

Ameris Bancorp  
Form S-4  
May 22, 2014  
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As filed with the Securities and Exchange Commission on May 22, 2014

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM S-4**  
**REGISTRATION STATEMENT**  
***UNDER***  
***THE SECURITIES ACT OF 1933***

**AMERIS BANCORP**  
**(Exact name of Registrant as specified in its charter)**

**Georgia**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**6022**  
**(Primary Standard Industrial**  
**Classification Code Number)**

**58-1456434**  
**(I.R.S. Employer**  
**Identification No.)**

**Ameris Bancorp**  
**310 First St., S.E.**  
**Moultrie, Georgia 31768**  
**(229) 890-1111**  
**(Address, including ZIP code, and telephone**  
**number, including area code, of Registrant s**  
**principal executive offices)**

**Mr. Edwin W. Hortman, Jr.**  
**Chief Executive Officer**  
**Ameris Bancorp**  
**310 First St., S.E.**  
**Moultrie, Georgia 31768**  
**(229) 890-1111**  
**(Name, address, including ZIP code,**  
**and telephone number, including area**  
**code, of agent for service)**

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**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable following the effectiveness of this Registration Statement and upon completion of the merger described herein.

If the securities being registered on this Form are being offered in connection with formation of a holding company and there is compliance with General Instruction G, check the following box. "

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer "  Accelerated Filer

Non-accelerated filer " (Do not check if a smaller reporting company)  Smaller reporting company "

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) "

**Calculation of Registration Fee**

<b>Title of each class of securities to be registered</b>	<b>Amount to be registered<sup>(1)</sup></b>	<b>Proposed maximum offering price per share</b>	<b>Proposed maximum aggregate offering price<sup>(2)</sup></b>	<b>Amount of registration fee</b>
Common Stock, \$1.00 par value	1,920,794	N/A	\$26,934,727	\$3,470

(1) Represents the maximum number of shares of common stock of the Registrant estimated to be issuable upon completion of the merger described herein in exchange for shares of common stock of Coastal Bankshares, Inc. ( Coastal ) that are currently outstanding or underlying outstanding options, warrants or Coastal preferred stock. Pursuant to Rule 416, this Registration Statement also covers additional securities that may be issued as a result of stock splits, stock dividends or similar transactions.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and computed pursuant to Rule 457(f)(2) thereunder. The proposed maximum offering price is equal to the product of: (i) \$6.55, the per share book value of the Coastal common stock as of March 31, 2014; and

(ii) 4,112,172, which is the maximum number of shares of Coastal common stock (including shares underlying outstanding options, warrants and Coastal preferred stock) which may be converted into the right to receive the Registrant's common stock in the merger. Coastal is a privately held company, and no market exists for its capital stock.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.**

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**Information contained herein is subject to completion or amendment. A Registration Statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold prior to the time the Registration Statement becomes effective. This document shall not constitute an offer to sell nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**PRELIMINARY SUBJECT TO COMPLETION DATED MAY 22, 2014**

**Proxy Statement of Coastal Bankshares, Inc.**

**Prospectus of Ameris Bancorp**

**PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT**

To the Shareholders of Coastal Bankshares, Inc.:

Ameris Bancorp and Coastal Bankshares, Inc. have entered into a definitive merger agreement that provides for the merger of Coastal with and into Ameris, with Ameris as the surviving company in the merger. Before the merger can be completed, the holders of Coastal common stock and Coastal Series A preferred stock, voting together as a single class, must approve the merger agreement. Coastal shareholders will vote on a proposal to approve the merger agreement at a special meeting of shareholders to be held on \_\_\_\_\_, 2014. No vote of Ameris shareholders is required to complete the merger.

If the merger is completed, then: (i) each share of Coastal common stock will be converted into the right to receive 0.4671 of a share of Ameris common stock; (ii) each option to purchase shares of Coastal common stock will be converted into an option to purchase shares of Ameris common stock, adjusted to reflect the exchange ratio; and (iii) each warrant to purchase shares of Coastal common stock will be cancelled pursuant to its terms, and the holder of the Coastal warrant will be entitled to receive from Ameris in respect of the Coastal warrant only a cash payment as described in this proxy statement/prospectus. Immediately prior to the merger, each share of Coastal Series A preferred stock will, in accordance with its terms, convert into one share of Coastal common stock (which will subsequently convert upon the completion of the merger into the right to receive 0.4671 of a share of Ameris common stock). No fractional shares of Ameris common stock will be issued in connection with the merger. Instead, each Coastal shareholder who would otherwise receive a fractional share of Ameris common stock will receive a cash payment.

The exchange ratio is fixed and will not be adjusted to reflect changes in the market price of the Ameris common stock. The value implied by the exchange ratio for one share of Coastal common stock on \_\_\_\_\_, 2014, was \$ \_\_\_\_\_, based upon the closing price per share of the Ameris common stock on that date. You should obtain current market quotations for the Ameris common stock, which is listed on the Nasdaq Global Select Market under the symbol ABCB. The Coastal common stock is not listed or traded on any established securities exchange or quotation system.

Based on the current number of shares of Coastal common stock and Coastal Series A preferred stock outstanding, Ameris currently expects to issue approximately 1,599,112 shares of Ameris common stock upon completion of the merger. However, an increase or decrease in the number of outstanding shares of Coastal common stock prior to completion of the merger could cause the actual number of shares issued upon completion of the merger to change.

The merger is intended to be tax-free to Coastal shareholders, other than with respect to any cash paid in lieu of issuing fractional shares of Ameris common stock to them.

**This proxy statement/prospectus describes the special meeting, the merger, the documents related to the merger and related matters. You should carefully read the entire proxy statement/prospectus, including Risk Factors beginning on page 20.**

**The Coastal board of directors has determined that the merger is fair to and in the best interests of Coastal and its shareholders and unanimously recommends that Coastal shareholders vote *FOR* the approval of the merger agreement and the transactions contemplated thereby.**

Sincerely,

James A. LaHaise

President and Chief Executive Officer

Coastal Bankshares, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued in the merger or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The shares of Ameris common stock to be issued in the merger are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Ameris or Coastal, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

**This proxy statement/prospectus is dated \_\_\_\_\_, and is being first mailed to Coastal shareholders on or about \_\_\_\_\_.**

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**COASTAL BANKSHARES, INC.**

**18 West Bryan Street**

**Savannah, Georgia 31401**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2014**

A special meeting of shareholders of Coastal Bankshares, Inc. ( Coastal ) will be held on \_\_\_\_\_, 2014, at \_\_\_\_\_ a.m., local time, at \_\_\_\_\_ for the following purposes:

1. To consider and vote on a proposal to approve the Agreement and Plan of Merger, dated as of March 10, 2014, by and between Ameris Bancorp ( Ameris ) and Coastal, as may be amended from time to time (referred to as the merger agreement ), and the transactions contemplated thereby. The merger agreement provides that Coastal will merge with and into Ameris, with Ameris as the surviving company, upon the terms and subject to the conditions set forth in the merger agreement, as more fully described in the accompanying proxy statement/prospectus. A copy of the merger agreement is attached as *Appendix A* to the accompanying proxy statement/prospectus.
  2. To consider and vote on a proposal to adjourn or postpone the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.
  3. To transact such other business as may properly come before the special meeting.
- The Coastal board of directors has determined that the terms of the merger are fair to and in the best interests of Coastal and its shareholders, has approved and adopted the merger agreement and the transactions contemplated thereby, and unanimously recommends that Coastal shareholders vote **FOR** the approval of the merger agreement and the transactions contemplated thereby.

Only holders of record of Coastal common stock and Coastal Series A preferred stock at the close of business on \_\_\_\_\_, 2014, are entitled to notice of and to vote at the special meeting and any adjournments or postponements thereof. The special meeting may be adjourned or postponed from time to time upon approval of Coastal shareholders without any notice other than by announcement at the special meeting of the adjournment or postponement thereof, and any and all business for which notice is hereby given may be transacted at such adjourned or postponed special meeting.

**Approval of the merger agreement and the transactions contemplated thereby by Coastal shareholders requires the affirmative vote of at least a majority of all votes entitled to be cast by the holders of Coastal common stock and Coastal Series A preferred stock, voting together as a single class.**

Holders of record of Coastal common stock and Coastal Series A preferred stock are entitled to exercise dissenters rights in connection with the merger, provided the proper procedures of Article 13 of the Georgia Business Corporation Code (the GBCC ) are followed. A copy of Article 13 of the GBCC is attached as *Appendix C* to the

accompanying proxy statement/prospectus.

**Your vote is very important.** Please vote, sign, date and return the enclosed proxy card in the enclosed, self-addressed envelope as promptly as possible, even if you plan to attend the special meeting. If you attend the special meeting, then you may vote your shares in person, even though you have previously signed and returned your proxy. You may revoke your proxy before it is voted at the special meeting. Failure to return a properly executed proxy card, or to vote at the special meeting, will have the same effect as a vote against the merger agreement and the transactions contemplated thereby.

By Order of the Coastal Board of Directors,

James A. LaHaise

President and Chief Executive Officer

Coastal Bankshares, Inc.

Savannah, Georgia

, 2014



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**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

Ameris files annual, quarterly and special reports, proxy statements and other business and financial information with the Securities and Exchange Commission ( SEC ). You may read and copy any materials that Ameris files with the SEC at its Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. Please call the SEC at (800) SEC-0330 ((800) 732-0330) for further information on the public reference room. In addition, Ameris files reports and other business and financial information with the SEC electronically, and the SEC maintains a website located at <http://www.sec.gov> containing this information. You will also be able to obtain these documents, free of charge, from Ameris by accessing Ameris' s website at [www.amerisbank.com](http://www.amerisbank.com) under the heading Investor Relations. Copies can also be obtained, free of charge, by directing a written or oral request to:

Ameris Bancorp

310 First St., S.E.

Moultrie, Georgia 31768

Telephone: (229) 890-1111

Attn: Corporate Secretary, Ameris Bancorp

Ameris has filed a Registration Statement on Form S-4 to register with the SEC 1,920,794 shares of the Ameris common stock which may possibly be issued in the merger. This proxy statement/prospectus is a part of that Registration Statement on Form S-4. As permitted by SEC rules, this proxy statement/prospectus does not contain all of the information included in the Registration Statement on Form S-4 or in the exhibits or schedules to the Registration Statement on Form S-4. You may read and copy the Registration Statement on Form S-4, including any amendments, schedules and exhibits, at the SEC' s Public Reference Room at the address set forth above. The Registration Statement on Form S-4, including any amendments, schedules and exhibits, is also available, free of charge, by accessing the websites of the SEC and Ameris or upon written or oral request to Ameris at the address and telephone number set forth above.

Statements contained in this proxy statement/prospectus as to the contents of any contract or other documents referred to in this proxy statement/prospectus are not necessarily complete. In each case, you should refer to the copy of the applicable contract or other document filed as an exhibit to the Registration Statement on Form S-4. This proxy statement/prospectus incorporates important business and financial information about Ameris that is not included in or delivered with this document, including incorporating by reference documents that Ameris has previously filed with the SEC. These documents contain important information about Ameris and its financial condition. See Documents Incorporated by Reference. These documents are available free of charge upon written or oral request to Ameris at the address and telephone number listed above.

**To obtain timely delivery of these documents, you must request them no later than \_\_\_\_\_, 2014 in order to receive them before the special meeting of Coastal shareholders.** Ameris supplied all information contained in, or incorporated by reference into, this proxy statement/prospectus relating to Ameris, and Coastal supplied all information contained in this proxy statement/prospectus relating to Coastal.

You should rely only on the information contained in, or incorporated by reference into, this proxy statement/prospectus. No one has been authorized to provide you with information that is different from what is contained in this proxy statement/prospectus. You should not assume that the information contained in this proxy

statement/prospectus is accurate as of any date other than the date of this proxy statement/prospectus, and neither the mailing of this proxy statement/prospectus to Coastal shareholders nor the issuance of Ameris common stock in the merger shall create any implication to the contrary.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING**

**Q: Why is Coastal proposing the merger?**

A: We believe the proposed merger is fair to and in the best interests of Coastal Bankshares, Inc. ( Coastal ) and its shareholders. The Coastal board of directors believes that combining with Ameris Bancorp ( Ameris ) provides significant value to Coastal shareholders and provides Coastal shareholders with opportunities for growth offered by the combined company.

**Q: What will I receive in the merger for my shares of Coastal common stock?**

A: You will be entitled to receive 0.4671 of a share of Ameris common stock in exchange for each share of Coastal common stock that you hold immediately prior to the effective time of the merger. We refer to this 0.4671-to-one ratio as the exchange ratio.

No fractional shares of Ameris common stock will be issued in connection with the merger. Instead, each Coastal shareholder who would otherwise receive a fractional share of Ameris common stock will receive a cash payment (rounded to the nearest whole cent) equal to: (i) \$21.41 multiplied by (ii) the fractional share amount. We refer to the shares of Ameris common stock issuable in respect of outstanding Coastal common stock in accordance with the exchange ratio and the cash payable in lieu of fractional shares of Ameris common stock, collectively, as the merger consideration.

**Q: Will the exchange ratio be adjusted in response to changes in the market price of Ameris common stock?**

A: The exchange ratio is fixed and will not be adjusted to reflect changes in the market price of the Ameris common stock. As a result, the value of the merger consideration will fluctuate with the market price of the Ameris common stock until the completion of the merger. The value implied by the exchange ratio for one share of Coastal common stock on \_\_\_\_\_, 2014, was \$ \_\_\_\_\_, based upon the closing price per share of the Ameris common stock on that date. We make no assurances as to whether or when the merger will be completed or, if completed, as to the market price of the Ameris common stock at the time of the merger or any time thereafter. You should obtain current market quotations for the Ameris common stock, which is listed on the Nasdaq Global Select Market under the symbol ABCB.

**Q: How will shares of Coastal Series A preferred stock be treated in the merger?**

A: Each outstanding share of Coastal Series A preferred stock will convert, in accordance with its terms, into one share of Coastal common stock immediately prior to the effective time of the merger. Each share of Coastal common stock issuable upon the conversion of a share of Coastal Series A preferred stock will be converted into the right to receive Ameris common stock in accordance with the exchange ratio and otherwise will be treated in

the merger in the same manner as all other shares of Coastal common stock.

**Q: How will options to purchase Coastal common stock treated be in the merger?**

A: Each outstanding and unexercised option to purchase shares of Coastal common stock awarded under the Coastal Bankshares, Inc. Stock Award Plan or the Coastal Bankshares, Inc. 2010 Long-Term Incentive Plan (each referred to as a Coastal option ) will be converted at the effective time of the merger into an option to purchase shares of Ameris common stock (referred to as a continuing Ameris option ) equal to the number of shares of Coastal common stock underlying the Coastal option multiplied by 0.4671, with an exercise price equal to the exercise price of the Coastal option divided by 0.4671.

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**Q: How will warrants to purchase Coastal common stock be treated in the merger?**

A: Each outstanding and unexercised warrant to purchase shares of Coastal common stock (each referred to as a Coastal warrant ) will be cancelled, pursuant to its terms, at the effective time of the merger, and the holder of the Coastal warrant will be entitled to receive from Ameris in respect of the Coastal warrant only a cash payment (referred to as a Coastal warrant cash-out payment ). The amount of the Coastal warrant cash-out payment with respect to each Coastal warrant is equal to the product of: (i) the number of shares of Coastal common stock issuable upon exercise of the Coastal warrant multiplied by (ii) (a) \$6.710, in the case of a Coastal warrant with an exercise price per share equal to \$3.85; or (b) \$0.269, in the case of a Coastal warrant with an exercise price per share equal to \$17.50. In order to receive the Coastal warrant cash-out payment, a holder of a Coastal warrant must deliver to Ameris all agreements and certificates evidencing the Coastal warrant.

**Q: What does the Coastal board of directors recommend?**

A: The Coastal board of directors has unanimously adopted and approved the merger agreement and the transactions contemplated thereby. The Coastal board of directors unanimously recommends that Coastal shareholders vote **FOR** the approval of the merger agreement and the transactions contemplated thereby.

**Q: When and where is the special meeting?**

A: The special meeting is scheduled to take place on \_\_\_\_\_, at \_\_\_\_\_ a.m., local time, at \_\_\_\_\_.

**Q: What should I do now?**

A: After you have read this document carefully, indicate on your proxy card how you want your shares to be voted. Then complete, sign, date and return your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting. It is important that the proxy card be received as soon as possible and in any event before the special meeting.

**Q: If my shares are held by my broker in street name, will my broker vote my shares for me?**

A: No. Without instructions from you, your broker will not be able to vote your shares on the proposal to approve the merger agreement and the transactions contemplated thereby. You should instruct your broker to vote your shares, following the directions provided by your broker to vote your shares. If you do not provide your broker with instructions on how to vote your shares held in street name, then your broker will not be permitted to vote your shares on the proposal to approve the merger agreement and the transactions contemplated thereby.

**Q: Can I change my vote after I mail my proxy card?**



A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. You can do this in one of three ways:

First, you can send a written notice to the Corporate Secretary of Coastal stating that you would like to revoke your proxy.

Second, you can complete and submit a new proxy card. Your latest proxy actually received by Coastal before the special meeting will be counted, and any earlier proxies will be revoked.

Third, you can attend the special meeting and vote in person. Any earlier proxy will thereby be revoked.

However, simply attending the special meeting will not revoke your earlier proxy.

If you choose either of the first or second ways to change your vote, then you must submit your notice of revocation or your new proxy card to Coastal prior to the special meeting. Your submissions must be mailed to the Corporate Secretary of Coastal at the address listed on the Notice of Special Meeting of Shareholders.

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**Q: What if I do not vote?**

A: Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. Although brokers have discretionary power to vote your shares with respect to routine matters, they do not have discretionary power to vote your shares on non-routine matters. Both proposals are non-routine and, therefore, your broker will not be able to vote your shares with respect to either proposal unless the broker receives appropriate instructions from you. If you do not provide your broker with instructions on how to vote your shares in street name, your broker will not be permitted to vote your shares on the proposal to approve the merger agreement and the transactions contemplated thereby, which will have the effect of an **AGAINST** vote on the merger agreement and the transactions contemplated thereby.

Coastal common stock or Coastal Series A preferred stock which is owned by holders electing to abstain from voting with respect to any proposal and broker non-votes will be regarded as present at the special meeting and counted towards the determination of whether a quorum exists.

**Q: What is the vote required to approve each proposal at the special meeting?**

A: The presence, in person or by proxy, of the holders of a at least a majority of the aggregate number of shares of Coastal common stock and Coastal Series A preferred stock entitled to vote at the special meeting is necessary to constitute a quorum for the special meeting. If a quorum exists at the special meeting, approval of the merger agreement and the transactions contemplated thereby requires the affirmative vote of at least a majority of all votes entitled to be cast by the holders of the Coastal common stock and Coastal Series A preferred stock (together, referred to as the Coastal stock ), voting together as a single class (referred to as the Coastal shareholder approval ). Approval of the proposal to adjourn or postpone the special meeting requires that more votes be cast in favor of the proposal than are cast against the proposal by the holders of Coastal common stock and Coastal Series A preferred stock, voting together as a single class.

In determining whether the proposal to approve the merger agreement and the transactions contemplated thereby has received the requisite number of affirmative votes at the special meeting, a failure to vote, an abstention or broker non-vote will be treated the same as an **AGAINST** vote. Failures to vote, abstentions or broker non-votes will not count as votes cast and will have no effect for purposes of determining whether the proposal to adjourn or postpone the special meeting has been approved.

**Q: Have any Coastal shareholders already agreed to vote in favor of the merger?**

A: Yes. Coastal's directors have entered into shareholder voting agreements with Ameris under which they have agreed, among other things, to vote all of the shares of Coastal common stock they beneficially own for the approval of the merger agreement and the transactions contemplated thereby. A total of 1,426,095 shares of Coastal common stock, representing approximately 42% of the outstanding shares of Coastal stock entitled to vote at the special meeting, are subject to these shareholder voting agreements. The form of the shareholder voting agreement entered into by each of the Coastal directors is attached as **Exhibit A** to the merger agreement,

which is attached as *Appendix A* to this proxy statement/prospectus.

**Q: Do I have the right to dissent and obtain the fair value for my shares?**

A: Yes. Holders of record of Coastal common stock and Coastal Series A preferred stock are entitled to exercise dissenters' rights in connection with the merger, provided the proper procedures of Article 13 of the GBCC are followed. A copy of Article 13 of the GBCC is attached as *Appendix C* to this proxy statement/prospectus. **Coastal shareholders who desire to exercise dissenters' rights pursuant to Article 13 of the GBCC are urged to consult a legal advisor before electing or attempting to exercise these rights.**

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**Q: What are the U.S. federal income tax consequences of the merger to Coastal shareholders?**

A: The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code), and the holders of shares of Coastal stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of their shares of Coastal stock for shares of Ameris common stock, except with respect to cash received in lieu of any fractional shares of Ameris common stock.

**Q: When do you currently expect to complete the merger?**

A: We expect to complete the merger in the third quarter of 2014. However, we make no assurances as to whether or when the merger will be completed. We must first obtain the Coastal shareholder approval at the special meeting and the necessary regulatory approvals, and the other conditions to completing the merger must be satisfied or waived.

**Q: Should I send in my Coastal stock certificates now?**

A: No. You should not send in your stock certificates at this time. Following the completion of the merger, the exchange agent appointed by Ameris will send you a letter of transmittal and instructions on surrendering your Coastal stock certificates. Once the exchange agent has received the proper documentation, the exchange agent will send you your shares of Ameris common stock and cash in lieu of any fractional shares of Ameris common stock.

**Q: Whom should I call with questions?**

A: If you have any questions about the merger or any of the proposals to be considered at the special meeting, need assistance in submitting your proxy or voting your shares or need additional copies of this proxy statement/prospectus or the enclosed proxy card, you should contact Coastal at:

Coastal Bankshares, Inc.

18 West Bryan Street

Savannah, Georgia 31401

Telephone: (912) 629-1621

Attn: G. Mike Odom, Jr.

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**SUMMARY**

*The following summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. You should read this entire document carefully and in its entirety, including the appendices and the other documents incorporated by reference into this proxy statement/prospectus, to fully understand the merger and the related transactions. For a list of the documents incorporated by reference into this proxy statement/prospectus, see Documents Incorporated by Reference.*

*Except as otherwise indicated or unless the context requires, as used in this proxy statement/prospectus: (i) references to Ameris refer to Ameris Bancorp and its consolidated subsidiaries; and (ii) references to Coastal refer to Coastal Bankshares, Inc. and its consolidated subsidiaries.*

**THE COMPANIES**

***Ameris Bancorp (see page 72)***

310 First St., S.E.

Moultrie, Georgia 31768

Telephone: (229) 890-1111

Internet Address: [www.amerisbank.com](http://www.amerisbank.com)

Ameris Bancorp, a Georgia corporation, is a bank holding company whose business is conducted primarily through Ameris Bank, a Georgia state-chartered bank and a wholly owned subsidiary of Ameris ( Ameris Bank ). As a bank holding company, Ameris performs certain shareholder and investor relations functions and seeks to provide financial support, if necessary, to Ameris Bank.

Ameris is headquartered in Moultrie, Georgia, and, through Ameris Bank, provides a full range of banking services to its retail and commercial customers through branches primarily concentrated in select markets in Georgia, Alabama, Florida and South Carolina. These branches serve distinct communities in Ameris' s business areas with autonomy but do so as one bank, leveraging Ameris' s favorable geographic footprint in an effort to acquire more customers.

Ameris was incorporated on December 18, 1980, as a Georgia corporation. Ameris operates 68 domestic banking offices with no foreign activities. At March 31, 2014, Ameris had approximately \$3.49 billion in total assets, \$2.48 billion in total loans, \$3.01 billion in total deposits and stockholders' equity of \$300 million. Deposits with Ameris Bank are insured, up to applicable limits, by the Federal Deposit Insurance Corporation (the FDIC ).

The Ameris common stock is listed on the Nasdaq Global Select Market under the symbol ABCB.

The information on Ameris' s website is not a part of this proxy statement/prospectus, and the reference to Ameris' s website address does not constitute incorporation by reference of any information on that website into this proxy statement/prospectus.



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***Coastal Bankshares, Inc. (see page 73)***

18 West Bryan Street

Savannah, Georgia 31401

Telephone: (912) 201-7377

Internet Address: *www.thecoastalbank.com*

Coastal Bankshares, Inc., a Georgia corporation, is a bank holding company whose business is conducted primarily through The Coastal Bank, a Georgia state-chartered bank and a wholly owned subsidiary of Coastal ( Coastal Bank ). As a bank holding company, Coastal performs certain shareholder and investor relations functions and seeks to provide financial support, if necessary, to Coastal Bank.

Coastal was incorporated under the laws of the State of Georgia on March 13, 1981 to acquire all of the issued and outstanding capital stock of Coastal Bank. Coastal is headquartered in Savannah, Georgia, and, through Coastal Bank, provides a full range of banking services to its retail and commercial customers through branches primarily concentrated in the greater Savannah, Georgia area.

Coastal operates six domestic banking offices and two domestic mortgage production offices with no foreign activities. At March 31, 2014, Coastal had total assets of \$425.6 million, total deposits of \$361.1 million, net loans of \$289.2 million and shareholders' equity of \$22.5 million. Coastal's book value per common share equivalent (including common and preferred stock) at March 31, 2014 was \$6.55. Deposits with Coastal Bank are insured, up to applicable limits, by the FDIC.

The information on Coastal's website is not a part of this proxy statement/prospectus, and the reference to Coastal's website address does not constitute incorporation by reference of any information on that website into this proxy statement/prospectus.

**THE MERGER**

*The terms and conditions of the merger are contained in the merger agreement, a copy of which is attached as **Appendix A** to this proxy statement/prospectus and is incorporated by reference herein. You should read the merger agreement carefully and in its entirety, as it is the legal document governing the merger.*

**The Merger (see page 33)**

In the merger, Coastal will merge with and into Ameris, with Ameris as the surviving company in the merger. It is expected that, after the effective time of the merger and at or after the close of business on the closing date of the merger, Coastal Bank will merge into Ameris Bank, with Ameris Bank as the surviving bank of such merger. The merger of Ameris Bank and Coastal Bank may be abandoned at the election of Ameris Bank at any time. We refer to the merger of Ameris Bank and Coastal Bank as the bank merger.

**Closing and Effective Time of the Merger (see page 57)**

Unless both Ameris and Coastal agree to a later date, the closing of the merger will take place on a date no later than three business days after all of the conditions to the completion of the merger have been satisfied or waived, other than

those that by their nature are to be satisfied or waived at the closing of the merger. Simultaneously with the closing of the merger, Ameris will file articles of merger with the Secretary of State of the State of Georgia. The merger will become effective at such time as the articles of merger are filed or such other time as may be specified in the articles of merger.



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**Merger Consideration (see page 57)**

Each share of Coastal common stock outstanding immediately prior to the effective time of the merger (excluding dissenting shares) will be converted into the right to receive 0.4671 of a share of Ameris common stock.

No fractional shares of Ameris common stock will be issued in connection with the merger. Instead, each Coastal shareholder who would otherwise receive a fractional share of Ameris common stock will receive a cash payment (rounded to the nearest whole cent) equal to: (i) \$21.41 multiplied by (ii) the fractional share amount. For example, if you hold 1,000 shares of Coastal common stock immediately prior to the effective time of the merger, then you will have the right to receive 467 whole shares of Ameris common stock (1,000 x 0.4671) and \$2.14 in cash (0.10 x \$21.41).

Coastal shareholders are entitled to exercise dissenters' rights in connection with the merger, provided the proper procedures of Article 13 of the GBCC are followed. Shares of Coastal common stock outstanding immediately prior to the effective time of the merger and which are held by a Coastal shareholder who does not vote to approve the merger agreement and the transactions contemplated thereby and who properly demands the fair market value of such shares pursuant to, and complies with, Article 13 of the GBCC, will not be converted into the right to receive shares of Ameris common stock in the merger and are referred to as dissenting shares.

**Equivalent Coastal Per Share Value**

The exchange ratio is fixed and will not be adjusted to reflect changes in the market price of the Ameris common stock. As a result, the value of the merger consideration will fluctuate with the market price of the Ameris common stock until the completion of the merger. We make no assurances as to whether or when the merger will be completed or, if completed, as to the market price of the Ameris common stock at the time of the merger or any time thereafter.

The Ameris common stock is listed on the Nasdaq Global Select Market under the symbol ABCB. The Coastal common stock is not listed or traded on any established securities exchange or quotation system. Accordingly, there is no established public or private trading market for the Coastal common stock. Coastal common stock has only been traded inactively in private transactions.

The following table presents the closing price per share of Ameris common stock on March 10, 2014, the last trading day before the date of the public announcement of the merger agreement, and \_\_\_\_\_, 2014, the last practicable trading day prior to the printing of this proxy statement/prospectus. The table also presents the implied value of the merger consideration for each share of Coastal common stock on those dates, calculated by multiplying the closing price per share of Ameris common stock on those dates by the exchange ratio of 0.4671. Based on the exchange ratio and assuming no Coastal warrants or Coastal options are exercised prior to the effective time of the merger, Ameris expects to issue approximately 1,599,112 shares of Ameris common stock upon completion of the merger. Based on the 100,000 shares of Coastal common stock underlying Coastal options outstanding as of \_\_\_\_\_ &nbmes New Roman; font-size:12pt">Our ability to meet changing customer requirements; and

Our ability to enhance our current products and services and deliver them efficiently through appropriate distribution channels.

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Table of Contents**Technology**

The function of loudspeakers is to increase the volume of sound in order to enable the sound to be heard by many persons occupying a large area. For many years, the loudspeaker industry used certain types of components to increase the volume of sound. The technology originally permitted only the types of components that required low electrical power in order to achieve high volume sound. In the past, loudspeakers consisted in part of a component called the compression driver. This device generally is used to reproduce the mid-range and high frequencies of sound. Early compression drivers consisted of a diaphragm made of a linen-based manmade resin material that is enclosed in a chamber. This diaphragm was generally formed as a partial sphere, similar to a ball that has been cut in half. The edges of the diaphragm were then wound many times with a fine electrical wire called a voice coil. Electrical current from an amplifier is sent through the wire and the diaphragm vibrates to produce the sound wave. However, in the compression driver, the diaphragm is enclosed in a chamber with the sound exiting out of a relatively small hole that increases the velocity of the sound. This is similar to forcing air or water through a small hole to increase its velocity. The disadvantage of the compression driver is that before the sound waves are forced through the small hole they are first bounced around inside of the chamber and become distorted and tend to produce a certain amount of listening fatigue for audiences. Today the compression drivers use a diaphragm made from aluminum and titanium and can produce the same high volume but with higher frequency sounds. Although today's compression drivers are superior to those of the past due to the new materials, the negative aspects still exist to a degree because of the nature of the design of the compression driver.

Originally the diaphragm of the ribbon driver consisted of a material made from mylar plastic. This plastic component produced a better quality sound but was not able to handle the amount of electrical current needed to produce a high level of sound. This caused the component to melt and thereby cease to function. In addition, the ribbon drivers required relatively large, cumbersome and heavy magnet assemblies using ceramic magnets. Over the years the ribbon driver was developed using higher-powered magnets and materials that could withstand higher temperatures.

The ribbon driver works in a different manner than the compression driver. The diaphragm of the ribbon driver is a flat piece of mylar plastic or in the case of SLS ribbon drivers, a high temperature Kapton plastic. These materials are considerably thinner and lighter than the linen or even the aluminum or titanium diaphragms of the compression drivers. The ribbon diaphragm is laminated on one side with a thin coating of aluminum. This aluminum is then chemically etched to leave wire-like traces of aluminum that act as a voice coil, vibrating the diaphragm when current is applied. The diaphragm of the ribbon driver is not in a chamber and is open and visible to the air. The sound waves are not restricted and therefore they do not have the distorted properties of the compression driver. Because the diaphragm of the ribbon driver is so thin and light it reacts very quickly to the electrical signal and does not introduce new or resonated sounds created by the material of the diaphragm itself. This enables the ribbon driver to produce a

much purer reproduction of the sound source without adding any tones of its own.

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In 1994, we purchased several ribbon drivers from a non-affiliated European company to determine if they could be used in our loudspeaker systems. Prior to this, we were only using compression drivers. We immediately noticed the difference in the quality of sound and began to install the ribbon drivers in some of our own smaller speaker cabinets that did not require high electrical power. Due to the positive response from our customers we decided to develop a completely new product line using the ribbon drivers that we purchased from the European manufacturers.

In February 2000, we retained Igor Levitsky, an electro-acoustics engineer to develop a new technology ribbon driver for us. We requested that he develop two different-sized ribbon drivers and we paid a fixed fee for his work. We also agreed to pay him a royalty of \$2,000 per year for an indefinite period of time. In April 2001, Mr. Levitsky became our employee and waived his royalty. Research and development expense was \$17,568 in 2001 and \$22,095 in 2002. The cost of such research and development is not borne directly by our customers.

The ribbon driver that we have developed uses new lightweight high-powered magnets and plastics that can withstand high temperatures. This enables the speaker system to have increased power-handling ability and higher sound volume with substantial reliability and clarity. We have completed development of our own proprietary ribbon driver, model PRD 500, a 5-inch version of the ribbon driver. We have recently started to directly manufacture models PRD 500 and PRD 1000, for use in our Home Theatre line, Universal Soldier Commercial line and our Professional line of loudspeakers. Sale of the Commercial line of loudspeakers with direct-manufactured ribbon drivers began in June 2001, and sales of the Professional line of products with direct-manufactured ribbon drivers began in September 2001. This direct manufacture of ribbon drivers substantially reduces our product cost, and it also provides improved performance for our loudspeaker systems. We also expect to use the PRD 1000 in a proposed Cinema Line of loudspeakers for movie houses.

**Products**

Previously, when we were involved in selling and installing our products for end-users, our product line consisted of twelve models of Professional Contractor speaker systems. As a result of the change in operations to a wholesale business, selling to distributors, we have increased our product lines. In addition to the models previously

manufactured, we have added two new product lines, consisting of twelve new models, and increased the number of models we manufacture under our Professional Contractor System.

Our Professional Contractor Speaker System line presently consists of eighteen models of speaker systems, each model consisting of a speaker cabinet and components of woofers which provide the bass sounds and ribbon drivers which provide the treble sound. This line, the cabinets of which we generally manufacture, is usually sold to large contractors and is installed for churches, theatres, school auditoriums, casinos, night clubs and touring production companies. Although we now manufacture our own ribbon drivers, the woofers are manufactured to our specifications by non-affiliated manufacturers.

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Our Commercial line, the Universal Soldier Speaker System, consists of lower-cost speakers which are designed to be sold by music stores for orchestras, disc jockeys and the less expensive commercial market. There are twelve models of different size, with less expensive components that produce varying sound levels and area coverage capabilities. These are equal in quality to, but do not produce the sound levels of, our Professional Contractor Speaker System Line.

We recently developed a new line of loudspeakers for the home theatre market. We intend to direct a substantial effort to capture an appropriate market share of the home theatre market. Our Home Theatre Loudspeaker System consists of four models that use the smallest unit of our Professional Contractor Loudspeaker System as their basis. We manufacture the cabinetry and the ribbon drivers for this system, our PRD 500. These systems are designed for boardroom and for the home. The home theatre market requires equipment that uses five or more speakers placed around a room. This configuration provides the listener with surround sound similar to a movie theatre experience. Almost all current movies are now produced in surround sound, which uses at least five speakers plus a sub-woofer system.

Revenue from our ribbon driver product line is expected to account for a material portion of our revenue for the foreseeable future. Our financial performance will depend on market acceptance of our ribbon driver technology and products. The sound system industry continually introduces technological developments, frequently announces new products, and has evolving industry standards and changing customer requirements. As a result, if our ribbon driver technology and product line do not rapidly achieve sufficient market acceptance, we may not be able to achieve expected revenues or profits.

## **Future Products**

We re-packaged certain models of our Professional Contractor Sound Systems for the cinema and movie theatre market by simplifying the cabinetry. In a typical movie house, the speakers are usually not displayed in view of the public, which allows for simplified cabinetry. The new cabinetry is designed to be less costly, as are the other components, which we expect to provide our representatives with a cost advantage in marketing our system to cinema owners. At present, a total of ten models are being repackaged for this line. We are conducting tests on the repackaged models and plan to introduce them in Fall 2003.

We have developed a new less-expensive 5.1 Home Theater system, which is nearly ready for production. All research and development has been completed, and we are waiting for the delivery schedule from our vendors for the cabinets and other parts that we do not manufacture.

## **Manufacturing and Sourcing**

We generally design and manufacture our own cabinets for our product lines, and on occasion contract certain models manufactured by independent, established, local and other woodcrafters. These manufacturers construct the cabinetry to our specifications. Our ribbon

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drivers are either directly manufactured or purchased from a non-affiliated manufacturer, B&G Corporation. The principal suppliers of our woofers are Belisle Acoustics, Eminence, PHL and Seas Speaker Component Manufacturers. The manufacture of our own ribbon drivers has resulted in a meaningful reduction in costs, and we expect that it will enable our products to be more competitively priced.

Our sources of supply of other component sub-parts are all competitively priced and we have a sufficient number of other sources of supply available to us should the need arise for additional components. If a termination of existing

relationship with any current supplier occurs we do not expect to have any difficulty in replacing that source. We presently purchase most of the woofers used in our systems from a non-affiliated Canadian company that produces them according to our specifications.

## **Sales and Marketing**

*Domestic.* We are no longer engaged in the installation of speaker systems but are solely involved with the design, manufacture and distributor sale of our loudspeaker product lines. In addition to advertising in trade journals and attending industry conventions for promotion and sale of our products, we are in the process of establishing a network of distributors to cover the territorial United States. Currently, we have approximately 100 dealers for our Professional line, 6 distributors for our Professional and Commercial lines, 20 dealers for our Home Theatre line, 2 domestic and 6 international distributors for our Home Theatre line, and 100 dealers for our Commercial line. These outlets sell our products in approximately three-quarters of the United States and six foreign countries. Our agreement with our dealers requires them to use their best efforts to promote and advertise our products, maintain a minimum inventory of loudspeaker systems and produce a minimum of annual sales. The agreement requires that we are to design products with the highest-quality standards and provide suggested user prices to dealers. The dealer agreement may be terminated without cause by either party on 30 days notice.

We train the sales representatives to enable them to deal more easily with customer questions. As manufacturers, we are always available to respond to inquiries of customers and potential customers, if and when required. Although we are small in comparison to the industry leaders, we are seeking to become established in a niche market consisting of commercial and residential customers who are more interested in a truer reproduction of sound than in a brand name.

In June 1999, we ceased selling our loudspeaker systems directly to end-users. Up to that time, we sold only the Professional Contractor Loudspeaker Systems to end-user customers, primarily churches, schools, nightclubs and similar establishments. These systems contained ribbon drivers manufactured by others. From June 1999 through June 2000, we converted to a manufacturing company and developed more products. These additional products consisted of the Commercial line of Universal Soldier Loudspeaker systems and Home Theatre speaker systems. In 2002, we sold 300 units of the Universal Soldier systems, a total of 325 units of the Home Theatre Systems, and 400 units of our Professional Contractor systems.

We will continue to design and manufacture the same products as previously sold to end-users for sale through our dealer network. The Universal Soldier and Home Theatre lines that we manufacture contain our new technology ribbon driver model PRD 500. The Professional Contractor Loudspeaker product line contains our new technology ribbon driver model PRD 1000.

*International.* We are also engaged in marketing and promotion internationally. Our international business involves a number of risks, including:

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foreign currency exchange fluctuations;

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political and economic instability;

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difficulty in managing distributors or sales representatives;

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tariffs and other trade barriers; and

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complex foreign laws and treaties including employment laws.

Because our sales are in US currency, foreign currency exchange fluctuations could materially affect us negatively. A decrease in the value of foreign currencies as they relate to the U.S. dollar could make the pricing of our products more expensive than products of our foreign competitors which are priced in foreign currencies. Because of the fluctuating exchange rates and our involvement with a number of currencies, we are unable to predict future operating results.

In January 1999, the new Euro currency was introduced in European countries that are part of the European Monetary Union, or EMU. During 2002, all EMU countries replaced their national currencies with the Euro. Because it is too early to determine the effect the Euro will have on the marketplace, we cannot determine the effect this may have on our business.

In the future we expect to make significant investments in our operations, particularly to support technological developments and sales activities. As a result, operating expenses are expected to continue to increase. As we develop

and introduce new products and expand into new markets such as international, direct and OEM markets, we intend to make such investments on a continuing basis, primarily from revenues generated from operations and from funds raised from sales of our stock. If our net sales do not increase along with capital requirements or other investments, we are likely to continue to incur net losses and our financial condition could be materially and adversely affected. Since 1998 we have not been profitable due mostly to the shift in our operating focus, and we cannot be certain that we will achieve or sustain profitability in the future.

## Competition

Our main competitors are JBL Professional, a division of Harmon International, Inc.; Eastern Acoustics Works, Inc.; Meyer Sound, Inc.; Turbosound, Inc.; and Renkus-Heinz, Inc. All of these companies have substantially greater assets and financial resources than we do. Most of the competitors compete in both the higher priced, more sophisticated line of loudspeaker systems, which are similar to our Professional Contractor Speaker Systems, and lower priced,

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less sophisticated line of loudspeaker systems, similar to our Universal Soldier Speaker Systems. Meyer Sound and Renkus-Heinz are engaged only in the more expensive speaker systems. All of these competitors presently use the compression driver component in their sound systems. Although our ribbon driver products are new, the nature of the market for our loudspeaker products is highly competitive and sensitive to the introduction of new products. As a result, we may experience increasing competition in the future.

Our success will depend, in part, upon our ability to increase sales in our targeted markets. We may not be able to compete successfully with our competitors and the pressures from competitors may have a material adverse effect on us. Our success will depend in large part upon our ability to increase our share of our target market and to sell additional products to existing customers. However, future competition could result in price reductions, reduced margins or decreased sales of our products.

We currently compete primarily with the internal design efforts of larger and more established companies that have larger technical staffs, more established and larger marketing and sales organizations and significantly greater financial resources than we have. Such competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They are able to devote greater resources to the development, sale



and promotion of their products than we are able to devote. They may develop products that are superior in certain respects to our products or may develop products that achieve greater market acceptance.

### **Proprietary Technology**

We are the owners of the proprietary ribbon driver technology for our models PRD 500 and PRD 1000. We have no patents on this technology. However, we have filed a Disclosure Statement with the US Patent and Trademark Office as evidence of our conception of the invention, and we filed a patent application in September 2002. Although we have filed for a patent we cannot be certain that a patent will be granted, or that it will give us an advantage over our competitors.

The laws of some foreign countries do not protect or enforce proprietary rights to the same extent as do the laws of the United States. Also, our domestic and international competitors may develop other technology which produces results similar to our technology. We expect that some loudspeaker products may be subject to patent infringement claims as the number of products and competitors in our industry grows. As a result, third parties may assert patent infringement claims against us in the future, and such claims may not be resolved in our favor. Any such claims, with or without merit, could be time-consuming and may result in costly litigation. Such claims may also require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if they become necessary, may not be available on terms that are favorable to us, if at all. In addition, we may be forced to commence litigation in the future to protect our trade secrets or proprietary rights, or to determine the validity and extent of the proprietary rights of others. Such possible litigation could result in substantial costs and diversion of our energy and resources.

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### **Employees**

We have a total of 11 employees, one of which is executive, two are administrative, one is a marketing director, and seven are technical. In the past, we have employed temporary and part-time employees to meet production obligations and fill orders. There is presently no labor union contract between any union and us. We do not anticipate our employees will seek to form or join a union for the foreseeable future.

## Business Strategy

As a result of our experience, we have determined that maintaining consistent contact with distributors, customers and others in the industry and continued marketing through conventions and trade magazines will produce additional business. We have determined that marketing our products by the distributor/sales representative network is best suited to generate revenue. Our distributors are expected to be our primary source of business in coming years. In addition, the sales representatives will enable us to monitor the effectiveness of our marketing program. Now that we have the ability to manufacture our own ribbon drivers, we will derive savings from the cost of purchasing compression drivers and ribbon drivers from third parties. Both the cost savings and the quality of the lower distortion, as demonstrated by our Tef 20 analysis device, are expected to enable us to establish a place in the home, commercial and professional loudspeaker markets.

We have recently re-focused our business on the development and application of our ribbon driver technology. This new business may not be successful and our future operating performance may not bring about the results that we are seeking. Our operating results for the future periods are subject to all of the risks and uncertainties which are inherent in the establishment of new business enterprises. Our future operating results will depend upon:

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market acceptance of our ribbon driver technology;
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our success in establishing and expanding the distribution network nationwide and internationally;
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our success in establishing ribbon driver products as a retail product line;
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our success in attracting a strategic partner;
- .  
availability of capital;
- .  
our success in attracting and retaining motivated and qualified personnel, particularly in the technical areas; and
- .  
our marketing of new products and ribbon driver technology applications.

Our initial market concentration has been in the area of church construction and cinema theatre construction. The larger speakers we currently manufacture have been specifically designed for use in the church and cinema markets.

We intend to continue advertising in trade journals and attending industry conventions to maintain our image as a competitor in the loudspeaker industry in the U.S. and internationally. We are seeking to derive profits and competitiveness by sales through the dealer network of our product line using our new, less costly, ribbon driver manufactured by us, beginning in 2001. However, we cannot assure investors or predict profits from distributor sales or any other business activity.

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At the appropriate time, we intend to investigate possible strategic alliances with key industry participants to strengthen our image, our product components and our distribution pattern. We cannot be certain that a future alliance opportunity will present itself; or, if an opportunity is presented, that it will result in a profitable working relationship. It is likely that in some future financial quarter or quarters, our operating results will be below the expectations of securities analysts and investors. If a shortfall in revenue occurs, the market price for our common stock may decline significantly. The factors that may cause our quarterly operating results to fall short of expectations include:

- .
- our ability to develop and market our new ribbon driver loudspeaker products in a timely manner;
- .
- the size and timing of customer orders;
- .
- seasonality of sales;
- .
- availability of capital;

the degree and rate of growth of the markets in which we compete and the accompanying demand for our loudspeaker products;

our suppliers' ability to perform under their contracts with us.

Many of these factors are beyond our control. For these reasons, you should not rely on period-to-period comparisons of our financial results to forecast our future performance.

### **Property**

We do not own any real property. We presently lease and operate in 19,500 square feet of office and factory space at our current address from a nonaffiliated landlord. The lease expires on August 31, 2003. The monthly rental is presently \$4,650. Our facility is divided into four equal 3,000 square foot sections that are internally connected plus one 7,500 square foot adjoining section. One of the 3,000 square foot sections is used for cabinet fabrication; another is used for storage of completed cabinets and component storage; the third is used for assembly and shipping; and the fourth is used for engineering and administration. The 7,500 square foot section is used for inventory, packaging and trade show materials storage. These facilities are suitable for producing in excess of 300 finished speaker cabinets per week and for the production of up to 1,500 ribbon drivers per month. Although we have no plans to relocate our facility, should the occasion arise to do so, there is ample factory and office space available at other locations in the region at similar or competitive rates. In addition, we have three subcontractor cabinet shops that add to our production capabilities. These companies are highly automated and can supply up to a total of 2000 cabinets per week on scheduled notice.

In July 2003, we agreed to lease an additional 7,500 square feet of space for \$2,000 per month. We are planning the build-out of this space, which we intend to use for additional inventory space for the components and cabinets needed for (a) planned increases in production, (b) additional engineering testing space to perform critical tests and produce data for sound system designers to provide specifications for products, and (c) on-site product demonstrations. We anticipate that this additional space, together with our existing space, will be sufficient to meet our needs for projected sales levels for the next two to three years.

## Litigation

On December 24, 2002, 21-Day Capital Corporation filed a complaint against us in the Superior Court of California, County of Los Angeles. 21-Day Capital Corporation is the assignee of certain rights of Muir, Crane & Co. The complaint alleges breach of contract and seeks the payment of \$48,750.67, plus interest, attorneys' fees and costs, and other relief as the court deems proper. We filed an answer on February 6, 2003 denying the allegations contained in the complaint and asserting affirmative defenses.

## MANAGEMENT

### Directors, Executive Officers, Promoters and Control Persons

The following table sets forth the names, ages and offices of the Company's executive officers and directors:

Name	Age	Office
John M. Gott	52	President, CEO, CFO and Director
Robert H. Luke, Ph.D.	61	Director
Michael L. Maples	54	Director

**John M. Gott**, our President, Chief Executive Officer, Chief Financial Officer and Director, founded SLS in July 2000 in connection with the merger between SLS and its predecessor. He was also founder and Chief Executive Officer of Sound and Lighting Specialists, Inc., the predecessor of SLS International, Inc., which was founded in October 1994. The predecessor engaged in the sale and installation of sound and lighting systems. Mr. Gott acted as its President and CEO since inception. In that capacity he spearheaded its growth with respect to the sale and installation of sound and lighting systems across the world, including in Carnegie Hall and Disney World in Tokyo. He was our primary salesman through August 2001, when we hired another salesman. Mr. Gott has also been instrumental in the conceptual design and marketing of most of our products.

**Robert H. (Robin) Luke, Ph.D.**, has served as a Director since 2001. He is Professor of Marketing and the Department Head of the Marketing Department at Southwest Missouri State University. He has served as the first Department Head of two Marketing Departments and directed the development of the MBA/MPA programs for the

University of the Virgin Islands. Dr. Luke has owned and developed several businesses and regularly consults with major U.S. corporations and institutions on marketing issues as a Senior Consultant with R.H. Luke & Associates. He served the Academy of Marketing Science as a member of its Board of Governors from 1992 to 1996 and as Vice President of Development, Vice President and Vice President for Academic Affairs. He presently serves as a Board Member of the Marketing Management Association. He has given or continues to give service commitments to the Boards of Directors or Boards of Advisors of the following organizations: Missouri Partnership for Outstanding Schools, Ozark Greenways, Community Investment Alliance, Sports Directories International, the Community Foundation of the Ozarks, Vision 20/20, the Downtown Springfield Association, Ozarks Chapter of the Boy Scouts of America, A+ Advisory Board of Glendale High School, and Lake County Youth Soccer.

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Dr. Luke has presented numerous papers at international, national and regional marketing conferences. He serves on the Editorial Review Board of the Journal of the Academy of Marketing Science, Journal of Marketing Management. His writings have appeared in over 14 publications. He is the author of *Business Careers*, an informational source on career opportunities for students, counselors and advisors wishing to know more about business professions. At the age of sixteen, under the name Robin Luke, he wrote and performed *Susie Darling*, a song that sold over two million copies from 1958 to 1960 and became number one around the world. His career as a recording artist spanned five years and 14 records. He has received numerous awards, including Distinguished Fellow of the Academy of Marketing Science, the Marketing Management Association's Firooz Hekmat Award in Consumer Behavior and their prestigious Marketing Excellence Award, best paper awards from national and international organizations, and the Gift of Time Award from his home city of Springfield Missouri.

**Michael L. Maples** has served as a Director since 2001. He is Chief Financial Officer, Chief Administrative Officer, Vice President, Treasurer and Corporate Secretary of TranSystems Corporation, an engineering, planning, and consulting firm for the transportation industry. From 1994 to 1996, he was Senior Financial Consultant for Glass & Associates, a consultant to businesses in critical stages of development. From 1991 to 1994, Mr. Maples was Senior Vice President and Controller for Franklin Savings Association, a publicly held group of financial companies. From 1987 to 1991, he was Vice President of Finance & Information Systems for McNally Wellman Company. From 1987 to 1989 he was Treasurer and Corporate Secretary for McNally Pittsburgh, Inc., a group of privately owned engineering and manufacturing companies supplying equipment, systems, parts, and service to the international and domestic material handling industry. From 1983 to 1987, he was Controller and Staff CPA for Gage & Tucker, a multi-office law firm specializing in corporate representation. From 1976 to 1983, he was a Certified Public Accountant, first at Touche Ross & Co., then with a regional firm, and finally as a sole practitioner.

Each director is elected at the annual meeting of stockholders and each director is elected to serve until his successor shall be elected and shall qualify.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

No reports have been required under Section 16(a) of the Securities Exchange Act of 1934, as amended, because our common stock is not registered under Section 12 of such act.

### **Statement as to Indemnification**

Section 145 of the Delaware General Corporation Law provides for indemnification of our officers, directors, employees and agents. In general, these sections provide that persons who are officers or directors of the corporation may be indemnified by the corporation for acts performed in their capacities as such.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling SLS pursuant to the provisions in the SLS By-Laws, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Executive Compensation**

The following summarizes the principal compensation received by our executive officers for the fiscal years indicated:

Name & Principal Position	Year	Salary	Bonus	Other Annual
				Compensation(a)
John M. Gott President	2002	\$50,440	0	\$3,898
	2001	\$50,440	0	\$2,614
Richard L. Norton(b) Vice President	2002	\$35,384	0	\$2,487
	2001	\$40,000	0	\$6,547

(a)

All amounts are payments of medical insurance.

(b)

Resigned on November 18, 2002.

Each executive officer also serves as a director but receives no compensation for acting as a director. We intend to pay future outside directors who are not officers reasonable and customary fees for their services as directors and for attendance, in person or by telephone, at each meeting of the Board of Directors. We presently have no audit, compensation or nominating committee.

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**PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information as of August 6, 2003 with respect to the beneficial ownership of our common stock by all persons known by us to be beneficial owners of more than 5% of the outstanding shares of our common stock, by directors who own common stock and all officers and directors as a group:



<b>Name &amp; Address</b>	<b>Shares</b>	<b>Percent(1)</b>
John M. Gott 1020 S. Pickwick Springfield, MO 65804	10,590,736(2)	43.9%
Robert H. Luke 818 N. Forest Springfield, MO 65802	16,500(3)	*
Michael L. Maples 12608 Howe Drive Leawood, KS 66209	10,000(3)	0%
Richard L. Norton 818 N. Forest Springfield, MO 65802	3,420,544	14.2%
Officers and Directors as a Group (3 persons)	10,587,236	43.9%

All such shares are owned directly by the named stockholders.

\*

Less than one percent

(1)

Based upon a total of 24,114,528 shares outstanding on August 6, 2003.

(2)

Includes (a) an option to purchase 3,420,544 shares owned by Richard L. Norton for \$.05 per share, or if lower, 50% of the 5-day average trading price if the trading price and (b) an option to purchase 10,000 shares at \$0.25 per share.

(3)

Includes options to purchase 10,000 shares at \$0.25 per share.

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**Equity Compensation Plans**

On August 6, 2003, we had the following securities issued and available for future issuance under equity compensation plans:

	(a)	(b)	(c)
	Number of securities to	Weighted-average exercise	Number of securities
	be issued upon exercise of	price of outstanding options,	remaining available for
	outstanding options,	warrants and rights	future issuance
	warrants and rights	warrants and rights	under equity
	645,000 shares of	\$0.29 per share	compensation plans
	common stock	1,355,000 shares of	(excluding
	common stock	common stock	securities reflected
	100,000 shares of	\$2.50 per share	in column (a))
	preferred stock*	0	1,355,000 shares of
	1,100,000 shares of	\$0.25 per share	common stock
	common stock	0	common stock
<b>Equity compensation plans approved by security holders</b>			
<b>Equity compensation plans not approved by security holders</b>			

<b>Total</b>	1,745,000 shares of	\$0.27 per share of	1,355,000 shares of
	common stock and	common stock and	common stock
	100,000 shares of	\$2.50 per share of	
	preferred stock	preferred stock	

\*

Represents options to purchase 100,000 shares of Class A preferred stock at an exercise price of \$2.50 per share (each such share of preferred stock converts into 10 shares of common stock). These options were issued pursuant to an agreement dated April 18, 2002 with Sam F. Hamra for consulting services.

### **CERTAIN TRANSACTIONS WITH MANAGEMENT AND OTHERS**

During 1999, certain receivables totaling \$80,000 due to SLS from Mr. Gott and Richard Norton were paid by them through an assignment of certain equipment rental fees. The assigned fees had been due them individually for equipment owned by them and leased to non-affiliated third parties. We also received a commission from Messrs. Gott and Norton for handling the rentals and income over a period of three years on their behalf. As of June 30, 2003, we owed \$22,674 to Mr. Gott and \$0 to Mr. Norton.

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### **SELLING STOCKHOLDERS**

The following table presents information regarding the selling stockholders. Neither the selling stockholders nor any of their affiliates have held a position or office, or had any other material relationship, with us.

	Shares		Percentage of	
	Beneficially Owned Before Offering	Outstanding Shares Beneficially Owned Before Offering (1)	Shares to be Sold in the Offering	Percentage of Shares Beneficially Owned After Offering
<b>Selling Stockholders</b>				
Steerpike (Overseas) Ltd. (1)	1,000,000	4.0%	1,000,000	0%
Beth Broday (1)	100,000	0.4%	100,000	0%

(1)

Represents shares that may be acquired upon the exercise of outstanding and fully exercisable options at an exercise price of \$0.25 per share.

(2)

Percentage of outstanding shares is based on 25,214,528 shares of common stock, which consists of the number of shares outstanding on August 6, 2003, plus the assumed exercise of the options to purchase 1,100,000 shares held by the selling stockholders.

## PLAN OF DISTRIBUTION

The common stock offered by this prospectus is being offered by Steerpike (Overseas), Ltd., the selling stockholder. The common stock may be sold or distributed from time to time by the selling stockholder directly to one or more purchasers or through brokers, dealers, or underwriters who may act solely as agents at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. The sale of the common stock offered by this prospectus may be effected in one or more of the following methods:

.

ordinary brokers transactions

.

transactions involving cross or block trades

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through brokers, dealers, or underwriters who may act solely as agents

at the market into an existing market for the common stock

in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents

in privately negotiated transactions

any combination of the foregoing

In order to comply with the securities laws of certain states, if applicable, the shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the state or an exemption from the registration or qualification requirement is available and complied with.

Brokers, dealers, underwriters, or agents participating in the distribution of the shares as agents may receive compensation in the form of commissions, discounts, or concessions from the selling stockholder and/or purchasers of the common stock for whom the broker-dealers may act as agent. The compensation paid to a particular broker-dealer may be less than or in excess of customary commissions.

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Neither we nor the selling stockholder can presently estimate the amount of compensation that any agent will receive. We know of no existing arrangements between the selling stockholder, any other stockholder, broker, dealer, underwriter, or agent relating to the sale or distribution of the shares offered by this prospectus. At the time a particular offer of shares is made, a prospectus supplement, if required, will be distributed that will set forth the names

of any agents, underwriters, or dealers and any compensation from the selling stockholder and any other required information.

We will pay all of the expenses incident to the registration, offering, and sale of the shares to the public other than commissions or discounts of underwriters, broker-dealers, or agents. We have also agreed to indemnify the selling stockholder and related persons against specified liabilities, including liabilities under the Securities Act.

We have advised the selling stockholder that while it is engaged in a distribution of the shares included in this prospectus it is required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling stockholder, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered hereby this prospectus.

This offering will terminate on the date that all shares offered by this prospectus have been sold by the selling stockholder.

## **DESCRIPTION OF CAPITAL STOCK**

### **Common Stock**

Our authorized capital stock consists of 75,000,000 shares of common stock, par value \$.001 per share. On August 6, 2003, there were outstanding a total of 24,114,528 shares of common stock. The holders of shares of common stock:

.

have equal ratable rights to dividends on funds legally available for dividends, provided dividends are declared by the our Board of Directors

.

are entitled to share proportionately in all of our assets available for distribution to holders of common stock upon any sale, dissolution or winding up of our affairs

.  
do not have priority rights to subscribe for future offerings of shares of common stock by us

.  
do not have any priority rights to convert their shares of common stock into any of our other securities

.  
do not have rights to subscribe for shares or convert their shares

.  
have no right to have their shares redeemed by us

.  
are entitled to one vote per share on all matters upon which stockholders may vote at all meetings of stockholders

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All shares of common stock now outstanding are fully paid for and are not assessable by us; and all the shares of common stock that are the subject of this offering, when issued, will be fully paid for and will not be assessable by us.

The holders of shares of our common stock do not have cumulative voting rights, which are rights to accumulate votes to be cast for directors in an election. In this way a stockholder could vote his or her entire total of votes for one director only, and not vote for any other director. However, because there is no cumulative voting, the holders of more than 50% of the outstanding shares, when voting for the election of directors, can elect all of the directors to be elected, if they so choose. As a result, the holders of the remaining shares will not be able to elect any of our directors. Upon completion of this offering, Mr. Gott will own 42% of our common stock. Such a concentration of ownership could have an adverse effect on the price of the common stock. It may have the effect of delaying or preventing a change in control, including transactions in which stockholders might otherwise receive a premium for their shares over the then current market prices.

Some provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us even if a change of control would be beneficial to our stockholders. These provisions include:

.  
authorizing the issuance of preferred stock without common stockholder

approval

.  
prohibiting cumulative voting in the election of directors

.  
limiting the persons who may call special meetings of stockholders

### **Preferred Stock**

Our authorized capital stock also includes 5,000,000 shares of preferred stock, \$.001 par value, of which 2,000,000 shares have been designated Series A Preferred Stock and are outstanding on the date of this prospectus. Our articles of incorporation authorize a class of preferred stock commonly known as a blank check preferred stock. Specifically, the preferred stock may be issued from time to time by the board of directors as shares of one or more classes or series. Our board of directors, subject to the provisions of our Certificate of Incorporation and limitations imposed by law, is authorized to adopt resolutions to issue the shares; to fix the number of shares; to change the number of shares constituting any series; to provide for or change the voting powers, designations, preferences, and relative, participating, optional or other special rights, qualifications, limitations or restrictions; the dividend rights, including whether dividends are cumulative; to fix dividend rates; to fix terms of redemption, including sinking fund provisions; to fix redemption prices; to fix conversion rights; and to fix liquidation preferences of the shares constituting any class or series of the preferred stock.

In each such case, we will not need any further action or vote by our stockholders. One of the effects of undesignated preferred stock may be to enable the board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of our management. The issuance of shares of preferred stock pursuant to the board of director's authority described



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above may adversely affect the rights of holders of common stock. For example, preferred stock issued by us may rank prior to the common stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of common stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the common stock at a premium or may otherwise adversely affect the market price of the common stock.

We designated 2,000,000 shares as Series A Convertible Preferred Stock. Such shares were sold from time to time in a private placement that commenced in September 2001 and concluded in July 2003. The shares are convertible to common stock one year from the date of purchase at a conversion rate of 10 shares of common stock for each share of preferred stock.

**Stock Option Plan**

Our Board of Directors approved the SLS International, Inc. 2000 Stock Purchase and Option Plan (the Plan ) and the plan was approved by existing stockholders.

Our Board of Directors administers the Plan. The Plan affords key employees, officers, and consultants, who are responsible for our continued growth, an opportunity to acquire an investment interest in SLS, and to create in such individuals a greater incentive and concern for the welfare of SLS. By means of this 2000 Stock Purchase and Option Plan, we seek to retain the services of persons now holding key positions and to secure the services of persons capable of filling such positions.

We have reserved up to 2,000,000 shares of common stock for issuance upon exercise of options that may be issued from time to time under the Plan. The shares to be issued are subject to adjustment in the event of stock dividends, splits and other events that affect the number of shares of common stock outstanding.

*Maximum Purchase.* The options offered in the plan are a matter of separate inducement and are in addition to any salary or other compensation for the services of any key employee or consultant. The options granted under the plan are intended to be either incentive stock options or non-qualified or non- statutory stock options.

*Option.* Participants will receive such options as are granted from time to time by the Board of Directors. The option will state the number of shares and price of common stock to be purchased upon exercise of the options by the option holder.

*Exercise Price.* The purchase price per share purchasable under an option will be determined by the Board of Directors. However, for statutory options, the purchase price shall not be less than 90% of the fair market value of a share on the date of grant of such option. Furthermore, any option granted to a participant under the plan who, at the time the option is granted, is one of our officers or directors, the purchase price shall not be less than 100% of the fair market value of a share on the date of grant of such option. In the case of an incentive stock option granted to a participant who, at the time the option is granted, is a 10% stockholder, the purchase price for each share will be an amount not less than 110% of the fair market value per share on the date the incentive stock option is granted.

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*Term of Option.* The term of each option shall be fixed by the Administrator which in any event will not exceed a term of 10 years from the date of the grant.

*Termination of Employment.* The Administrator will have the right to specify the effect to a participant upon his or her retirement, death, disability, leave of absence or any other termination of employment during the term of any option.

*Amendments.* The Board of Directors may amend, suspend, discontinue or terminate the Plan; provided, however, that, without approval of our stockholders, no such amendment, suspension, discontinuation or termination will be made that: 1. would cause Rule 16b-3 under the Securities Exchange Act of 1934 to become unavailable with respect to the Plan; 2. would violate the rules or regulations of any national securities exchange on which our shares are traded or the rules or regulations of the NASD that are applicable to us; or 3. would cause us to be unable, under the Internal Revenue Code, to grant investment stock options under the Plan.

**SHARES ELIGIBLE FOR FUTURE SALE**

Upon completion of this offering, we will have 25,214,528 shares of common stock issued and outstanding. Prior to this offering, 14,365,736 of our outstanding shares are deemed to be restricted shares under the Securities Act of 1933. The restricted shares will be eligible for sale pursuant to Rule 144 of the Securities Act at the expiration of the one-year holding period from their date of acquisition. The one-year holding period for some shares has already expired. In addition, we have 1,469,300 shares of preferred stock outstanding on August 28, 2003. As of August 28, 2003, 318,000 shares of preferred stock have been converted into common stock and such common stock is eligible for sale pursuant to Rule 144 at the expiration of the one-year holding period from their date of acquisition.

Pursuant to a Consent Order with the State of Missouri, Mr. Gott agreed to lockup his shares through May 5, 2005, to be released only upon specified occurrences, or in increments after May 5, 2003. When eligible under the lock-up agreement, Mr. Gott, who owns 10,590,736 shares, may only sell up to 2½% of his outstanding shares in any 3-month period. Such sales would also be subject to the resale restrictions of Rule 144 of the Securities Act of 1933, as amended. Future sales may have a negative effect on the price of our shares in the public market. This may cause the price of our common stock to decline and may prevent investors from reselling their shares at a profit.

## LEGAL MATTERS

Legal matters in connection with this offering will be passed upon by Freeborn & Peters LLP, 311 South Wacker Drive, Suite 3000.

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## EXPERTS

The audited financial statements of the Company as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 appearing in this prospectus and in the registration statement of which this

prospectus forms a part, have been audited by Weaver & Martin, LLC, independent public accountants. Their report, which appears elsewhere herein, includes an explanatory paragraph as to the ability of SLS to continue as a going concern. The financial statements are included in reliance upon such report and upon the authority of such firm as an expert in auditing and accounting.

### **FURTHER INFORMATION**

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and file reports, proxy statements and other information with the Securities and Exchange Commission. These reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Securities and Exchange Commission's regional offices. You can obtain copies of these materials from the Public Reference Section of the Securities and Exchange Commission upon payment of fees prescribed by the Securities and Exchange Commission. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission's Web site contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of that site is <http://www.sec.gov>.

We have filed a registration statement on Form SB-2 with the Securities and Exchange Commission under the Securities Act with respect to the securities offered in this prospectus. This prospectus, which is filed as part of a registration statement, does not contain all of the information set forth in the registration statement, some portions of which have been omitted in accordance with the Securities and Exchange Commission's rules and regulations. Statements made in this prospectus as to the contents of any contract, agreement or other document referred to in this prospectus are not necessarily complete and are qualified in their entirety by reference to each such contract, agreement or other document which is filed as an exhibit to the registration statement. The registration statement may be inspected without charge at the public reference facilities maintained by the Securities and Exchange Commission, and copies of such materials can be obtained from the Public Reference Section of the Securities and Exchange Commission at prescribed rates.

**SLS INTERNATIONAL, INC**  
**FINANCIAL STATEMENTS**

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**JUNE 30, 2003**

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**DECEMBER 31, 2002**

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**SLS INTERNATIONAL, INC.**  
**CONDENSED BALANCE SHEET**

**June 30,**      **December**  
**31,**

	2003 (unaudited)	2002 (audited)
Assets		
Current assets:		
Cash	\$ 105,356	\$ 4,240
Accounts receivable, less allowance for doubtful accounts of \$87,841 for June 30, 2003 and \$132,396 for December 31, 2002	73,135	165,024
Inventory	431,025	261,573
Prepaid expenses and other current assets	3,857	6,936
Total current assets	613,373	437,773
Fixed assets:		
Vehicles	31,026	31,026
Equipment	55,083	55,083
Leasehold improvements	3,376	3,376
	89,485	89,485
Less accumulated depreciation	68,668	63,261
Net fixed assets	20,817	26,224
	\$ 634,190	\$ 463,997
Liabilities and Shareholders' Deficit		
Current liabilities:		
Current maturities of long-term debt and notes payable	\$ 502,772	\$ 414,720
Accounts payable	494,729	417,449
Due to shareholders	22,674	23,193
Accrued liabilities	193,723	170,897
Total current liabilities	1,213,898	1,026,259
Commitments and contingencies:		
Shareholders' deficit:		
Preferred stock not issued but owed to buyers, \$.001 par, 5,000,000 shares authorized; 287,640 and 315,000 shares at June 30, 2003 and December 31, 2002	288	315
Discount on preferred stock	(173,306 )	(233,294 )
Contributed capital - preferred	2,376,204	1,852,183
Common stock, \$.001 par; 75,000,000 shares authorized; 23,193,528 shares and 21,453,528 shares issued at June 30, 2003 and December 31, 2002	23,194	21,454
Common stock not issued but owed to buyers; 1,542,000 shares and	1,542	1,222

1,222,000 shares at June 30, 2003 and December 31, 2002

Contributed capital - common	3,500,874	3,386,624
Unamortized cost of stock issued for services	(174,448 )	(524,984 )
Retained deficit	(6,134,056 )	(5,065,782 )
Total shareholders' deficit	(579,708 )	(562,262 )
	\$ 634,190	\$ 463,997

The accompanying notes are an integral part of these condensed financial statements.

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**SLS INTERNATIONAL, INC.**

**CONDENSED STATEMENT OF OPERATIONS**

	<b>For The Six Months Ended</b>	
	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
	<b>(unaudited)</b>	
Revenue	\$ 382,021	\$ 324,516
Cost of sales	155,561	194,679
Gross profit	226,460	129,837
General and administrative expenses	1,108,535	1,061,965
Loss from operations	(882,075 )	(932,128 )
Other income (expense):		
Interest expense	(14,578 )	(13,263 )
Interest and miscellaneous, net	40,938	38

	26,359	(13,225 )
Loss before income tax	(855,716 )	(945,353 )
Income tax provision		
Net loss	(855,716 )	(945,353 )
Deemed dividend associated with beneficial conversion of preferred stock	(212,558 )	(205,226 )
Net loss available to common shareholders	\$ (1,068,274 )	\$ (1,150,579 )
Basic and diluted earnings per share	\$ (0.04 )	\$ (0.06 )
Weighted average shares outstanding	23,885,528	19,819,361

The accompanying notes are an integral part of these condensed financial statements.

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**SLS INTERNATIONAL, INC.**

**CONDENSED STATEMENT OF OPERATIONS**

	<b>For The Three Months Ended</b>	
	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
	<b>(unaudited)</b>	
Revenue	\$ 277,244	\$ 189,330
Cost of sales	98,125	109,568
Gross profit	179,119	79,762
General and administrative expenses	606,386	563,468
Loss from operations	(427,267 )	(483,706 )

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Other income (expense):		
Interest expense	(6,941 )	(6,830 )
Interest and miscellaneous, net	32,938	30
	25,966	(6,800 )
Loss before income tax	(401,271 )	(490,506 )
Income tax provision		
Net loss	(401,271 )	(490,506 )
Deemed dividend associated with beneficial conversion of preferred stock	(79,280 )	(135,461 )
Net loss available to common shareholders	\$ (480,551 )	\$ (625,967 )
Basic and diluted earnings per share	\$ (0.02 )	\$ (0.03 )
Weighted average shares outstanding	24,535,528	20,047,195

The accompanying notes are an integral part of these condensed financial statements.

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**SLS INTERNATIONAL, INC**  
**CONDENSED STATEMENT OF CASH FLOWS**

	<b>For The Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(unaudited)</b>	
Operating activities:		
Net loss	\$ (855,716 )	\$ (945,353 )
Adjustments to reconcile net income to cash flows from operating activities:		

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Depreciation and amortization	5,407	7,292
Amortization of cost of stock issued for services	443,536	314,019
Expenses of employee stock options granted	23,134	
Change in assets and liabilities-		
Accounts receivable, less allowance for doubtful accounts	91,889	(28,325 )
Inventory	(169,452 )	(47,937 )
Prepaid expenses and other current assets	3,079	511
Accounts payable	77,280	71,841
Due to shareholders	(519 )	(2,000 )
Accrued liabilities	22,826	15,698
Cash used in operating activities	(358,536 )	(614,254 )
Financing activities:		
Sale of stock	371,600	525,500
Borrowing of notes payable	102,000	50,000
Repayments of notes payable	(13,948 )	(9,636 )
Cash provided by financing activities	459,652	565,864
Increase (decrease) in cash	101,116	(48,390 )
Cash, beginning of period	4,240	48,390
Cash, end of period	\$ 105,356	\$
Supplemental cash flow information:		
Interest paid	\$ 6,027	\$
Income taxes paid (refunded)		
Noncash investing activities:		
Stock issued and options granted for services	\$ 93,000	\$ 925,422

The accompanying notes are an integral part of these condensed financial statements.

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**SLS INTERNATIONAL, INC.**

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### Note 1 - Basis of Presentation

The accompanying unaudited condensed financial statements at June 30, 2003 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of financial positions as of June 30, 2003 and results of operations and cash flows for the six months ended June 30, 2003. All such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative of the results expected for a full year. Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 presentations. The statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2002.

### Note 2 - Commitments and Contingencies

#### Going Concern

The accompanying unaudited condensed financial statements at June 30, 2003 have been prepared in conformity with generally accepted accounting principles which contemplate the continuance of the Company as a going concern. The Company has suffered losses from operations during the six months ended June 30, 2003 and the years ended December 31, 2002, 2001, 2000, and 1999. The Company's cash position may be inadequate to pay all of the costs associated with establishing a market for sales of its loudspeakers. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required, will be available. The unaudited condensed financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue in existence.

### Note 3 - Notes Payable

The interest rate on the current notes range from 5% to 10% and all are past due or demand notes.

### Note 4 - Stock Transactions

In May, 2001, the Company completed a public offering. The number of shares sold was 4,000,000. Included with the purchase of the shares was a Class A warrant and a Class B warrant. The Class A warrants expire on February 4, 2004 and are exercisable at a price of \$.50 per share. The Class B warrants expire on August 4, 2004 and are exercisable at a price of \$3.00 per share. The warrants are detachable from the common stock but are not separable from each other until the Class A warrant is exercised.

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**SLS INTERNATIONAL, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS continued**

**Note 4 - Stock Transactions - continued**

From January 1, 2003 to June 30, 2003, no Class A warrants were exercised. As of June 30, 2003, 2,000 shares of common stock purchased through the exercise of the A warrants in the year ended December 31, 2002 had not been issued and therefore are shown on the balance sheet as common stock not issued but owed to buyers. 3,111,000 Class A warrants are outstanding as of June 30, 2003. No Class B warrants have been exercised as of June 30, 2003.

In the six months ended June 30, 2003, the Company sold 148,640 shares of preferred stock for \$371,600. This preferred stock contained beneficial conversion features. The features allows the holder to convert the preferred to 10 shares of common stock after a one year period. A discount on preferred shares of \$152,570 relating to the beneficial conversion feature was recorded on these sales, which will be amortized over a one year period beginning with the date the shareholders purchased their shares. \$212,558 was amortized to retained earnings in the six months ended June 30, 2003. At June 30, 2003, the unamortized beneficial conversion on preferred shares was \$173,306.

In January of 2002, an agreement was signed with Office Radio Network for consulting services to be performed from January 5, 2002 to January 5, 2003. As compensation for consulting services, the Company gave Office Radio Network \$15,000 and issued 150,000 shares of common stock. The shares of common stock were issued on November 19, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$111,000

and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$1,388 for the six months ended June 30, 2003. On June 30, 2003, there was \$0 remaining in unamortized cost of stock issued for services on the balance sheet.

In January of 2002, three agreements were signed for consulting services to be performed. The agreements paid 300,000 shares to the consultants in exchange for \$3,000, an executed note receivable for \$27,000, and services to be rendered. As of March 31, 2003, 200,000 of the shares had not been issued and are therefore recorded as common stock not issued but owed to buyers on these financial statements. 100,000 of the common shares were issued on November 19, 2002. Using the market value on the date the agreements were signed, the shares were valued at \$237,000. Value of the shares over consideration given is \$207,000 and is recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over a one year period. Consulting expense relating to these agreements was \$8,790 for the six months ended June 30, 2003. On June 30, 2003 there was \$0 remaining in unamortized cost of stock issued for services on the balance sheet. A valuation allowance of \$27,000 has been used to offset the resulting note receivable from the transaction and therefore \$0 is reflected in the asset section of the balance sheet for the note receivables.

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**SLS INTERNATIONAL, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS continued**

**Note 4 - Stock Transactions continued**

In April of 2002, an agreement was signed with The Equitable Group, LLC for consulting services to be performed from March 26, 2002 to September 26, 2002. As compensation for consulting services, the Company agreed to issue 600,000 shares of common stock, of which 100,000 were nonrefundable, to the consultant. The Company issued

100,000 shares on April 9, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$51,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock given for services. On May 2, 2002, the Company terminated the agreement. Upon termination of the agreement all

unamortized costs were amortized as consulting expense.

In April of 2002, an agreement was signed with Muir, Crane, & Co. for consulting services to be performed April 2, 2002 to April 2, 2003. As compensation for consulting services the Company agreed to pay a retainer of \$4,000 per month and issue 200,000 shares of common stock. 100,000 shares were issued on April 9, 2002 and 100,000 shares were issued on July 18, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$95,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. At December 31, 2002, the consulting agreement had been terminated and all costs were amortized.

In April of 2002, an agreement was signed with Sam Hamra for consulting services to be performed April 18, 2002 to April 18, 2003. As compensation for consulting services the Company agreed to issue 70,000 shares of common stock. 70,000 shares of common stock were issued on April 18, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$39,200 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. As compensation, Mr. Hamra was also issued options to purchase 100,000 shares of preferred stock at a strike price of \$2.50 per share. This preferred stock was convertible into 1,000,000 shares of common stock after a period of one year. The options expire when the preferred stock offering closes. The closing date has been extended to July 31, 2003. Using the Black-Scholes pricing model, the options were valued at \$311,222 and shown as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. At December 31, 2002, the consulting agreement had been terminated and all costs were amortized.

In June of 2002, an agreement was signed with Liquid Solutions Corp. for consulting services to be performed June 10, 2002 to September 10, 2002. As compensation for consulting services the Company agreed to issue 500,000 shares of common stock. 500,000 shares of common stock were issued on June 19, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$155,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the three months of the agreement.

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**SLS INTERNATIONAL, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS - continued**

**Note 4 - Stock Transactions - continued**

In August of 2002, an agreement was signed with Atlantic Services, Ltd., a foreign corporation based in Costa Rica, for consulting services to be performed August 15, 2002 to August 15, 2003. As compensation for consulting services the Company agreed to issue 125,000 shares of common stock. 125,000 shares of common stock were issued on August 15, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$43,750 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$21,874 for the six months ended June 30, 2003. On June 30, 2003, there was \$5,251 remaining in unamortized cost of stock issued for services on the balance sheet.

In September of 2002, an agreement was signed with Art Malone, Jr. for consulting services to be performed September 10, 2002 to March 10, 2003. As compensation for consulting services the Company agreed to issue 250,000 shares of common stock upon signing of the agreement and another 250,000 shares upon the consummation or signing of a celebrity brought directly or indirectly by Mr. Malone as an endorser. 250,000 shares of common stock were issued on September 17, 2002. As of March 31, 2003 no other shares have been issued in regards to this agreement. Using the market value on the date the agreement was signed, the shares were valued at \$60,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was \$22,800 for the six months ended June 30, 2003. On June 30, 2003, there was \$0 remaining in unamortized cost of stock issued for services on the balance sheet.

In October of 2002, an agreement was signed with Patrick Armstrong of Titan Entertainment Group for consulting services to be performed November 5, 2002 to November 5, 2003. As compensation for consulting services the Company agreed to issue 100,000 shares of common stock and 250,000 options for 250,000 shares of common stock. The options have a strike price of \$.30 and expire ten years from date of issuance. 100,000 shares of common stock were issued on November 5, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$39,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. Using the Black-Scholes pricing model, the options were valued at \$57,471 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. All costs will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$48,236 for the six months ended June 30, 2003. On June 30, 2003, there was \$31,225 remaining in unamortized cost of stock issued for services on the balance sheet.

**SLS INTERNATIONAL, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS - continued**

**Note 4 - Stock Transactions - continued**

In October of 2002, an agreement was signed with Larry Stessel of Titan Entertainment Group for consulting services to be performed November 5, 2002 to November 5, 2003. As compensation for consulting services the Company agreed to issue 100,000 shares of common stock and 250,000 options for 250,000 shares of common stock. The options have a strike price of \$.30 and expire ten years from date of issuance. 100,000 shares of common stock were issued on November 5, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$39,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. Using the Black-Scholes pricing model, the options were valued at \$57,471 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. All costs will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$48,236 for the six months ended June 30, 2003. On June 30, 2003, there was \$31,225 remaining in unamortized cost of stock issued for services on the balance sheet.

In December of 2002, an agreement was signed with Atlantic Services, Ltd., a foreign corporation based in Costa Rica, for consulting services to be performed December 2, 2002 to June 2, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock and the president of the Company agreed to issue 300,000 options to purchase 300,000 shares of common stock owned by him personally. The options have a strike price of \$.05 and expire 30 days after the current lock-up period ends on the president's shares. 300,000 shares of common stock were issued on December 9, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$114,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. Using the Black-Scholes pricing model, the options were valued at \$99,099 and recorded as a credit to additional paid in capital - common stock and a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was \$191,292 for the six months ended June 30, 2003. On June 30, 2003, there was \$0 remaining in unamortized cost of stock issued for services on the balance sheet.

In December 2002, an agreement was signed with Worldwide Financial Marketing, Inc. for consulting services to be performed December 15, 2002 to December 15, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock. 300,000 shares of common stock were issued on December 13, 2002. Using the market value of the date the agreement was signed, the shares were valued at \$120,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$60,000 for the six months ended June 30, 2003. On June 30, 2003, there was \$54,667 remaining in unamortized cost of stock issued for services on the balance sheet.



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**SLS INTERNATIONAL, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS - continued**

**Note 4 - Stock Transactions - continued**

In February 2003, an agreement was signed with Tom Puccio for consulting services to be performed February 25, 2003 to August 25, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock. 300,000 shares of common stock were issued on February 25, 2003. Using the market value of the date the agreement was signed, the shares were valued at \$93,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was \$40,920 for the six months ended June 30, 2003. On June 30, 2003, there was \$52,080 remaining in unamortized cost of stock issued for services on the balance sheet.

In the six months ended June 30, 2003, 176,000 shares of preferred stock were converted into 1,760,000 shares of common stock. 420,000 shares were issued in February of 2003. The remaining 1,340,000 shares were unissued at June 30, 2003 and are therefore shown in common stock not issued but owed to buyers.

**Note 5 - Subsequent Events**

In July 2003, 24,000 shares of preferred stock were converted into 240,000 shares of common stock.

In August 2003, the expiration dates on the Class A and Class B warrants were extended to February 4, 2004.

From July 1 through August 13, 2003, 1,082,000 Class A warrants were exercised for 1,082,000 shares of common stock for a total of \$541,000. In July 2003, 1,221,660 shares of preferred stock were sold for \$3,054,150.

On July 31, 2003 the preferred stock offering was closed.

In July 2003, the Company entered into an endorsement agreement with Steerpike Ltd. The agreement grants 1,000,000 options in exchange for future endorsements of SLS products. Each option is convertible into one share of common stock at a strike price of \$0.25. Expense associated with the options will be recorded over the two year period of the agreement beginning July 31, 2003 and ending July 31, 2005. Expense will be recorded at fair market value on an accelerated method in accordance with Interpretation 28.

#### **Note 6 - Unamortized Cost of Stock issued for Services**

As detailed in Note 4, the Company issued or agreed to issue 2,795,000 shares of common stock and 1,500,000 options as part of consulting agreements in the year ended December 31, 2002 and the six months ended June 30, 2003. The value of stock issued

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### **SLS INTERNATIONAL, INC.**

#### **NOTES TO CONDENSED FINANCIAL STATEMENTS - continued**

#### **Note 6 - Unamortized Cost of Stock issued for Services - continued**

and options granted totaled \$1,692,213 for the period of January 1, 2002 through June 30, 2003. This cost is recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The balance will be amortized into consulting expense over the lives of the various consulting agreements. \$1,074,229 for the year

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ended December 31, 2002 and \$443,536 for the six months ended June 30, 2003, was amortized into consulting expense for those periods. Unamortized cost of stock issued for services was \$174,448 as of June 30, 2003.

#### **Note 7 - Related Party Transactions**

On January 18, 2002, the Company borrowed \$5,000 from a friend of the president of the Company. The note is a demand note and bears interest at 7%. Monthly interest payments totaling \$175 have been paid in the six months ended June 30, 2003. The note was paid in full on June 17, 2003. The note balance on June 30, 2003 was \$0.

On November 13, 2002, the Company borrowed \$50,000 from a friend of the president of the Company. The note is a demand note and bears interest at 10%. Monthly interest payments totaling \$2,714 have been paid in the six months ended June 30, 2003. The note balance on June 30, 2003 was \$50,000. The note was paid in full on July 18, 2003.

#### **Note 8 - Employee Stock Options**

During the second quarter of 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, effective as of the beginning of the year. There have been no previous granting of options to employees and therefore this adoption has no effect on previous financial statements. No method of reporting the change in accounting principle has been used.

The board of directors approved 145,000 options for employees and directors in the quarter ended June 30, 2003. The options vested immediately. 10,000 options were approved for each of three board members for their roles as directors of the company. 115,000 options were approved for employees of the Company for services rendered. Using the black-scholes pricing model, in accordance with the fair value recognition provision of FASB Statement No. 123, the options were valued at \$23,134 and recorded as compensation expense in the six months ended June 30, 2003.

**Report of Independent Certified Public Accountants**

**Stockholders and Directors**

**SLS International, Inc.**

We have audited the accompanying balance sheet of SLS International, Inc. as of December 31, 2002 and 2001 and the related statements of operations, shareholders' deficit, and cash flows for each of the years in the three year period ended December 31, 2002. These financial statements are the responsibility of the management of the Company. 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 in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SLS International, Inc. as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the three years ended December 31, 2002 in conformity with generally accepted accounting principles in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and is dependent upon the continued sale of its securities or obtaining debt financing for funds to meet its cash requirements. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Weaver & Martin, LLC**

Kansas City, Missouri

April 23, 2003

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Table of Contents**SLS INTERNATIONAL, INC.****BALANCE SHEET**

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
Assets		
Current assets:		
Cash	\$ 4,240	\$ 48,39
Accounts receivable, net of allowance of \$132,396 and \$0 for		
December 31, 2002 and 2001	165,024	69,18
Inventory	261,573	250,99
Prepaid expenses and other current assets	6,936	2,08
Total current assets	437,773	370,65
Fixed assets:		
Vehicles	31,026	47,37
Equipment	55,083	50,73
Leasehold improvements	3,376	3,37
	89,485	101,48
Less accumulated depreciation	63,261	64,59
Net fixed assets	26,224	36,88
	\$ 463,997	\$ 407,54

## Liabilities and Shareholders Deficit

## Current liabilities:

Current maturities of long-term debt	\$ 412,633	\$ 357,633
Current maturities of notes payable	2,087	14,000
Accounts payable	417,449	196,830
Due to shareholders	23,193	31,880
Accrued liabilities	170,897	67,020
Total current liabilities	1,026,259	667,383
Notes payable, less current maturities		2,320

## Commitments and contingencies:

## Shareholders deficit:

Preferred stock not issued but owed to buyers, \$.001 par,

2,000,000 shares authorized; 315,000 shares and

102,000 shares at December 31, 2002 and 2001

Discount on preferred stock

Contributed capital preferred

Common stock, \$.001 par; 75,000,000 shares authorized;

21,453,528 shares and 19,019,528 shares issued at

December 31, 2002 and 2001

Common stock not issued but owed to buyers; 1,222,000

shares and 40,000 shares at December 31, 2002 and 2001

Contributed capital common

Unamortized cost of stock issued for services

Retained deficit

Total shareholders deficit

	\$ 463,997	\$ 407,540
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The accompanying notes are an integral part of these financial statements.

**SLS INTERNATIONAL, INC.**  
**STATEMENT OF OPERATIONS**

	<b>Year Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
Revenue	\$ 790,582	\$ 353,797	\$ 163,350
Cost of sales	537,243	286,924	106,535
Gross profit	253,339	66,873	56,815
General and administrative expenses	2,468,565	1,068,335	813,571
Loss from operations	(2,215,226 )	(1,001,462 )	(756,756 )
Other income (expense):			
Interest expense	(33,306 )	(46,011 )	(27,126 )
Interest and miscellaneous, net	6,207	7,299	2,172
	(27,099 )	(38,712 )	(24,954 )
Loss before income tax	(2,242,325 )	(1,040,174 )	(781,710 )
Income tax provision			
Net loss	(2,242,325 )	(1,040,174 )	(781,710 )
Deemed dividend associated with beneficial conversion of preferred stock			
conversion of preferred stock	(552,100 )	(24,706 )	
Net loss available to common shareholders	\$ (2,794,425 )	\$ (1,064,880 )	\$ (781,710 )
Basic and diluted earnings per share	\$ (0.14 )	\$ (0.06 )	\$ (0.06 )
Weighted average shares outstanding	20,446,711	17,406,111	14,194,405

The accompanying notes are an integral part of these financial statements.

## SLS INTERNATIONAL, INC.

## STATEMENT OF SHAREHOLDERS DEFICIT

	Preferred Stock			Common Stock			Unamortized cost of stock for sale		
	Shares	Amount	Discount on Preferred	Contributed Capital	Shares	Amount Unissued		Contributed Capital	
Balance, January 1, 2000		\$	\$	\$	14,368,653	\$ 14,369	\$	\$ 338,131	\$
Net loss for the year									
Cancellation of treasury stock					(960,000 )	(960 )		(59,040 )	
Sales of common stock					524,800	525		74,475	
Conversion of notes payable					233,075	233		33,067	
Common stock issued for services					105,000	105		14,895	
Balance, December 31, 2000					14,271,528	14,272		401,528	
Net loss for									



the year								
Sales of preferred								
stock	102,000	102		254,898				
Discount on								
preferred stock								
associated with								
beneficial								
conversion								
feature			(191,400 )	191,400				
Amortization of								
Discount on								
preferred stock			24,706					
Sales of common								
stock					4,000,000	4,000		996,000
less expense of								
sales								(80,315 )
Sales of								
common stock -								
warrants								
exercised					788,000	748	40	393,212
Balance,								
December 31,								
2001	102,000	102	(166,694 )	446,298	19,059,528	19,020	40	1,710,425
Net loss for the								
year								
Sales of preferred								
stock	315,000	315		787,185				
Discount on								
preferred stock								

associated with						
beneficial						
conversion						
feature		(618,700 )	618,700			
Amortization of						
discount						
on preferred stock		552,100				
Stock issued						
from prior						
period sales				40	(40 )	
Conversion of						
preferred						
stock to						
common	(102,000 )	(102 )	1,020,000	1,020	(918 )	
Sales of common						
stock			300,000	100	200	29,700
Common stock						
issued						
for services			2,195,000	2,195	1,071,755	(1,071,755)
Options issued for						
services					426,164	(426,164)
Services paid						
for on						
behalf of						
company					99,099	(99,099)
Amortization of						
cost of						
common stock						
issued						



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Accounts receivable	(95,839 )	(53,237 )	34,419
Due from shareholder			3,681
Inventory	(10,575 )	17,564	(191,093 )
Refundable income tax			14,797
Prepaid expenses and other current assets	(4,855 )	80,329	(61,890 )
Accounts payable	220,616	(111,279 )	111,056
Due to shareholders	(8,693 )	4,639	12,967
Deferred revenue		(70,270 )	70,270
Accrued liabilities	103,868	33,981	(37,256 )
Cash used in operating activities	(954,456 )	(1,122,609 )	(808,812 )
Investing activities:			
Proceeds from sale of fixed assets	5,900		
Additions to fixed assets	(4,353 )	(14,324 )	(13,160 )
Cash provided by (used in) investing activities	1,547	(14,324 )	(13,160 )
Financing activities:			
Sale of stock, net of expenses	868,000	1,568,685	75,000
Borrowing of notes payable	55,000	135,000 )	666,267
Repayments of notes payable	(14,241 )	(536,020 )	(19,284 )
Cash provided by used in financing activities	908,759	1,167,665	721,983
Increase (decrease) in cash	(44,150 )	30,732	(99,989 )
Cash, beginning of year	48,390	17,658	117,647
Cash, end of year	\$ 4,240	\$ 48,390	\$ 17,658
Supplemental cash flow information:			
Interest paid	\$ 6,766	\$ 14,574	\$ 7,471
Income taxes paid (refunded)			
Noncash investing activities:			
Stock and options issued for services	\$ 1,599,213	\$	\$ 15,000
Conversion of notes payable	50,000		33,300

The accompanying notes are an integral part of these financial statements.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. - Significant Accounting Policies**

**Nature of Operations:**

Prior to June 1999, the Company's one business segment was designing, selling and installing sound and lighting systems in churches, schools, theatres, and clubs and developing a proprietary loudspeaker line called SLS Loudspeakers.

In June 1999, the Company ceased marketing, selling, and installing sound and lighting systems directly and began focusing all efforts towards being a loudspeaker manufacturer only and selling to dealers and contractors.

**Inventories:**

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventory consists of finished goods, raw materials and parts. Included in inventory is \$23,478 of finished goods consigned to sales representatives and dealers.

**Fixed Assets:**

Fixed assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis. The lives used for items within each property classification range from 5 to 10 years.

Maintenance and repairs are charged to expense as incurred.

Depreciation expense was \$15,018, \$15,838, and \$15,947 in the years ended December 31, 2002, 2001, and 2000.

**Concentration of Credit Risk:**

The Company's revenues are derived principally from uncollateralized sales to customers in the same industry; therefore, customers may be similarly affected by changes in economic and other conditions within the industry. There has not been any significant credit losses on such sales.

**Research and Development:**

Research and development costs relating to both present and future products are expensed when incurred and included in operating expenses. Research and development costs were \$22,095 and \$17,569 for the years ended December 31, 2002 and 2001.

**Use of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates, but management does not believe such differences will materially affect the Company's financial position, results of operations, or cash flows.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 1. - Significant Accounting Policies - continued**

**Revenue Recognition:**

Revenue is recognized when the products are shipped to customers. Installation revenues are recognized when the projects (all less than one month) are completed.

Deferred revenues represent deposits made to the Company by its customers according to designated credit terms. The revenues associated with these deposits will be recognized when shipments are made.

**Accounts receivable:**

Accounts receivable are carried on a gross basis, with no discounting, less the allowance for doubtful accounts. No allowance for doubtful accounts is recognized at the time the revenue, which generates the accounts receivable, is recognized. Management estimates the allowance for doubtful accounts based on existing economic conditions, the financial conditions of the customers, and the amount and the age of past due accounts. Receivables are considered past due if full payment is not received by the contractual due date. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

**Cash Equivalents:**

The Company's cash equivalents consist principally of any financial instruments with maturities of generally three months or less and cash investments. The investment policy limits the amount of credit exposure to any one financial institution.

**Long-Lived Assets:**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. The Company determined that as of December 31, 2002, there had been no impairment in the carrying value of long-lived assets.

**Financial Instruments:**

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term maturity of these instruments. Fair values are based on quoted market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk. Based upon borrowing rates currently available to the Company with similar terms, the carrying value of notes payable and long-term debt approximates fair value.

**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 1. - Significant Accounting Policies - continued**

**Net Loss Per Share:**

The Company computes loss per share in accordance with SFAS No. 128, Earnings Per Share. This standard requires dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the diluted loss per share computation.

The Company's potentially issuable shares of common stock pursuant to outstanding stock options and convertible preferred stock are excluded from the Company's diluted computation, as their effect would be anti-dilutive.

**Recent Accounting Pronouncements:**

In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No.45 ( FIN 45 ) Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. The provision for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a Guarantor's year end. The adoption of FIN 45 by the Company during the quarter ended March 31, 2003 will not have a material impact on its current financial position and results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure, an Amendment of FAS No. 123. SFAS No. 148 provides additional transition guidance for those entities that elect to voluntarily adopt the accounting provisions of SFAS No. 123. SFAS No. 148 also requires that entities that continue to account for stock-based compensation awards using the intrinsic value method of APB No. 25 provide more prominent disclosures than currently required by SFAS 123, including disclosures in interim financial statements. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The Company will continue to account for employee stock-based compensation under APB No. 25 and related interpretations. The Company will adopt the annual disclosure requirements in its financial statements for the year ended December 31, 2003, and the interim disclosure requirements beginning in its financial statements for the quarter ended March 31, 2003.



**Stock-Based Compensation:**

The Company accounts for its stock and options issued for services by non-employees based on the market value of the stock at the date of the agreement and the market value of the options as determined by the Black-Scholes pricing model. The cost is amortized to expense over the life of the agreement to provide services.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 1. - Significant Accounting Policies - continued**

The Company accounts for its stock option plan in accordance with the provisions of SFAS No. 123, *Accounting for Stock Based Compensation*. SFAS No. 123 permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of the grant. Alternatively, SFAS No. 123 also allows entities to apply the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB No. 25 and when required provide the pro forma disclosure provisions of SFAS No. 123.

**Income Taxes:**

Amounts provided for income tax expense are based on income reported for financial statement purpose and do not necessarily represent amounts currently payable under tax laws. Deferred taxes, which arise principally from temporary differences between the period in which certain income and expense items are recognized for financial reporting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes. Under this method, the computation of deferred tax assets and liabilities give recognition to the enacted tax rates in effect in the year the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that the Company expects to realize.

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**Reclassifications:**

Certain amounts in the financial statements for the prior period have been reclassified to conform to the current period's presentation.

**Note 2. - Going Concern Matters**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements during the years ended December 31, 2002, 2001 and 2000, the Company incurred losses of \$2,135,219, \$1,040,174, and \$781,710 respectively. The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. It is management's plan to finance its operations for the foreseeable future primarily with proceeds from capital contributed by shareholders and to explore other financing options in the investment community. At December 31, 2002, no formal agreements had been entered into although management is negotiating licensing agreements with entities whom have their own distributors that, if consummated, would generate operating revenues from the commercial sale of its loudspeakers directly to consumers. However, there can be no assurance that these sources will provide sufficient cash inflows to enable the Company to achieve its operational objectives.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 3. - Long Term Debt**

Long term debt consists of the following at December 31, 2002 and 2001:

	<b>December 31,</b>	
	<b>2002</b>	<b>2003</b>
Note payable to individual, interest rate of 10% uncollateralized, principal payable on demand. Interest paid monthly.	\$ 50,000	\$
Note payable to Individual, interest rate of 7% uncollateralized, principal payable on demand. Interest paid monthly.	5,000	
Notes payable to individuals, interest rate of 7% uncollateralized, principal past due.		
Interest accrued.	357,633	357,633
	412,633	357,633
Less current portion	412,633	357,633
Long-term portion	\$	\$

All long term debt is either due on demand or past due as of December 31, 2002. Interest expense accrued on long-term debt was \$33,517 and \$22,584 in the years ended December 31, 2002 and 2001.

#### **Note 4. - Commitments**

Rent expense for operating leases was approximately \$56,400, \$33,425 and \$31,500 for the years ended December 31, 2002, 2001 and 2000. Future minimum lease commitments under non-cancelable leases for the year ended December 31, 2003 is \$37,200.

#### **Note 5. - Income Taxes**

The Company does not have an income tax provision in 2002, 2001 and 2000. The Company has loss carryforwards of approximately \$3,305,000 expiring from 2011 to 2016.

Deferred tax is comprised of the following:

<b>Non-current asset:</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Net operating loss	\$ 1,123,700	\$ 763,800	\$ 415,000
Valuation allowance	(1,123,700 )	(763,800 )	(415,000 )
Total deferred tax, net			

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 5. - Income Taxes - continued**

A percent reconciliation of the provision for income taxes to the statutory federal rate is as follows:

	<b>2002</b>	<b>2001</b>	<b>2000</b>
Statutory federal income tax rate	(34.0 %)	(34.0 %)	(34.0 %)
Non deductible expense	17.0 %	2.0 %	.3 %
Change in valuation allowance	17.0 %	32.0 %	33.7 %
Effective tax rate	0.0 %	0.0 %	0.0 %

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**Note 6. - Related Party Transactions**

The Company rents equipment owned by a shareholder for a rental fee. In 2002, 2001 and 2000, the Company collected \$1,740, \$5,154 and \$16,647 in rent for the shareholder. Company revenue from the rental totaled approximately \$174, \$515 and \$1,850 for the years ended December 31, 2002, 2001 and 2000.

On January 18, 2002, the Company borrowed \$5,000 from a friend of the president of the Company. The note is a demand note and bears interest at 7%. Monthly interest payments totaling \$322 have been paid in the year ended December 31, 2002. The note balance on December 31, 2002 was \$5,000.

On November 13, 2002, the Company borrowed \$50,000 from a friend of the president of the Company. The note is a demand note and bears interest at 10%. Monthly interest payments totaling \$444 have been paid in the year ended December 31, 2002. The note balance on December 31, 2002 was \$50,000.

On November 20, 2002 the Company sold a truck to an officer and shareholder for \$5,900. The truck's cost was \$16,351 and had been fully depreciated. The transaction is reflected in the December 31, 2002 financial statements as a gain from sale of assets of \$5,900.

Amounts owed by or to shareholders to the Company are charged or credited interest.

**Note 7. - Major Customers and Suppliers**

In 2002, the company received approximately 29% of its revenue from four customers. The company purchased approximately 21% of the cost of sales from three vendors.

In 2001, the company received approximately 40% of its revenue from four customers. The company purchased approximately 25% of the cost of sales from three vendors.

In 2000, the Company received approximately 25% of its revenue from three customers. The Company purchased approximately 50% of the cost of sales from four vendors.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 8. - Stockholders Equity**

In fiscal 2000, the Company sold 524,800 shares of common stock for \$75,000. A stockholder exchanged a \$33,300 demand note for 233,075 shares of common stock. The Company issued 105,000 shares of common stock in 2000 in exchange for \$15,000 in services.

On July 25, 2000 the Treasury stock was retired. On August 10, 2000, there was a forward split of shares on a 12,800 to 1 basis. The financial statements have retroactive adjustments for the forward stock split.

In May, 2001, the Company sold 4,000,000 shares of common stock for \$1,000,000 in a public offering. There were charges of \$80,315 relating to the offering. These expenses have offset contributed capital. Included with the purchase of the shares was a Class A warrant and a Class B warrant. The Class A warrants expire on August 4, 2003 and are exercisable at a price of \$0.50 per share. The Class B warrants have a term of 2 years and can be exercisable at a price of \$3.00 per share. The warrants are detachable from the common stock but are not separable from each other until the Class A warrant is exercised.

In May through December, 2001, 788,000 Class A warrants were exercised for 788,000 shares of common stock for a total of \$394,000. 3,212,000 Class A warrants are outstanding as of December 31, 2001. No Class B warrants have been exercised as of December 31, 2001.

In 2002, 101,000 Class A warrants were exercised for 101,000 shares of common stock for a total of \$50,500. As of December 31, 2002, 2,000 shares had not been issued. 3,111,000 Class A warrants are outstanding as of December 31,

2002. No Class B warrants have been exercised as of December 31, 2002.

In fiscal 2001, the Company sold 102,000 shares of preferred stock for \$255,000. As of December 31, 2002, the preferred stock certificates had not been issued and are therefore stated in these financial statements as preferred stock not issued but owed to buyers. This preferred stock contained a beneficial conversion feature. The feature requires the holder to convert the preferred to 10 shares of common stock one year after buying the shares. A discount on preferred shares of \$191,400 relating to the beneficial conversion feature was recorded which will be amortized over a one year period beginning with the date the shareholders purchased their shares.

In fiscal 2002, the Company sold 315,000 shares of preferred stock for \$787,500. As of December 31, 2002, the preferred stock certificates had not been issued and are therefore stated in these financial statements as preferred stock not issued but owed to buyers. This preferred stock contained a beneficial conversion feature. The feature requires the holder to convert the preferred to 10 shares of common stock one year after buying the shares. A discount on preferred shares of \$618,700 relating to the beneficial conversion feature was recorded which will be amortized over a one year period beginning with the date the shareholders purchased their shares.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 8. - Stockholders Equity - continued**

As of December 31, 2002 and 2001, \$552,100 and \$24,706 has been amortized to retained earnings. At December 31, 2001, the unamortized discount on preferred shares was \$166,694. At December 31, 2002, the unamortized discount on preferred shares was \$233,294.

In the fourth quarter of 2002, 102,000 shares of preferred stock were converted to 1,020,000 shares of common stock. As of December 31, 2002, the shares had not been issued and are therefore reflected in these financial statements as common stock not issued but owed to buyers. The shares were subsequently issued in February of 2003.

In January of 2002, an agreement was signed with Office Radio Network for consulting services to be performed from January 5, 2002 to January 5, 2003. As compensation for consulting services, the Company gave Office Radio Network \$15,000 and issued 150,000 shares of common stock. The shares of common stock were issued on November 19, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$111,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$109,612 for the year ended December 31, 2002. On December 31, 2002, there was \$1,388 remaining in unamortized cost of stock issued for services on the balance sheet.

In January of 2002, three agreements were signed for consulting services to be performed. The agreements paid 300,000 shares to the consultants in exchange for \$3,000, an executed note receivable for \$27,000, and services to be rendered. 100,000 of the common shares were issued on November 19, 2002. The remaining 200,000 shares have not been issued as of December 31, 2002 and are therefore reflected in the financial statements as common stock not issued but owed to buyers. Using the market value on the date the agreements were signed, the shares were valued at \$237,000. Value of the shares over consideration given is \$207,000 and is recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over a one year period. Consulting expense relating to these agreements was \$198,210 for the year ended December 31, 2002. On December 31, 2002 there was \$8,790 remaining in unamortized cost of stock issued for services on the balance sheet. A valuation allowance of \$27,000 has been used to offset the resulting note receivable from the transaction and therefore \$0 is reflected in the asset section of the balance sheet for the note receivables.

In April of 2002, an agreement was signed with The Equitable Group, LLC for consulting services to be performed from March 26, 2002 to September 26, 2002. As compensation for consulting services, the

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**



**Note 8. - Stockholders Equity - continued**

Company agreed to issue 600,000 shares of common stock, of which 100,000 were nonrefundable, to the consultant. The Company issued 100,000 shares on April 9, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$51,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock given for services. On May 2, 2002, the Company terminated the agreement. Upon termination of the agreement all unamortized costs were amortized as consulting expense. Consulting expense relating to this agreement was \$51,000 for the year ended December 31, 2002. On December 31, 2002 there was \$0 remaining in unamortized cost of stock issued for services on the balance sheet. In April of 2002, an agreement was signed with Muir, Crane, & Co. for consulting services to be performed April 2, 2002 to April 2, 2003. As compensation for consulting services the Company agreed to pay a retainer of \$4,000 per month and issue 200,000 shares of common stock. 100,000 shares were issued on April 9, 2002 and 100,000 shares were issued on July 18, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$95,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. At December 31, 2002, the consulting agreement had been terminated and all costs were amortized. Consulting expense relating to this agreement was \$95,000 for the year ended December 31, 2002. On December 31, 2002 there was \$0 remaining in unamortized cost of stock issued for services.

In April of 2002, an agreement was signed with Sam Hamra for consulting services to be performed April 18, 2002 to April 18, 2003. As compensation for consulting services the Company agreed to issue 70,000 shares of common stock. 70,000 shares of common stock were issued on April 18, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$39,200 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. As compensation, Mr. Hamra was also issued options to purchase 100,000 shares of preferred stock at a strike price of \$2.50 per share. This preferred stock was convertible into 1,000,000 shares of common stock after a period of one year. The options expire when the preferred stock offering closes. The closing date has been extended to July 31, 2003. Using the Black-Scholes pricing model, the options were valued at \$311,222 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. At December 31, 2002, the consulting agreement had been terminated and all costs were amortized. Consulting expense relating to this agreement was \$350,517 for the year ended December 31, 2002. On December 31, 2002 there was \$0 remaining in unamortized cost of stock issued for services.

In June of 2002, an agreement was signed with Liquid Solutions Corp. for consulting services to be performed June 10, 2002 to September 10, 2002. As compensation for consulting services the Company agreed to issue 500,000 shares of common stock. 500,000 shares of common stock were issued on June 19, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$155,000 and recorded

**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 8. - Stockholders Equity - continued**

as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense was amortized over the three months of the agreement. Consulting expense relating to this agreement was \$155,000 for the year ended December 31, 2002. On December 31, 2002 there was \$0 remaining in unamortized cost of stock issued for services.

In August of 2002, an agreement was signed with Atlantic Services, Ltd., a foreign corporation based in Costa Rica, for consulting services to be performed August 15, 2002 to August 15, 2003. As compensation for consulting services the Company agreed to issue 125,000 shares of common stock. 125,000 shares of common stock were issued on August 15, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$43,750 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$16,625 for the year ended December 31, 2002. On December 31, 2002 there was \$27,125 remaining in unamortized cost of stock issued for services.

In September of 2002, an agreement was signed with Art Malone, Jr. for consulting services to be performed September 10, 2002 to March 10, 2003. As compensation for consulting services the Company agreed to issue 250,000 shares of common stock upon signing of the agreement and another 250,000 shares upon the consummation or signing of a celebrity brought directly or indirectly by Mr. Malone as an endorser. 250,000 shares of common stock were issued on September 17, 2002. As of December 31, 2002 no other shares have been issued in regards to this agreement. Using the market value on the date the agreement was signed, the shares were valued at \$60,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was \$37,200 for the year ended December 31, 2002. On December 31, 2002 there was \$22,800 remaining in unamortized cost of stock issued for services.

In October of 2002, an agreement was signed with Patrick Armstrong of Titan Entertainment Group for consulting services to be performed November 5, 2002 to November 5, 2003. As compensation for consulting services the Company agreed to issue 100,000 shares of common stock and 250,000 options for 250,000 shares of common stock. The options have a strike price of \$.30 and expire ten years from date of issuance. 100,000 shares of common stock were issued on November 5, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$39,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued

for services. Using the Black-Scholes pricing model, the options were valued at \$57,471 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. All costs will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$17,010 for the year ended December 31, 2002. On December 31, 2002 there was \$79,461 remaining in unamortized cost of stock issued for services.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 8. - Stockholders Equity - continued**

In October of 2002, an agreement was signed with Larry Stessel of Titan Entertainment Group for consulting services to be performed November 5, 2002 to November 5, 2003. As compensation for consulting services the Company agreed to issue 100,000 shares of common stock and 250,000 options for 250,000 shares of common stock. The options have a strike price of \$.30 and expire ten years from date of issuance. 100,000 shares of common stock were issued on November 5, 2002. Using the market value on the date the agreement was signed, the shares were valued at \$39,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. Using the Black-Scholes pricing model, the options were valued at \$57,471 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. All costs will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$17,010 for the year ended December 31, 2002. On December 31, 2002 there was \$79,461 remaining in unamortized cost of stock issued for services.

In December of 2002, an agreement was signed with Atlantic Services, Ltd., a foreign corporation based in Costa Rica, for consulting services to be performed December 2, 2002 to June 2, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock and the president of the Company agreed to issue 300,000 options to purchase 300,000 shares of common stock owned by him personally. The options have a strike price of \$.05 and expire 30 days after the current lock-up period ends on the president's shares. 300,000 shares of common stock were issued on December 9, 2002. Using the market value on the date the agreement was signed, the

shares were valued at \$114,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. Using the Black-Scholes pricing model, the options were valued at \$99,099 and recorded as a credit to additional paid in capital - common stock and a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was \$21,807 for the year ended December 31, 2002. On December 31, 2002 there was \$191,292 remaining in unamortized cost of stock issued for services.

In December 2002, an agreement was signed with Worldwide Financial Marketing, Inc. for consulting services to be performed December 15, 2002 to December 15, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock. 300,000 shares of common stock were issued on December 13, 2002. Using the market value of the date the agreement was signed, the shares were valued at \$120,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was \$5,333 for the year ended December 31, 2002. On December 31, 2002 there was \$114,667 remaining in unamortized cost of stock issued for services.

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**SLS INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 9. - Notes Payable**

Notes payable consists of the following at December 31, 2002 and 2001:

<b>December 31,</b>	
<b>2002</b>	<b>2003</b>

Equipment note, payments in monthly

installments of \$1,751 beginning May 1999, continuing for 35 months. The final payment is due April 2002 and will include all unpaid principal. Interest is prime plus 1.5% (currently 6.25%)	\$	\$	8,507
Vehicle note, payments in monthly installments of \$518 beginning June 1999, ending April 2003. Interest at 8.75%		2,087	7,821
		2,087	16,328
Less current portion		2,087	14,007
Long-term portion	\$	\$	2,321

The aggregate principal amount of notes payable maturing in the year ended December 31, 2003 is \$2,087.

#### **Note 10. - Unamortized Cost of Stock Issued for Services**

As detailed in Note 8, the Company issued or agreed to issue 2,495,000 shares of common stock and granted 1,500,000 options for common stock as part of consulting agreements. The value of stock issued and options granted totaled \$1,599,213 for the year ended December 31, 2002. This cost is recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The balance will be amortized into consulting expense over the lives of the various consulting agreements. For the year ended December 31, 2002, \$1,074,229 was amortized into consulting expense. Unamortized cost of stock issued for Services was \$524,984 as of December 31, 2002, all of which will be amortized into consulting expense in the year ended December 31, 2003.

#### **Note 11. - Stock Option Plan**

On July 1, 2000, the Board of Directors approved a stock option plan. The plan covers all eligible employees and is an incentive stock option plan. The number of shares that can be issued under the plan total 2,000,000. There were no options issued in 2000 or 2001. In 2002, the Company granted 1,500,000 options for services as part of consulting agreements detailed in Note 8. The Company accounts for these grants

Table of Contents**SLS INTERNATIONAL, INC.****NOTES TO FINANCIAL STATEMENTS - continued****Note 11. - Stock Option Plan - continued**

under Accounting Principles Board Opinion No. 25 under which expense has been recognized for services. The following table summarizes the options granted:

Dividend Yield	0%
Weighted Average Expected Stock Volatility	29%
Weighted Average Risk Free Interest Rate	2.70%
Expected Option Lives	6 months to 10 years
Value of Options Granted	\$426,164

<b>Options</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Outstanding at beginning of year	\$	\$	\$
Granted	1,500,000		
Exercised			
Expired			
Outstanding at end of year	\$ 1,500,000	\$	\$

The weighted average exercise price of the options is \$0.27.

**Note 12. - Subsequent Events**

In February of 2003, the Company signed a consulting agreement with Tom Puccio for a period of six months. On February 25, 2003, the Company issued 300,000 shares of common stock in fulfillment of this agreement. Using the market value on the date the agreement was signed, the shares were valued at \$93,000.

In February of 2003, 42,000 shares of preferred stock were converted into 420,000 shares of common stock.

In February of 2003, 1,020,000 shares of common stock owed to buyers at December 31, 2002 were issued.

In February and March of 2003, 32,940 shares of preferred stock have been sold for \$82,350.

On April 19, 2003, the board of directors approved and ratified all the consulting agreements detailed in Note 8.

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**PART II. INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Reference is made to Section 145 of the Delaware General Corporation law which provides for indemnification of directors and officers of a corporation and other specified persons, subject to the specific requirements therein contained. In general, these sections provide that persons who are officers or directors of the corporation may be indemnified by the corporation for acts performed in their capacities as such.

Further reference is made to sections 102 and 145 of the Delaware General Corporation Law which provide for elimination of directors liability in certain instances, and indemnification of directors and officers of a corporation and other specified persons, subject to the specific requirements therein contained. In general, section 102 allows an authorizing provision in the Certificate of Incorporation which would, subject to certain limitations, eliminate or limit a directors liability for monetary damages for breaches of his or her fiduciary duty. However, such an enabling provision could not limit or eliminate a directors liability for (a) breaches of the duty of loyalty to the corporation or its stockholders; (b) acts or omissions not in good faith or involving intentional misconduct or knowing violations of law; (c) the payment of unlawful dividends or unlawful stock repurchases or redemptions; or (d) transactions in which the director received an improper personal benefit. There is currently such an enabling provision in the company s Certificate of Incorporation.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, unless in the opinion of its counsel that the matter has been settled by controlling precedent, the company will submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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**ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth the expenses (other than the underwriting discounts and commissions and the Underwriter s Non-Accountable Expense Allowance) expected to be incurred in connection with the issuance and distribution of the securities being registered.



SEC Registration	\$ 141.49
Legal Fees and Expenses*	\$ 15,000.00
Accounting Fees*	\$ 3,000.00
Miscellaneous*	\$ 2,000.00
Total.	\$ 20,141.49

\*

Estimated

## ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

### Seven Months Ended July 31, 2003

In the seven months ended July 31, 2003, the Company sold 1,370,300 shares of preferred stock for \$3,425,750 in cash. All sales were made to accredited investors. Each share of preferred stock is convertible into ten shares of common stock after one year. The sales were made in reliance on Section 4(2) of the Securities Act of 1933, as amended. The net proceeds from the sale of preferred stock in such seven-month period were used for working capital purposes. We did not use any registered securities broker-dealers in connection with any sales of stock. All of the foregoing uses of proceeds were direct or indirect payments to nonaffiliates.

### 2002

In 2002, we sold 315,000 shares of our Preferred Stock to accredited investors, most of which were existing stockholders, for aggregate proceeds of \$787,500. We did not use an underwriter in connection with these sales. The sales were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. The net proceeds from these sales in 2002 were used for working capital purposes. We did not use any registered securities broker-dealers in connection with any sales of stock. All of the foregoing uses of proceeds were direct or indirect payments to nonaffiliates.

### 2001

In 2001, we sold 102,000 shares of our Preferred Stock to accredited investors, most of which were existing stockholders, for aggregate proceeds of \$255,000. We did not use an underwriter in connection with these sales. The sales were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

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**2000**

In 2000, we sold 524,800 shares of common stock for \$75,000, a stockholder exchanged a \$33,300 demand note for 233,075 shares of common stock, and we issued 105,000 shares of common stock in exchange for \$15,000 in services. We did not use an underwriter in connection with these sales. The sales were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. The net proceeds from these sales in 2000 were used for working capital purposes. We did not use any registered securities broker-dealers in connection with any sales of stock. All of the foregoing uses of proceeds were direct or indirect payments to nonaffiliates.

**ITEM 27. EXHIBITS**

The exhibits to this registration statement are listed below. Other than exhibits that are filed herewith, all exhibits listed below are incorporated herein by reference. Exhibits indicated by an asterisk (\*) are the management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this registration statement.

**Exhibit**

Plan of Reorganization

Articles of Incorporation

Amendment and Restatement of Certificate of

Incorporation

By-Laws

Specimen Certificate of Common Stock

**Where Located**

Exhibit 2 to Registration Statement on Form SB-2

filed August 15, 2000

Exhibit 3(i) to Registration Statement on

Form SB-2 filed August 15, 2000

Exhibit 3(ii) to Registration Statement on

Form SB-2 filed August 15, 2000

Exhibit 3(iii) to Registration Statement on

Form SB-2 filed August 15, 2000

Exhibit 4(i) to Amendment No. 1 to Registration

Form of A Warrant	Statement on Form SB-2 filed December 1, 2000 Exhibit 4(ii) to Registration Statement on Form SB-2 filed August 15, 2000
Form of B Warrant	Exhibit 4(iii) to Registration Statement on Form SB-2 filed August 15, 2000
Consent and Opinion of Freeborn & Peters LLP Lease among Scenic Properties, Sound and Lighting Specialists, Inc., John Gott and Richard Norton, dated September 1, 2002 Agreement dated February 24, 2000 between Igor Levitsky and Sound and Lighting Specialists, Inc. Promissory Note to Igor Levitsky	Filed herewith Exhibit 10.1 to Form 10-KSB for year ended December 31, 2002, filed May 21, 2003  Exhibit 10(i) to Amendment No. 1 to Registration Statement on Form SB-2 filed December 1, 2000 Exhibit 10(ii) to Amendment No. 1 to Registration Statement on Form SB-2 filed December 1, 2000
Assignment of Technology Rights by Igor Levitsky dated November 9, 2000	Exhibit 10(iii) to Amendment No. 1 to Registration Statement on Form SB-2 filed December 1, 2000
Form of Distribution Agreement	Exhibit 10(iv) to Amendment No. 2 to Registration Statement on Form SB-2 filed January 16, 2001
2000 Stock Purchase and Option Plan*	Exhibit 99(i) to Registration Statement on Form SB-2 filed August 15, 2000
Form of Option*	Exhibit 99(ii) to Registration Statement on Form SB-2 filed August 15, 2000

**Exhibit**

Letter Agreement, dated January 5, 2002 between  
SLS International, Inc. and Internet PR Group Inc.

Share Purchase Agreement, dated January 22, 2002  
between SLS International, Inc. and Herbie Herbert

Share Purchase Agreement, dated January 22, 2002  
between SLS International, Inc. and Thomas Panos

Share Purchase Agreement, dated August 8, 2001  
between SLS International, Inc. and Les Garland

Consulting Agreement, dated April 9, 2002, between  
SLS International, Inc. and The Equitable Group, LLC

Letter Agreement, dated April 2, 2002, between SLS  
International, Inc. and Muir Crane & Co.

Letter Agreement, dated April 18, 2002, between SLS  
International, Inc. and Sam F. Hamra

Consulting Services Agreement, dated June 19, 2002,  
between SLS International, Inc. and Liquid Solutions  
Corp.

Letter Agreement, dated July 17, 2002, between SLS

**Where Located**

Exhibit 10.1 to Amendment No. 1 to

Form 10-QSB for quarter ended March 31, 2002,  
filed May 21, 2003

Exhibit 10.2 to Amendment No. 1 to

Form 10-QSB for quarter ended March 31, 2002,  
filed May 21, 2003

Exhibit 10.3 to Amendment No. 1 to

Form 10-QSB for quarter ended March 31, 2002,  
filed May 21, 2003

Exhibit 10.4 to Amendment No. 1 to

Form 10-QSB for quarter ended March 31, 2002,  
filed May 21, 2003

Exhibit 10.1 to Amendment No. 1 to

Form 10-QSB for quarter ended June 30, 2002,  
filed May 21, 2003

Exhibit 10.1 to Amendment No. 1 to

Form 10-QSB for quarter ended June 30, 2002,  
filed May 21, 2003

Exhibit 10.1 to Amendment No. 1 to

Form 10-QSB for quarter ended June 30, 2002,  
filed May 21, 2003

Exhibit 10.1 to Amendment No. 1 to

Form 10-QSB for quarter ended June 30, 2002,  
filed May 21, 2003

Exhibit 10.1 to Amendment No. 1 to

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International, Inc. and Alfred V. Greco PLLC regarding settlement of Alfred V. Greco v. SLS International, Inc. Letter Agreement, dated July 17, 2002, between SLS International, Inc. and Alfred V. Greco PLLC regarding services to be provided by Alfred V. Greco PLLC Consulting Agreement, dated August 15, 2002, between SLS International, Inc. and Atlantic Services Ltd. Consulting Agreement, dated September 10, 2002, between SLS International, Inc. and Art Malone Jr. Settlement Agreement and General Release dated April 1, 2003 between McQuarterGroup and SLS International, Inc. Letter Agreement dated October 25, 2002 between SLS International, Inc. and Patrick J. Armstrong Letter Agreement dated October 25, 2002 between SLS International, Inc. and Larry R. Stessel Consulting Agreement, dated November 18, 2002 between SLS International, Inc. and Atlantic Services Ltd. Investor Relations and Financial Public Relations Consulting Agreement, dated December 15, 2002 between SLS International, Inc. and Worldwide Financial Marketing, Inc. Consulting Agreement dated February 20, 2003, between SLS International, Inc. and Tom Puccio Option Agreement, dated as of May 19, 2003,	Form 10-QSB for quarter ended September 30, 2002, filed May 21, 2003 Exhibit 10.2 to Amendment No. 1 to Form 10-QSB for quarter ended September 30, 2002, filed May 21, 2003 Exhibit 10.3 to Amendment No. 1 to Form 10-QSB for quarter ended September 30, 2002, filed May 21, 2003 Exhibit 10.4 to Amendment No. 1 to Form 10-QSB for quarter ended September 30, 2002, filed May 21, 2003 Exhibit 10.20 to Form 10-KSB for year ended December 31, 2002, filed May 21, 2003 Exhibit 10.21 to Form 10-KSB for year ended December 31, 2002, filed May 21, 2003 Exhibit 10.22 to Form 10-KSB for year ended December 31, 2002, filed May 21, 2003 Exhibit 10.23 to Form 10-KSB for year ended December 31, 2002, filed May 21, 2003 Exhibit 10.24 to Form 10-KSB for year ended December 31, 2002, filed May 21, 2003 Exhibit 10.1 to Form 10-QSB for quarter ended March 31, 2003, filed June 16, 2003 Exhibit 10.1 to Form 10-QSB for quarter ended
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between the Company and Steerpike (Overseas) Ltd.  
 Letter Agreement, dated as of May 19, 2003, between  
 the Company and Steerpike (Overseas) Ltd.  
 Letter Agreement, dated as of May 19, 2003, between  
 the Company and Steerpike Inc.

June 30, 2003, filed August 14, 2003  
 Exhibit 10.2 to Form 10-QSB for quarter ended  
 June 30, 2003, filed August 14, 2003  
 Exhibit 10.3 to Form 10-QSB for quarter ended  
 June 30, 2003, filed August 14, 2003

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**Exhibit**

Letter Agreement, dated as of July 10, 2003, between  
 the Company and Alfred V. Greco PLLC, amending  
 prior letter agreement, dated July 17, 2002,  
 concerning the settlement of certain litigation between  
 such parties  
 List of Subsidiaries of SLS International, Inc.

Consent of Weaver & Martin LLC Independent

Certified Public Accountants

Form of Escrow Agreement with Metropolitan

National Bank

Consent Order of Missouri Securities Division and

SLS International, Inc.

Promotional Shares Lock-In Agreement

**Where Located**

Exhibit 10.4 to Form 10-QSB for quarter ended  
 June 30, 2003, filed August 14, 2003

Exhibit 21 to Form 10-KSB for year ended

December 31, 2002, filed May 21, 2003

Filed herewith

Exhibit 99(iii) to Registration Statement on

Form SB-2 filed August 15, 2000

Exhibit 99(iv) to Post-Effective Amendment

No. 1 filed May 30, 2001

Exhibit 99(v) to Post-Effective Amendment

No. 1 filed May 30, 2001

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**ITEM 28. UNDERTAKINGS**

The undersigned hereby undertakes:

(1)

To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i)

To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii)

To reflect in the prospectus any facts or events which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii)

To include any additional or changed material information on the plan of distribution.

(2)

That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3)

To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

Insofar as indemnification for liabilities under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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## **SIGNATURES**

In accordance with the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned in Springfield, Missouri, on August 28, 2003.



**SLS International, Inc.**

/s/ JOHN M. GOTT

John M. Gott, President

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates indicated:

<b>Name</b>	<b>Title</b>	<b>Date</b>
/s/ JOHN M. GOTT	President, Chief Executive Officer,	August 28, 2003
John M. Gott	Chief Financial Officer, Director	
/s/ ROBERT H. LUKE, Ph.D	Director	August 28, 2003
Robert H. Luke, Ph.D		
/s/ MICHAEL L. MAPLES	Director	August 28, 2003
Michael L. Maples		
/s/ ED MOIST	Controller	August 28, 2003
Ed Moist		

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**EXHIBIT INDEX**

**Exhibit No. Description**

5.1 Consent and Opinion of Freeborn & Peters LLP

23.2 Consent of Weaver & Martin LLC Independent Certified Public Accountants