries, wages and other compensation.....	987,763	1,317,076	Deferred officer wages.....	--	791,667	Cost of sales.....	519,603	664,356	Advertising.....	107,216	42,082	Depreciation.....	46,955	38,564	
Amortization.....	248,718	91,370	Loss on impairment of goodwill.....	--	582,750	Other general & administrative expenses.....	2,050,200	1,678,775	-----	-----	Total costs and expenses.....	3,960,455	5,206,640	-----	-----	
(2,332,979)	(4,176,171)	Interest expense.....	(108,615)	(135,288)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	Income tax benefit.....	--	--	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	Net Loss.....	\$(2,441,594)	\$(4,311,459)	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
-----	-----	Loss From Operations.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	Loss Before Income Taxes.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	Net Loss.....	\$(2,441,594)	\$(4,311,459)	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
-----	-----	Loss Per Common Share--Basic.....	\$ (0.14)	\$ (0.41)	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
-----	-----	Loss Per Common Share--Diluted.....	\$ (0.14)	\$ (0.41)	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

===== The accompanying notes are an integral part of the financial statements. F-5

AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED MAY 31, 2000 AND 1999

Shares	\$ Shares	\$ Shares	\$ Shares	\$ Shares	\$ Capital	Earnings	Total	-----	-----	-----	-----	-----	-----	-----	-----	-----																				
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																				
BALANCE AT 5/31/98.....	10,059,923	\$ 502,996	1,029,750	\$ 1,030	--	--	\$ 4,049,736	-----	-----	-----	-----	-----	-----	-----	-----	-----																				
Issuance of Series M preferred stock, net of offering costs.....	114,000	114,988	99,004	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																				
Cancel shares in July... (680,000) (34,000) -- -- -- 34,000 -- --	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																				
Issuance of common stock according to S-8 registration.....	670,025	33,500	--	--	--	361,427	--	394,927	Issuance of common stock for cash.....	828,000	41,400	234,600	276,000	Issuance of common stock on exercise of warrants.....	46,250	2,313	20,812	23,125																		
Issuance of common stock for deferred wages to officers.....	1,583,334	79,167	712,500	791,667	Issuance of common stock in May.....	700,000	35,000	35,000	70,000	Net loss during the year.....	--	--	--	--	--	--	--	--																		
(4,311,459)	(4,311,459)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																		
-----	-----	BALANCE AT 5/31/99.....	13,207,532	660,376	1,143,750	1,144	0	0	5,546,965	(5,841,873)	366,612	Issuance of common stock for cash.....	4,196,850	209,842	780,494	990,336	Issuance of common stock in exchange for services.....	1,796,879	89,843	526,563	616,406	Issuance of common stock on exercise of warrants.....	337,500	16,876	67,544	84,420	Issuance of common stock to vendors for payment of trade payables.....	1,400,455	70,024	687,690	757,714	Net loss during the year.....	(2,441,594)	(2,441,594)	-----	-----
-----	-----	BALANCE AT 5/31/00.....	20,939,216	\$ 1,046,961	1,143,750	\$ 1,144	0	--	\$ 7,609,256	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																	
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																	
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----																	

===== The accompanying notes are an integral part of the financial statements. F-6 AIRTECH

INTERNATIONAL GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS			
YEARS ENDED MAY 31, 2000 AND 1999			
	2000	1999	Cash Flows from Operating Activities
Net loss.....	\$(2,441,594)	\$(4,311,459)	
Adjustments to reconcile net income to cash			
Depreciation and amortization.....	295,673	129,934	
Impairment of goodwill.....	--	582,750	
Net (gain) loss on disposition of assets.....	-- (51,672)		616,406 1,129,593
Stock payments to employees and consultants.....			
Allowances and write offs.....	20,000	411,000	
Changes in operating assets and liabilities			
Accounts receivable.....	(116,020)	(21,814)	
Inventory.....		(296,287)	41,667
Prepaid expenses and other assets.....	(40,552)	67,214	
Notes receivable.....			(1,037,250) --
Accounts payable.....	507,623	373,238	
Accrued expenses.....			141,757 716,163
Deferred revenue.....	(60,000)	--	
Net cash used in operating activities.....			(2,410,244)
(933,386)			
Cash Flows from Investing Activities			
Acquisition of property and equipment.....			(113,674) --
Disposals of fixed assets.....	--	66,058	
Expenditures for other assets.....			-- (89,837) -----
Net cash used in investing activities.....			(113,674) (23,779)
Cash Flows from Financing Activities			
Proceeds from issuance of preferred stock, net of offering costs.....	--	99,004	
Proceeds from issuance of common stock.....	1,074,756	369,125	
Receipts from product marketing obligation.....			25,000
405,000			
Proceeds from convertible debentures.....		2,850,000	--
Net cash provided by financing activities.....	3,949,756	873,129	
Increase (decrease) in cash.....			1,425,838 (84,036)
Cash, beginning of period.....	61,808	145,844	
Cash, end of period.....			\$ 1,487,646 \$ 61,808

Supplemental Cash Flows Disclosures Interest paid..... \$ 30,000 \$ 8,319 Income taxes paid..... \$ -- \$ -- Non-cash investing and financing activities: Common stock issued in settlement of accounts payable..... \$ 757,714 \$ -- Common stock issued in exchange for services..... \$ 616,406 \$ 1,129,593

The accompanying notes are an integral part of the financial statements. F-7 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business Airtech International Group, Inc. (the Company), (formerly Interactive Technologies Corporation, Inc.), was incorporated in the state of Wyoming on August 8, 1991. The Company manufactures and sells a full line of air purification products. The Company primarily markets, sells and distributes its products through a network of franchisees. On May 31, 1998, the Company acquired all of the outstanding common stock shares of Airtech International Corporation (AIC), which through its subsidiaries manufacture and sell various air filtration and purification products. The total purchase price of \$22,937,760 was funded through the issuance of 2,100,000 of its common stock shares valued at \$.625 per share, the issuance of 11,858,016 of its Series A convertible preferred stock shares valued at \$.625 per share (Note 2) and the issuance of \$9,000,000 of convertible debentures (Note 5). However, because these convertible securities were converted into common stock within two months following the acquisition, the Company effectively issued common stock for the outstanding common stock of AIC and the stockholders of AIC obtained control of the combined company. As a result, AIC became the acquirer for financial reporting purposes. Therefore, the transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price of the net assets acquired has been allocated among the net assets based on their relative fair values with \$179,053 of the purchase price allocated to goodwill. The acquired goodwill is being amortized using the straight-line method over 5 years. Results of operations of Interactive Technologies Corporation are included in the accompanying consolidated statements of operations beginning June 1, 1998. Principles of consolidation The accompanying consolidated financial statements include the general accounts of the Company and its subsidiaries, AIC, Airsopure, Inc., Airsopure International Group, Inc. and McCleskey Sales and Service, Inc., each of which have fiscal year ends of May 31. All material intercompany accounts, balances and transactions have been eliminated in the consolidation. Impairment of long-lived assets The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, and long-lived assets and certain identifiable intangibles to be disposed of. The Company periodically evaluates, using independent appraisals and projected undiscounted cash flows, the carrying value of its long-lived assets and certain identifiable intangibles to be held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, long-lived assets and identifiable intangibles to be disposed of are reported at the



lower of carrying value or fair value less cost to sell. Amortization Intellectual property is allocated to the Company's air filtration products based on expected sales as a percent of total sales by product. The Company records amortization using the straight-line method over F-8 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 10 years beginning when the product is initially inventoried for sale. For the years ended May 31, 2000 and 1999, amortization expense totaled \$ 108,740 and \$ 38,060, respectively. Goodwill recorded in the acquisition of AIC, is being amortized using the straight-line method over 5 years. For the years ended May 31, 2000 and 1999, amortization expense totaled \$35,811 and \$35,810, respectively. Goodwill relating to the Company's purchase of its McClesky Sales and Services subsidiary in 1995 was being amortized over 40 years. In May 1999, this operating segment was discontinued (Note 10) and the remaining unamortized carrying value was charged to expense. A prepaid royalty fee, paid pursuant to a December 1995 agreement and related to the Company's portable medicare unit, is being amortized using the straight-line method over 24 months beginning in January 2000. For the years ended May 31, 2000 and 1999, amortization expense totaled \$104,167 and \$0, respectively. Inventories Inventories are carried at the lower of cost or net realizable value (market) and include component parts used in the assembly of the Company's line of air purification units and filters and finished goods comprised of completed products. The costs of inventories are based upon specific identification of direct costs and allocable costs of direct labor, packaging and other indirect costs. At May 31, 2000 and 1999, inventories consisted of the following: 2000 1999 ----- Finished goods..... \$356,916 \$200,506 Component parts..... 182,036 42,159 ----- \$538,952 \$242,665 ===== Property and equipment Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is currently being provided by straight line and accelerated methods for financial and tax reporting purposes, respectively, over estimated useful lives of five years. Intellectual properties Costs incurred by the Company in developing its products consisting primarily of design, testing and completion of working prototypes, which are not considered patentable, are capitalized and will be amortized over the estimated useful life of the related patents once a unit has been placed in production. Product marketing obligation Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 68, the Company has recorded funds raised in an arrangement to develop, produce and market its Model S-999 as a product marketing obligation (Note 7). F-9 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Revenue recognition Revenues from the Company's operations are recognized at the time products are shipped or services are provided. Revenues from franchise sales are recognized at the time all material services relating to the sale of a franchise have been performed by the Company and, in some instances, when the related notes receivable have been collected. Revenues based on the collection of franchise notes receivable are deferred until the time of collection. Advertising Advertising dollars are invested in trade journals, trade shows, travel and franchise networking. All amounts are expensed as incurred. Management estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Cash flow For purposes of the statement of cash flows, cash includes demand deposits, time deposits and short term cash equivalent investments with maturities of less than three months. None of the Company's cash is restricted. Earnings per share Basic and diluted loss per share are based upon 17,368,684 and 10,583,635, respectively, weighted average shares of common stock outstanding. No effect has been given to the assumed conversion of convertible preferred stock and convertible debentures and the assumed exercise of stock options and warrants as the effect would be antidilutive. Stock split On October 5, 1998, the shareholders authorized a one for five reverse split of the Company's common stock. The reverse split was made effective November 9, 1998. Shareholders equity has been restated to give retroactive recognition to the stock split for all periods presented, such that all references in the financial statements to number of shares, per share amounts, par values and stock option data for common shares have been restated. The shareholders also approved an increase in the Company's authorized common shares to 50,000,000. 2. PREFERRED STOCK Convertible preferred stock--Series A In connection with the Company's acquisition of AIC (Note 1), the Company established this equity class and authorized 15,000,000 shares. The shares have a par value of \$1.00, do not pay dividends and are convertible at the Company's option at any time within 24 months after issuance for one share of the Company's common stock for each five shares of preferred stock. F-10 AIRTECH INTERNATIONAL

GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
 Effective July 31, 1998, the Company's Board of Directors voted to convert the Series A Preferred Stock to Common Stock on the basis of one share of Preferred to one share of Common, as per the merger agreement. To effect the conversion of 11,858,016 of Series A preferred, the Company issued 2,371,603 shares of common stock. As described in Note 1, relating to the reverse merger accounting recognition, the conversion of the preferred stock shares has been recorded in the accompanying consolidated financial statements as occurring on May 31, 1998, the date of the AIC acquisition and, therefore, are not shown as outstanding at May 31, 1998 in the accompanying consolidated statements of stockholders' equity. Convertible preferred stock--Series M During the year ended May 31, 1998, the Company authorized 5,000,000 shares and established this equity class to raise production funds for the Company's Model S-950, Medicare air filtration unit. The Series M preferred shareholders participate by receiving up to 20%, if totally subscribed, of the collected gross proceeds from the Company's sales of its Model S-950 over a two year period. Through May 31, 1999, 1,143,750 of these shares were issued for \$1.00 cash, net of \$203,379 of offering costs. The shares have a par value of \$.001, do not pay dividends and are convertible at the holder's option at any time within 36 months after issuance for one share of the Company's common stock. In addition, attached to each share is one warrant to purchase one share of common stock at a price of \$0.25 per share exercisable within two years after issuance. As of May 31, 1999, the Company had not sold any S-950 units thus has made no payments under the participation plan. As of May 31, 2000, the Company had sold 78 of these units and owes \$5,364 under the participation plan. 3. NOTES RECEIVABLE Notes receivable relate to AIC sales of geographic franchise licenses (Note 1), bear interest at 6% to 12%, are payable in terms ranging from 12 to 48 months and are secured by the area franchises. Credit is extended on evaluation of the payee's financial condition and general credit information. Prior to May 31, 2000, the Company did not strictly enforce collection while it completed development of its product line of air purification products. At May 31, 2000 and 1999, notes receivable are comprised of the following: 2000 1999

-----	-----	Domestic franchise licenses.....	\$ 157,250	\$ 300,000	International franchise licenses.....	1,455,000	275,000	-----	-----	1,612,250	575,000	Less current portion.....	(437,250)	(143,750)	-----	-----	\$ 1,175,000	\$ 431,250	=====	=====
-------	-------	----------------------------------	------------	------------	---------------------------------------	-----------	---------	-------	-------	-----------	---------	---------------------------	-----------	-----------	-------	-------	--------------	------------	-------	-------

4. NOTES PAYABLE The Company's notes payable consist of loans from various corporations and individuals provided for working capital purposes. The notes, which contain no significant restrictions, bear interest at rates of 10.0% to 18.0%, are due through May 1999 and are unsecured. At May 31, 2000 and 1999, all of these notes, totaling \$277,185, were in default. F-11 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 5. CONVERTIBLE DEBENTURES AIC acquisition debentures In connection with the Company's acquisition of AIC (Note 1), the Company also issued \$9,000,000 of convertible debentures secured by the AIC shares acquired. The debentures bear interest at 10%, are payable annually on May 31 of each year, are due on May 31, 2000 and are convertible at the Company's option at any time within the two years into shares of the Company's common stock at a conversion price of \$.70. As of July 31, 1998, the Company's Board of Directors voted to convert the debentures and \$150,000 of related accrued interest into common stock. The Company issued 2,614,286 common shares on conversion. As described in Note 1, relating to the reverse merger accounting recognition, the conversion of the convertible debentures has been recorded in the accompanying consolidated financial statements as occurring on May 31, 1998, the date of the AIC acquisition and, therefore, are not shown as outstanding at May 31, 1998 but included in additional paid in capital in the accompanying consolidated statements of stockholders' equity. Convertible debentures (12%) During the year ended May 31, 2000, the Company issued \$350,000 of convertible debentures maturing on September 1, 2004. Interest is payable at 12% semi-annually beginning September 1, 2000. The debentures are convertible at the holder's option any time beginning one year after issuance at a conversion price of \$1.00 per share. The Company, with the consent of the holder, may redeem the debentures at a price ranging from 110% of the principal amount if redeemed prior to September 1, 2001 to 100% of the principal amount at maturity of the principal amount of the debentures. The debentures include warrants to purchase 350,000 common stock shares at a price of \$2.00 per share. The warrants expire two years from the date of issuance. Convertible debentures (6%) During the year ended May 31, 2000, the Company issued \$2,500,000 of convertible debentures maturing on February 22, 2002. Interest accrues at 6% and is payable in full at maturity. The debentures are convertible at the holder's option at any time at a conversion price equal to the lesser of (a) 110% of the average closing bid price of the Company's common stock for the five trading days prior to the date of initial payment or (b) 80% of the average of the three lowest closing bid prices of the Company's common stock during the 30 trading

days prior to the date a conversion notice is received from a holder. In the event of a change in control of the Company, the holders' can require redemption of the debentures at a price equal to 125% of the aggregate outstanding principal and accrued interest. The debentures include warrants to purchase 250,000 common stock shares at a price of \$2.61 per share. The warrants expire on February 22, 2005. Additionally, the holders of these debentures have an option to acquire an additional \$2,500,000 of debentures under the same terms, which include additional warrants to purchase 250,000 common stock shares at a price of \$2.61 per share. This option expires December 22, 2000.

6. LITIGATION The Company is defendant, and it has filed counter claims, in a lawsuit filed by the lessor of office space facilities in New Jersey. The Company never occupied the space due to the lessor's failures to finish out the space to the Company's specifications. The lessor seeks to recover remaining lease payments due under the F-12 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) lease of \$606,913 and the Company seeks to recover damages under a capital lease obligation for equipment located in the New Jersey facilities and contractually precluded from being removed from the facilities. Although the Company anticipates a favorable settlement of this lawsuit the outcome of it is uncertain. As of May 31, 2000 and 1999, a reserve totaling \$200,000 has been established in anticipation of settling this obligation. The Company is also defendant in a lawsuit filed by a corporation claiming damages of up to \$1 million for breach of a stock purchase agreement, which was never consummated. Management believes its defenses are strong and plans on vigorously defending this lawsuit. Although the Company anticipates a favorable settlement of this lawsuit the outcome of it is uncertain. The Company has not accrued a loss for this contingency in the accompanying consolidated financial statements.

7. COMMITMENTS AND CONTINGENCIES Operating leases The Company is currently obligated under noncancellable operating leases for its Dallas office and warehouse facilities, which expire through December 2003. The leases also provide for payment of the Company's share of operating costs and contain renewal options at prevailing market rates. Minimum future rental payments required under the above operating lease is as follows. Year ending May 31, -----

2001.....	\$106,275	2002.....	73,566
2003.....	16,080	2004.....	9,380

\$205,301 ===== During the years ended May 31, 2000 and 1999, rent expense totaled \$102,660 and \$80,670, respectively. Employment agreements The Company is currently obligated under employment agreements with its Chief Executive Officer and its President for annual compensation of \$250,000 apiece and discretionary bonuses to be determined by the Company's board of directors. The agreements expire in May 2008. Compensation under such agreements was deferred during the period from June 1, 1997 through December 31, 1998. At January 31, 1999, the Board of Directors authorized payment of the deferred amount by issuing restricted common stock at \$0.50 per share, issuing a combined total of 1,583,334 shares. Starting in January 1999, these two executives began receiving cash compensation at the rate of \$125,000 apiece with the remainder of the contracted amounts being accrued in the accompanying consolidated financial statements. During the year ended May 31, 1999, the Company received a claim from a stockholder and former officer and director in the amount of \$250,000 related to past employment services. However, during the year ended May 31, 2000, this claim was settled with the Company issuing 100,000 common stock shares to this stockholder at a fair value of \$42,579. The Company's current compensation benefits do not provide any other post- retirement or post-employment benefits.

F-13 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Airspure 999 Limited Partnership In January 1999, the Company formed a limited partnership, Airspure 999 Limited Partnership (LP), to fund production of the Company's new automobile, trunk mounted air filtration unit, the Model S-999. Airspure, Inc., a subsidiary of the Company, became the general partner, and the limited partnership was authorized to sell up to \$5 million of partnership interests. The limited partners are entitled up to a maximum of 20% of the gross sales from the S-999 over a three year period. Additionally, the Company guaranteed the limited partners a return of at most 150% of their investment at the end of the three year term by authorizing conversion of their limited partnership interests into shares of the Company's common stock. During the years ended May 31, 2000 and 1999, the LP raised \$25,000 and \$405,000, respectively, which amount is recorded as product marketing obligation.

8. INCOME TAXES The Company used the accrual method of accounting for tax and financial reporting purposes. At May 31, 2000 and 1999, the Company had net operating loss carry forwards for financial and tax reporting purposes of approximately \$18,500,000 and \$16,100,000, respectively. These carry forwards expire through the year 2012, and are further subject to the provisions of Internal Revenue Code Section 382. Pursuant to Statement of Financial Accounting Standards No.

109, the Company has recognized a \$5,510,440 deferred tax asset attributable to the net operating loss carryover, which has been fully offset by a valuation allowances in the same amount, as follows: 2000 1999 -----  
 Beginning balance..... \$4,680,290 \$2,804,055 Increase during period..... 830,150  
 1,876,235 ----- Ending balance..... \$5,510,440 \$4,680,290 =====  
 ===== A reconciliation of income tax expense at the statutory federal rate to income tax expense at the Company's effective tax rate for the years ended May 31, 2000 and 1999 is as follows: 2000 1999 -----  
 Tax (expense) benefit computed at statutory federal rate..... \$ 830,150 \$ 1,465,896 NOL  
 carryover..... (830,150) (1,465,896) ----- Income tax benefit..... \$ -- \$

-- ===== 9. FINANCIAL INSTRUMENTS The Company's financial instruments, which potentially subject the Company to credit risks and none of which are held for trading purposes, consist of its cash, accounts and notes receivable, notes payable and convertible debentures. Cash The Company maintains its cash in bank deposit and other cash equivalent investment accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts, and does not believe it is subject to any credit risks involving its cash. F-14 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Accounts and notes receivable, trade The Company accounts and notes receivable (Note 3) are unsecured and represent sales not collected at the end of the year. Management believes these accounts and notes receivable are fairly stated at estimated net realizable amounts. Notes payable and convertible debentures Management believes the carrying value of these notes (Note 4) and convertible debentures (Note 5) represent the fair value of these financial instruments because their terms are similar to those in the lending market for comparable loans with comparable risks. 10. DISCONTINUED OPERATING SEGMENT In May 1999, the Company discontinued its McCleskey Sales and Services (MSS) operations which were being conducted through its wholly owned subsidiary by the same name. The net assets of this operating segment, consisting primarily of unamortized goodwill relating to the Company's purchase of MSS in 1995 (Note 1), approximated \$583,000 and was charged against continuing operations. 11. STOCK OPTIONS AND WARRANTS During the years ended May 31, 2000 and 1999, the Company issued various stock options and warrants to employees and others and uses the intrinsic value method of accounting for these stock options. Compensation cost for options granted has not been recognized in the accompanying financial statements because the amounts are not material. The options and warrants expire between September 2000 and February 2003 and are exercisable at prices from \$0.20 to \$10.00 per option or warrant. Exercise prices were set at or above the underlying common stock's fair market value on the date of grant. The following is a schedule of the activity relating to the Company's stock options and warrants. Other than the 432,850 and 205,900 warrant identified below as granted during the year ended May 31, 2000 and 1999, respectively (Note 4), all other amounts relate to stock options the Company has issued. 2000 1999 -----

	2000	1999		2000	1999
Wgt. Ave. Shares	1,341	480	Exercise Price (x1,000)	\$2.06	\$3.93
Options and warrants outstanding at beginning of year.....	1,341	480	Price	\$2.06	\$3.93
Granted.....	1,698	917	Options and warrants exercisable at end of year.....	1,101	46
Expired.....	(591)	(10)	Weighted average fair value of options and warrants granted during the year..	\$0.27	\$0.60
Options and warrants outstanding at end of year.....	2,011	1,341			
Options and warrants exercisable at end of year.....	2,011	1,101			

F-15 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The following table summarizes information about the Company's stock options and warrants outstanding at May 31, 2000, all of which are exercisable. Range of Number Weighted Ave. Exercise Outstanding Remaining Weighted Average Prices (x1,000) Contractual Life Exercise Price -----  
 \$1.5--\$.60 1098 0.9 years \$ .34  
 \$2.00--\$2.61 660 1.1 years \$ 2.28 \$3.75--\$5.00 240 2.0 years \$ 4.17 \$10.00 13 1.0 years \$10.00 The following pro forma disclosures reflect the Company's net loss and net loss per share amounts assuming the Company accounted for stock options granted using the fair value method pursuant to Statement of Financial Accounting Standards No. 123. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.6%; no expected dividends; expected lives of 3 to 10 years; and expected volatility of 220.51%. Year Ended Year Ended May 31, May 31, 2000 1999 -----  
 Net loss..... \$(2,576,594) \$(4,364,880) Net loss per share..... \$ (0.15) \$ (0.41)  
 During the years ended May 31, 2000 and 1999, the Company also issued 1,796,879 and 1,583,334 common stock

shares, respectively, in exchange for services. These services were recorded at their fair value of \$616,406 and \$791,667, respectively, and were charged to expense. In addition, during the year ended May 31, 2000, the Company issued 1,400,455 common stock shares to vendors in payment of trade payables, which were recorded at their fair value of \$757,714. 12. RELATED PARTIES During the years ended May 31, 2000 and 1999, the Company's chief executive officer and president made cash operating advances of \$0 and \$100,000 and received repayments of \$0 and \$127,000, respectively. The advances are to be repaid as cash is available or by the issuance of common stock. These advances are unsecured but bear interest at 15% per annum. At May 31, 2000 and 1999, advances payable to these officers totaled \$210,338 and \$216,488, respectively, and included \$51,338 and \$57,488, respectively, of accrued interest. During the year ended May 31, 2000, \$30,000 of accrued interest was paid to the above individuals. 13.

LIQUIDITY ISSUES The continued operating losses by the Company and its subsidiaries raise concern about the Company's ability to generate profits from its operations. Management is currently negotiating several large contracts for its air filtration products, which will increase the Company's cash flow and its ability to generate profits. The Company has completed its air purification product line and is expanding its franchise and distributorship network throughout the nation and internationally. In addition, the Company is continuing efforts to raise additional equity capital to provide liquidity until cash can be generated by operations. 14. SEGMENT INFORMATION During the years ended May 31, 2000 and 1999, the Company conducted its operations through two reportable operating segments, each of which was conducted through separate subsidiaries. Those reportable operating segments were its manufacture and sale of air purification products and franchises and its commercial and residential heating and air conditioning services, which was terminated in May 1999. F-16 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The following table reflects certain information about the Company's reportable operating segments for the year ended May 31, 1999. For the year ended May 31, 2000, the accompanying consolidated financial statements reflect operating activities for its remaining reportable operating segment. There are no inter-segment revenue or expense transactions.

Air HVAC Products Services Total	-----	-----	-----	Revenues.....	\$ 618,442	\$ 412,027	\$ 1,030,469
Net operating loss.....	\$(4,153,265)	\$(158,194)	\$(4,311,459)	Interest expense.....	\$ 126,969	\$ 8,319	\$ 135,288
Depreciation and amortization.....	\$ 107,637	\$ 22,297	\$ 129,934	Consulting services, non cash.....	\$ 309,854	\$ --	\$ 309,854
Expenditures for long-lived assets....	\$ --	\$ --	\$ --	Total long-lived assets, net of accumulated depreciation.....	\$ 89,569	\$ --	\$ 89,569

F-17 INDEPENDENT ACCOUNTANT'S REPORT Board of Directors and Stockholders Airtech International Group, Inc. and subsidiaries Dallas, Texas We have reviewed the accompanying consolidated balance sheet of Airtech International Group, Inc. and subsidiaries as of February 28, 2001 and the related statement of operations, stockholders' equity and cash flows for the three months and nine months then ended. These consolidated financial statements are the responsibility of the Company's management. We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statement taken as a whole. Accordingly, we do not express such an opinion. Based on our review, we are not aware of any material modifications that should be made to the accompanying February 28, 2001 consolidated financial statements for them to be in conformity with generally accepted accounting principles. /s/ Turner, Stone & Company, LLP Certified Public Accountants Dallas, Texas April 13, 2001 F-18 Airtech International Group, Inc. and Subsidiaries Consolidated Balance Sheets February 28, 2001 and 2000

2001	2000	-----	-----	ASSETS CURRENT ASSETS	Cash.....	\$ 53,368	\$ 559,385
		0	2,000,000	Trade accounts receivables, net of allowance for doubtful accounts of \$60,000 and \$20,000 respectively.....	731,315	225,352	Notes receivable, current portion.....
		437,250	75,000	Inventory, consisting of \$1,027,750 of finished goods and \$277,809 of component parts as of February 28, 2001.....	1,305,559	317,665	Prepaid expenses and other assets.....
		113,257	204,524	-----	-----	2,640,749	3,381,926
		-----	-----	PROPERTY AND EQUIPMENT--net of accumulated depreciation of \$198,159 and \$149,123 respectively.....	112,740	116,875	NOTES RECEIVABLE--net of current portion, net of allowance for Doubtful accounts of \$0 and \$0, respectively.....
					1,078,312	575,000	OTHER ASSETS
				Goodwill, net of \$45,810 and \$84,763 of accumulated amortization, respectively.....	92,432	94,291	

Edgar Filing: CITIGROUP INC - Form FWP

Intellectual properties, net of \$167,300 and \$58,060 of accumulated amortization, respectively.....	919,597		
968,112 Other, Prepaid Royalties.....	294,988	519,688	----- Total other
assets.....	1,307,017	1,582,091	----- \$5,138,818 \$5,655,892 =====
===== The accompanying notes are an integral part of the financial statements. F-19 Airtech International Group, Inc. and Subsidiaries Consolidated Balance Sheets February 28, 2001 and 2000 2001 2000 -----			
<b>LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES</b> Notes payable--current			
portion.....	\$ 277,185	\$ 277,185	Accounts payable, trade..... 750,526 608,850 Note
payable--officers.....	210,338	216,488	Accrued payroll and payroll taxes..... 507,753 323,692
Other accrued expenses.....	608,843	417,511	----- Total current liabilities.....
2,354,645	1,843,726	-----	<b>LONG-TERM LIABILITIES</b> Deferred revenue.....
340,000	400,000	Product Marketing Obligation.....	430,000 405,000 Convertible
Debentures.....	2,350,000	2,800,000	----- Total long-term liabilities.....
3,120,000	3,605,000	-----	Total liabilities..... 5,474,645 5,448,726
<b>COMMITMENTS AND CONTINGENCIES</b> ..... -- <b>STOCKHOLDERS' EQUITY</b> Series M cumulative, convertible			
preferred, 990,625 and 1,143,750 outstanding respectively; liquidation preference of \$1.00 per share.....	991	1,143	
Common stock--\$.05 par value, 50,000,000 shares authorized; 27,958,641 and 20,364,417 shares issued and			
outstanding, respectively.....	1,397,932	1,018,220	Additional paid--in capital..... 8,251,966 6,682,210
----- Retained deficit.....	(9,986,716)	(7,494,407)	----- Total stockholders' equity
(335,827)	207,166	-----	\$ 5,138,818 \$ 5,655,892 ===== The accompanying
notes are an integral part of the financial statements. F-20 Airtech International Group, Inc. and Subsidiaries Consolidated Statements of Operations For the Nine Months Ended February 28, 2001 and 2000 2001 2000 -----			
<b>REVENUES</b> Product sales..... \$ 1,412,607 \$ 604,474 Franchisee fees and other			
revenues.....	25,000	175,000	----- Total revenues..... 1,437,607 779,474
<b>COSTS AND EXPENSES</b> Salaries and wages..... 787,490 901,729 Research and			
Development.....	283,927	100,000	Cost of sales..... 780,235 515,127
Advertising.....	241,358	101,197	Depreciation and amortization..... 233,188 127,421
Other general & administrative expense.....	639,544	645,073	----- Total costs and
expenses.....	2,965,742	2,390,547	----- <b>LOSS FROM OPERATIONS</b> .....
(1,528,135)	(1,611,073)	Interest expense.....	(175,114) (41,462) ----- <b>NET LOSS</b>
<b>BEFORE INCOME TAXES</b> .....	(1,703,249)	(1,652,535)	Income taxes..... -- --
----- <b>NET LOSS</b> .....	\$(1,703,249)	\$(1,652,535)	=====
<b>LOSS PER COMMON SHARE--BASIC</b> .....	\$ (0.07)	\$ (0.08)	===== <b>LOSS PER</b>
<b>COMMON SHARE--DILUTED</b> .....	\$ (0.07)	\$ (0.08)	===== The accompanying
notes are an integral part of the financial statements. F-21 Airtech International Group, Inc. and Subsidiaries Consolidated Statements of Operations For the Three Months Ended February 28, 2001 and 2000 2001 2000 -----			
<b>REVENUES</b> Product sales..... \$ 418,034 \$ 186,136 Franchisee fees and other			
revenues.....	15,000	60,000	----- Total revenues..... 433,034 246,136 -----
<b>COSTS AND EXPENSES</b> Salaries and wages..... 285,375 516,591 Research and			
Development.....	52,677	50,000	Costs of sales..... 220,845 99,478
Advertising.....	55,963	51,002	Depreciation and amortization..... 72,716 54,665
Other general and administrative expense.....	208,006	318,560	----- Total costs and
expenses.....	895,582	1,090,296	----- <b>LOSS FROM OPERATIONS</b> .....
(462,548)	(844,160)	Interest expense.....	( 52,404) (4,185) ----- <b>NET LOSS</b>
<b>BEFORE INCOME TAXES</b> .....	(514,952)	(848,345)	Income taxes <b>NET</b>
<b>LOSS</b> .....	\$(514,952)	\$(848,345)	===== <b>LOSS PER COMMON</b>
<b>SHARE--BASIC</b> .....	\$ (0.02)	\$ (0.04)	===== <b>LOSS PER COMMON</b>
<b>SHARE--DILUTED</b> .....	\$ (0.02)	\$ (0.04)	===== The accompanying notes are an
integral part of the financial statements. F-22 Airtech International Group, Inc. and Subsidiaries Consolidated Statements of Cash Flows For the Nine Months Ended February 28, 2001 and 2000 2001 2000 -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES: Net Loss</b> ..... \$(1,703,249) \$(1,652,534)			
Adjustments to reconcile net income to cash			Depreciation and amortization..... 233,188 127,421 Stock

Edgar Filing: CITIGROUP INC - Form FWP

payments to employees and consultants.....	-- 486,189	Changes in operating assets and liabilities	Accounts receivable.....	(461,344)	( 51,401)	Inventory.....	(766,607)	(75,000)	Accounts payable.....	490,424	98,657	Accrued expenses.....	294,436	88,823	Other Receivables.....	(75,045)	(347,955)	-----	-----	Net cash used in operating activities.....	(1,988,197)	(1,325,800)
CASH FLOWS FROM INVESTING ACTIVITIES																						
Expenditures for other assets.....	60,085	(57,212)	(Expenditure for) Redemption Marketable Securities...	1,000,000	(2,000,000)	Repayment of Notes Payable.....	(500,000)	-----	-----	Net cash used in investing activities.....	560,685	(2,057,212)	CASH FLOWS FROM FINANCING ACTIVITIES									
Proceeds from issuance of convertible debentures.....																						
2,800,000																						
Proceeds from issuance of common stock.....																						
993,834																						
1,080,589																						
Net cash provided by financing activities.....																						
993,834																						
3,880,589																						
-----																						
-----																						
INCREASE (DECREASE) IN CASH.....																						
(1,434,278)																						
497,577																						
CASH, BEGINNING OF PERIOD.....																						
1,487,646																						
61,808																						
-----																						
-----																						
CASH, END OF PERIOD.....																						
\$ 53,368																						
\$ 559,385																						
=====																						

=====  
The accompanying notes are an integral part of the financial statements. F-23 Airtech International Group, Inc. and Subsidiaries Notes to Financial Statements Summary of Significant Accounting Policies Organization Airtech International Group, Inc. (the Company), formerly Interactive Technologies Corporation (ITC), was incorporated in the state of Wyoming on August 8, 1991. As of May 31, 1998, in connection with the acquisition discussed below, the Company manufactures and sells a full line of air purification products. On May 31, 1998, the Company acquired all of the outstanding common stock shares of Airtech International Corporation (AIC), which through its subsidiaries, manufactures and sells various air filtration and purification products. The total purchase price of \$22,937,760 was funded through the issuance of 10,500,000 shares of common stock valued at \$.625 per share, the issuance of 11,858,016 shares of Series A convertible preferred stock shares valued at \$.625 per share and the issuance of \$ 9,000,000 of convertible debentures. However, because these convertible securities were converted into common stock within two months following acquisition, the shareholders of AIC obtained control of the company. As a result, AIC became the acquiror for financial reporting purposes. The transaction was accounted for using the purchase method of accounting with AIC for accounting and reporting purposes the acquiror. Accordingly, the purchase price of the net assets acquired has been allocated among the net assets based on their relative fair value of zero. Principles of consolidation The accompanying consolidated financial statements include the general accounts of the Company and its subsidiaries, AIC, Airsopure, Inc., Airsopure International Group, Inc. and McCleskey Sales and Service, Inc. (dormant) each of which has a fiscal year ended May 31, and AIC's investment in Airsopure 999LP, a Texas Limited partnership with a December 31 year end. All material intercompany accounts and balances have been eliminated in the consolidation. Turner, Stone & Company, the Company's independent accountants, has performed limited reviews of the interim financial information included herein. Their report on such reviews accompanies this filing. Amortization Intellectual property is allocated to the Company's air filtration products based on expected sales as a percent of total sales by product. The Company records amortization beginning when the product is initially inventoried for sale. Amortization is recorded ratably over a ten-year term. Goodwill acquired and recorded in the financial acquisition of ITC, is being amortized under the straight line method over 5 years. A prepaid royalty fee, paid pursuant to a December 1995 agreement and related to the Company's portable medical unit, is being amortized using the straight-line method over 24 months beginning January 2000. Inventories Inventories are carried at the lower of cost or net realizable value (market) and include component parts used in the assembly of the Company's line of air purification units, filters and finished goods comprised of completed products. The costs of inventories are based upon specific identification of direct costs and allocable costs of direct labor, packaging and other indirect costs. F-24 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS--(Continued) Property and equipment Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is currently being provided by straight line and accelerated methods for financial and tax reporting purposes, respectively, over estimated useful lives of five years. Product marketing obligation Property marketing obligations pursuant to Statement of Financial Accounting Standards, "SFAS" No. 68, the Company has recorded funds raised in an arrangement to develop, produce and market the Model S-999 as a product marketing obligation. Revenue recognition Revenues from the Company's operations are recognized at the time products are shipped or services are provided. Revenue from franchise sales are recognized at the time all material services relating to the sale of a franchise have been performed by the Company. Management estimates The preparation of financial statements in conformity with generally accepted accounting principles requires

management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Cash flow For purposes of the statement of cash flows, cash includes demand deposits, short term cash equivalent investments and time deposits with maturities of less than three months. None of the Company's cash is restricted. Loss per share The basic and diluted loss per share are based upon 25,269,142 and 24,479,321 respectively, weighted average shares of common stock outstanding over the three and nine month period ending February 28, 2001. No effect has been given to the assumed conversion of convertible preferred stock, convertible debentures, product market obligation guarantees and the assumed exercise of stock options and warrants, as the effect would be antidilutive. Convertible debentures (6%) On February 22, 2000, the Company entered into a securities purchase agreement with PK Investors LLC (PKI) to raise up to \$5,000,000 through the sale to PKI of up to \$5,000,000 in principal amount of the Company's 6% Convertible Debentures (Debentures') and Warrants to purchase up to 500,000 shares of the Company's Common Stock (Warrants'). Upon execution of the securities purchase agreement, PKI purchased \$2,500,000 in principal amount of the Debentures and Warrants to purchase 250,000 shares of Common Stock for a purchase price of \$2,500,000. The Company was responsible and paid legal, investment banker commissions, accounting and SEC filing fees totaling \$427,000. Under the terms of the securities purchase agreement, the Company also issued to PKI a Conditional Warrant to purchase the remaining \$2,500,000 in F-25 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS--(Continued) principal amount of Debentures and the remaining Warrants to purchase 250,000 shares of the Company's Common Stock. The Conditional Warrants expired on December 22, 2000. The Debentures, Warrants, and Conditional Warrant were sold and issued to PKI in a private transaction exempt from registration under Section 4 (2) of the Securities Act of 1933. Convertible Debentures (12%) During the year ended May 31, 2000, the Company issued \$350,000 of convertible debentures maturing on September 1, 2004. Interest is payable at 12% semi-annually. Interest has been deferred until May 2001. The debentures are convertible at the holder's option at any time beginning one year after issuance at a conversion price of \$1.00 per share. The debentures include warrants to purchase 350,000 common shares at a price of \$2.00 per share. The warrants expire two years from the date of issuance. Convertible Preferred Stock During the year ended May 31, 1998, the Company, from the 5,000,000 shares, authorized, issued 1,143,750 of convertible preferred stock for \$1 per share. The shares have a par value of \$ .001, do not pay dividends, are convertible at the holder's option for one share of the Company's common stock, and receive up to 20%, if totally subscribed, of the gross proceeds from the Company's sales of its portable individual air purifier for a two-year period. As of February 28, 2001 and 2000, there were 990,625 and 1,143,750 shares of preferred stock outstanding, respectively. Commitments and Contingencies Operating Leases The company is currently obligated under noncancellable operating leases for its Dallas office and warehouse facilities, which expire in December 2001 and January 2004, respectively. Minimum future rental payments required under the above operating lease is as follows:

Year ending May 31 -----	2001.....	\$100,275
2002.....	73,566	2003..... 16,080
2004.....	9,380	----- \$199,301 =====

Financial instruments The Company's financial instruments consist of its cash, marketable securities accounts and notes receivable, and trade payables. Cash and Marketable Securities The Company maintains its cash in bank deposit and other accounts, which, at times, may exceed federally insured limits. The Company invests excess cash not required for operations in U.S. Treasury repurchase agreements in connection with its cash management account with its primary bank. The Company has not experienced any losses in such accounts, and does not believe it is subject to any credit risks involving its cash. F-26 AIRTECH INTERNATIONAL GROUP, INC. AND SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS--(Continued) Accounts and notes receivable, trade The Company accounts and notes receivables are unsecured and represent sales not collected to date. Management believes these accounts and notes receivables are fairly stated at estimated net realizable amounts. Stock options and warrants Through the quarter ended February 28, 2001 and 2000, the Company has issued various stock options and warrants to employees and others and uses the intrinsic value method of accounting for these stock options. Compensation cost for options granted has not been recognized in the accompanying financial statements because the amounts are not material and its exercise price exceeded the common stock fair market value at the date of option. The options and warrants expire between September 2000 and February 2006 and are exercisable at prices from \$0.10 to \$10.00 per option or warrant. Exercise



