Phoenix New Media Ltd
Form F-6
July 12, 2016

As filed with the U.S. Securities and Exchange Commission on July 12, 2016

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-6
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
For Depositary Shares Evidenced by American Depositary Receipts

Phoenix New Media Limited
(Exact name of issuer of deposited securities as specified in its charter)

n/a
(Translation of issuer's name into English)

Cayman Islands
(Jurisdiction of incorporation or organization of issuer)

JPMORGAN CHASE BANK, N.A.
(Exact name of depositary as specified in its charter)

4 New York Plaza, Floor 12, New York, New York 10004
Telephone (800) 990-1135
(Address, including zip code, and telephone number, including area code, of depositary's principal executive offices)

Law Debenture Corporate Services Inc
400 Madison Avenue, 4th Floor
New York, New York 10017
Telephone: (212) 750-6474
(Address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
JPMORGAN CHASE BANK, N.A.
4 New York Plaza, Floor 12
New York, New York 10004
Telephone (800) 990-1135

It is proposed that this filing become effective under Rule 466
o immediately upon filing
o on (Date) at (Time)

If a separate registration statement has been filed to register the deposited shares, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be registered	Proposed maximum aggregate price per unit (1)	Proposed maximum aggregate offering price (2)	Amount of registration fee
American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share representing eight class A ordinary shares of Phoenix New Media Limited	100,000,000 American Depositary Shares	$0.05	$5,000,000	$503.50

(1) Each unit represents one American Depositary Share.

(2) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(k), such estimate is computed on the basis of the maximum aggregate fees or charges to be imposed in connection with the issuance of American Depositary Receipts evidencing American Depositary Shares.

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 the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PART I
INFORMATION REQUIRED IN PROSPECTUS

The Prospectus consists of the proposed form of American Depositary Receipt ("ADR" or "American Depositary Receipt") included as Exhibit A to the Amended and Restated Deposit Agreement filed as Exhibit (a) to this Registration Statement, which is incorporated herein by reference.

CROSS REFERENCE SHEET

Item 1. DESCRIPTION OF SECURITIES TO BE REGISTERED

Item Number and Caption	Location in Form of American Depositary Receipt Filed Herewith as Prospectus
(1) Name and address of Depositary	Introductory paragraph and bottom of face of American Depositary Receipt
(2) Title of American Depositary Receipts and identity of deposited securities	Face of American Depositary Receipt, top center
Terms of Deposit:	
(i) Amount of deposited securities represented by one unit of American Depositary Shares	Face of American Depositary Receipt, upper right corner
(ii) Procedure for voting, if any, the deposited securities	Paragraph (12)
(iii) Collection and distribution of dividends	Paragraphs (4), (5), (7) and (10)
(iv) Transmission of notices, reports and proxy soliciting material	Paragraphs (3), (8) and (12)
(v) Sale or exercise of rights	Paragraphs (4), (5) and (10)
(vi) Deposit or sale of securities resulting from dividends, splits or plans of reorganization	Paragraphs (4), (5), (10) and (13)
(vii) Amendment, extension or termination of the Amended and Restated Deposit Agreement	Paragraphs (16) and (17)
(viii) Rights of holders of ADRs to inspect the transfer books of the Depositary and the list of Holders of ADRs	Paragraph (3)
(ix) Restrictions upon the right to deposit or withdraw the underlying securities	Paragraphs (1), (2), (4), and (5)
(x) Limitation upon the liability of the Depositary	Paragraph (14)

(3) Fees and Charges	Paragraph (7)

Item 2. AVAILABLE INFORMATION

Item Number and Caption	Location in Form of American Depositary Receipt Filed Herewith as Prospectus
(b) Statement that Phoenix New Media Limited is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and, accordingly files certain reports with the Securities and Exchange Commission, and that such reports can be inspected by holders of American Depositary Receipts and copied through the Securities and Exchange Commission's EDGAR system or at public reference facilities maintained by the Securities and Exchange Commission located at the date hereof at 100 F Street, NE in Washington, D.C.	Paragraph (8)

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 3. EXHIBITS

(a) Form of Deposit Agreement. Form of Amended and Restated Deposit Agreement dated as of , 2016 among Phoenix New Media Limited, JPMorgan Chase Bank, N.A., as depositary (the "Depositary"), and all holders from time to time of ADRs issued thereunder (the "Amended and Restated Deposit Agreement"), including the Form of American Depositary Receipt, is filed herewith as Exhibit (a).

(b) Any other agreement to which the Depositary is a party relating to the issuance of the American Depositary Shares registered hereunder or the custody of the deposited securities represented thereby. Not Applicable.

(c) Every material contract relating to the deposited securities between the Depositary and the issuer of the deposited securities in effect at any time within the last three years. Not Applicable.

(d) Opinion of counsel to the Depositary, as to the legality of the securities being registered. Filed herewith as Exhibit (d).

(e) Certification under Rule 466. Not applicable.

Item 4. UNDERTAKINGS

(a) The Depositary hereby undertakes to make available at the principal office of the Depositary in the United States, for inspection by holders of the American Depositary Receipts, any reports and communications received from the issuer of the deposited securities which are both (1) received by the Depositary as the holder of the deposited securities, and (2) made generally available to the holders of the underlying securities by the issuer.

(b) If the amounts of fees charged are not disclosed in the prospectus, the Depositary undertakes to prepare a separate document stating the amount of any fee charged and describing the service for which it is charged and to deliver promptly a copy of such fee schedule without charge to anyone upon request. The Depositary undertakes to notify each registered holder of an American Depositary Receipt thirty days before any change in the fee schedule.

SIGNATURE

Pursuant to the requirements of the Securities Act of 1933, as amended, JPMorgan Chase Bank, N.A. on behalf of the legal entity created by the Amended and Restated Deposit Agreement, certifies that it has reasonable grounds to believe that all the requirements for filing on Form F-6 are met and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on July 12, 2016.

Legal entity created by the form of Amended and Restated Deposit Agreement for the issuance of ADRs evidencing American Depositary Shares

JPMORGAN CHASE BANK, N.A., as Depositary

By: /s/ Gregory A. Levendis
Name: Gregory A. Levendis
Title: Executive Director

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Phoenix New Media Limited certifies that it has reasonable grounds to believe that all the requirements for filing on Form F-6 are met and has duly caused this Registration Statement on Form F-6 to be signed on its behalf by the undersigned thereunto duly authorized, in the People's Republic of China on July 12, 2016.

Phoenix New Media Limited

By: /s/ Shuang Liu
Name: Shuang Liu
Title: Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Shuang Liu, Ya Li and Betty Yip Ho, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to this Registration Statement and any and all related registration statements pursuant to Rule 462(b) of the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Under the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons on July 12, 2016 in the capacities indicated.

Name	Title
/s/ Keung Chui Keung Chui	Chairman
/s/ Shuang Liu Shuang Liu	Chief Executive Officer and Director (principal executive officer)
/s/ Betty Yip Ho Betty Yip Ho	Chief Financial Officer (principal financial and accounting officer)
/s/ Ya Li Ya Li	President and Director
/s/ Daguang He Daguang He	Director

/s/ Ka Keung Yeung Ka Keung Yeung	Director
/s/ Carson Wen Carson Wen	Director
/s/ Jerry Juying Zhang Jerry Juying Zhang	Director

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF THE REGISTRANT

Under the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of Phoenix New Media Limited has signed this Registration Statement on July 12, 2016.

Authorized U.S. Representative

By:	/s/ Giselle Manon
	Name: Giselle Manon

INDEX TO EXHIBITS

Exhibit
Number

(a) Form of Deposit Agreement.

(d) Opinion of counsel to the Depositary, as to the legality of the securities to be registered.

VALUE OF UNEXERCISED UNEXERCISED OPTIONS AT 12/31/03 IN-THE-MONEY OPTIONS AT 12/31/03 (EXERCISABLE/ (EXERCISABLE/ NAME UNEXERCISABLE) UNEXERCISABLE) -- -------------------------------- --------------------------------- John M. Gott 10,000 / 0 $32,000 / 0 -- --------------------------------- --------------------------------- 30 PRINCIPAL STOCKHOLDERS The following table sets forth certain information as of January 27, 2004 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: NUMBER OF PERCENT OF NAME & ADDRESS SHARES CLASS(1) --------------------------------- ---------------------- -------------- John M. Gott 10,061,699(2) 35.2% 1020 S. Pickwick Springfield, MO 65804 Robert H. Luke 16,500(3) * 4885 S. Rhett Road Rogersville, MO 65742 Michael L. Maples 10,000(3) * 12608 Howe Drive Leawood, KS 66209 Richard L. Norton 3,244,198 11.3% 818 N. Forest Springfield, MO 65802 Officers and Directors as a Group (3 persons) 10,088,199 35.3% All such shares are owned directly by the named stockholders. ------------ * Less than one percent (1) Based upon a total of 28,616,128 shares outstanding on January 27, 2004. (2) Includes (a) an option to purchase 3,244,198 shares owned by Richard L. Norton for $.05 per share, or if lower, 50% of the 5-day average 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. 31 EQUITY COMPENSATION PLANS On December 31, 2003, we had the following securities issued and available for future issuance under equity compensation plans: --- (C) NUMBER OF SECURITIES (A) REMAINING AVAILABLE FOR NUMBER OF SECURITIES TO (B) FUTURE ISSUANCE UNDER EQUITY BE ISSUED UPON EXERCISE WEIGHTED-AVERAGE EXERCISE COMPENSATION PLANS OF PRICE OF OUTSTANDING (EXCLUDING SECURITIES OUTSTANDING OPTIONS, OPTIONS, REFLECTED WARRANTS AND RIGHTS WARRANTS AND RIGHTS IN COLUMN (A)) --- EQUITY COMPENSATION 645,000 shares of $0.29 per share 1,355,000 shares of PLANS APPROVED BY common stock common stock SECURITY HOLDERS --- EQUITY COMPENSATION 840,000 shares of $0.25 per share 0 PLANS NOT APPROVED common stock BY SECURITY HOLDERS --- TOTAL 1,485,000 shares of $0.27 per share of 1,355,000 shares of common stock common stock common stock --- 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 December 31, 2003, Mr. Gott owed $511 to us. 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 OUTSTANDING SHARES SHARES TO BE PERCENTAGE OF

SHARES OWNED BEFORE BENEFICIALLY OWNED SOLD IN THE BENEFICIALLY OWNED SELLING STOCKHOLDERS OFFERING BEFORE OFFERING (1) OFFERING AFTER OFFERING -------------------------------------- --------------- --------------------- ------------- ---------------------- 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. 32 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: o ordinary brokers' transactions o transactions involving cross or block trades o through brokers, dealers, or underwriters who may act solely as agents o "at the market" into an existing market for the common stock o in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents o in privately negotiated transactions o 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. 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. 33 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 March 26, 2004, there were outstanding a total of 29,128,780 shares of common stock. The holders of shares of common stock: o have equal ratable rights to dividends on funds legally available for dividends, provided dividends are declared by the our Board of Directors o 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 o do not have priority rights to subscribe for future offerings of shares of common stock by us o do not have any priority rights to convert their shares of common stock into any of our other securities o do not have rights to subscribe for shares or convert their shares o have no right to have their shares redeemed by us o are entitled to one vote per share on all matters upon which stockholders may vote at all meetings of stockholders 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. 34 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. On January 27, 2004, Mr. Gott owned 35.7% 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: o authorizing the issuance of preferred stock without common stockholder approval o prohibiting cumulative voting in the election of directors o 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 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. 35 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. In March 2004, we commenced an offering of up to 1,000,000 shares of Series B preferred stock at $20.00 per share. Each share is convertible into ten shares of our common stock six months after purchase. Prior to conversion, the shares have no voting rights. Attached to each preferred share are ten of our class C warrants. Each class C warrant has a term of three years and provides the right to purchase one share of our common stock at $7.00 per share. The class C warrants are immediately exercisable and detachable from the preferred share. If the average closing market price for our common stock is equal to or greater than $10.50 per share for a period of 30 days, then we are entitled to repurchase such warrants, with 30 days notice, at a price of $.001 per warrant. Through April 19, 2004, 167,700 shares of the preferred stock, series B, have been sold for $3,354,000. 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. 36 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 would (1) cause Rule 16b-3 under the Securities Exchange Act of 1934 to become unavailable with respect to the Plan; (2) 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) cause us to be unable, under the Internal Revenue Code, to grant investment stock options under the Plan. WARRANTS SLS has authorized the issuance and sale of Class A Warrants and Class B Warrants as part of the units offered. Each warrant provides the right to purchase one share of common stock at a specified price. The Class A Warrant was originally exercisable for a term of 6 months at a price of $.50 per share. The Class B Warrant was originally exercisable for 2 years after exercise of the attached Class A Warrant at a price of $3.00 per share. Through a series of extensions, the Class A Warrants and the Class B Warrants are now exercisable through August 4, 2004. The Class A Warrants and Class B Warrants are immediately detachable from the common stock but are not separable from each other until the Class A Warrant is exercised. The Class A Warrants are immediately exercisable after they are issued. If the Class A Warrant is not exercised on or prior to August 4, 2004 (or such later date as extended by the Company), or if the Class A Warrant is redeemed by SLS, the Class A Warrants and the Class B Warrants shall be void and of no effect. If the average closing market price for SLS's common stock is at least equal to the exercise price for the Class A or Class B Warrant for a period of 10 days, then such warrants are capable of being repurchased by SLS at a price of $.001 per warrant. This repurchase by SLS can occur only after SLS mails a 30-day notice to each holder of the warrants that are to be repurchased. However, the holder of the warrants can still exercise the warrants during the 30-day notice period. If SLS issues additional shares to others for any reason, other than a consolidation, merger, stock split, or sale of all the assets of SLS, the holder of the warrants will have no rights to purchase any more shares than are represented by the warrants. In addition, no adjustment or change in the exercise price of each warrant will be made, except if a stock split is declared by SLS. In case of a stock split, the exercise price of the warrants shall be adjusted higher or lower depending upon whether the stock split is a reverse stock split or forward stock split. A forward stock split means the shares are being split so that more shares will be outstanding after the stock split. In a forward stock split, the exercise price of the warrants shall be adjusted to permit the purchase of more shares of stock for the original exercise price. If there is a reverse stock split, there will be a reduction in outstanding shares and the exercise price of the warrant shall purchase fewer shares. 37 Unless and until a warrant is exercised, each warrant holder will not own any equity interest in SLS by virtue of his ownership of the warrant. The warrant holder may not vote as a stockholder. The warrant holder also will not have rights to any distributions to stockholders unless and until the warrant is exercised and SLS receives the cash consideration for the purchase of the common stock. SLS shall reserve such number of shares of common stock as shall be equal to the number of Class A and Class B Warrants issued. The shares are reserved for future issuance upon exercise of the warrants. The shares to be issued upon the exercise of the warrants have also been registered with the Securities and Exchange Commission. Upon exercise of the warrants, such shares of common stock issued to exercising investors will be freely tradeable and will not constitute restricted securities as such terms are defined under the Securities Act. The sole exception to this will be shares purchased in the offering by officers and directors of SLS. Such shares purchased by them shall be held by them for investment. SHARES ELIGIBLE FOR FUTURE SALE Upon completion of this offering, we will have 30,21224,780 shares of common stock issued and outstanding. On June 10, 2004, 15,513,449 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 1,507,360 shares of Series A preferred stock and 167,700 shares of Series B preferred stock outstanding on May 4, 2004. As of May 4, 2004, 377,940 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 2 1/2% 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. EXPERTS The audited financial statements of the Company as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 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. 38 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. 39 INDEX TO FINANCIAL STATEMENTS SLS INTERNATIONAL, INC MARCH 31, 2004 Condensed Balance Sheet F-2 Condensed Statement of Operations F-3 Statement of Cash Flows F-4 Notes to Condensed Financial Statements F-5 - F-9 DECEMBER 31, 2003 Report of Independent Registered Public Accounting Firm F-10 Balance Sheet F-11 Statement of Operations F-12 Statement of Shareholders' Deficit F-13 Statement of Cash Flows F-14 Notes to Financial Statements F-15 - F-35 F-1 PART I - FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS. SLS INTERNATIONAL, INC. CONDENSED CONSOLIDATED BALANCE SHEET March 31, December 31, 2004 2003 ------------ ------------ (unaudited) (audited) Assets Current assets: Cash $ 2,692,442 $ 1,482,786 Accounts receivable, less allowance for doubtful accounts of $45,000 for March 31, 2004 and December 31, 2003 234,367 277,665 Inventory 848,365 590,297 Prepaid expenses and other current assets 19,348 6,850 ------------ ------------ Total current assets 3,794,522 2,357,598 ------------ ------------ Fixed assets: Vehicles 73,376 73,376 Equipment 170,999 159,212 Leasehold improvements 220,577 175,621 ------------ ------------ 464,952 408,209 Less accumulated depreciation 98,839 88,016 ------------ ------------ Net fixed assets 366,113 320,193 ------------ ------------ $ 4,160,635 $ 2,677,791 ============

============ Liabilities and Shareholders' Equity (Deficit) Current liabilities: Current maturities of long-term debt and notes payable $ 28,871 $ 28,946 Accounts payable 303,804 357,287 Accrued liabilities 26,227 26,138 ------------ ------------ Total current liabilities 358,902 412,371 ------------ ------------ Notes payable, less current maturities 15,118 15,931 ------------ ------------ Commitments and contingencies: Shareholders' equity: Preferred stock, Series A, $.001 par, 2,000,000 shares authorized; 1,511,360 issued as of March 31, 2004 and 1,545,300 issued as of December 31, 2003 1,511 1,545 Preferred stock, Series B, $.001 par, 1,000,000 shares authorized; 143,500 shares issued as of March 31, 2004 and no shares issued as of December 31, 2003 144 -- Discount on preferred stock (2,257,599) (1,886,576) Contributed capital - preferred 10,952,719 7,411,585 Common stock, $.001 par; 75,000,000 shares authorized; 29,225,780 shares and 28,230,180 shares issued at March 31, 2004 and December 31, 2003 29,226 28,231 Common stock not issued but owed to buyers; 18,000 shares and 183,000 shares at March 31, 2004 and December 31, 2003 18 183 Contributed capital - common 10,370,651 8,319,286 Unamortized cost of stock issued for services (711,199) (781,204) Retained deficit (14,598,856) (10,843,561) ------------ ------------ Total shareholders' equity 3,786,615 2,249,489 ------------ ------------ $ 4,160,635 $ 2,677,791 ============ ============ The accompanying notes are an integral part of these condensed consolidated financial statements. F-2 SLS INTERNATIONAL, INC. CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS For The Three Months Ended March 31, ------------------------------ 2004 2003 ------------ ------------ (unaudited) Revenue $ 420,916 $ 104,777 Cost of sales 252,916 57,436 ------------ ------------ Gross profit 168,000 47,341 General and administrative expenses 2,956,689 502,149 ------------ ------------ Loss from operations (2,788,689) (454,808) Other income (expense): Interest expense (505) (7,637) Interest and miscellaneous, net 5,376 8,000 ------------ ------------ 4,871 363 ------------ ------------ Loss before income tax (2,783,818) (454,445) Income tax provision -- -- ------------ ------------ Net loss (2,783,818) (454,445) ------------ ------------ Deemed dividend associated with beneficial conversion of preferred stock (971,477) (133,278) ------------ ------------ Net loss availiable to common shareholders $ (3,755,295) $ (587,723) ============ ============ Basic and diluted earnings per share $ (0.13) $ (0.03) ============ ============ Weighted average shares outstanding 28,743,930 23,095,528 ============ ============ The accompanying notes are an integral part of these condensed consolidated financial statements. F-3 SLS INTERNATIONAL, INC. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS For The Three Months Ended March 31, -------------------------- 2004 2003 ----------- --------- (unaudited) Operating activities: Net loss $(2,783,818) $(454,445) Adjustments to reconcile net income to cash flows from operating activities: Depreciation and amortization 10,823 2,704 Amortization of cost of stock issued for services 70,005 246,371 Expense of stock options granted for services 718,088 -- Goodwill impairment charge 1,148,502 -- Change in assets and liabilities- Accounts receivable, less allowance for doubtful accounts 43,298 138,828 Inventory (258,068) (62,929) Prepaid expenses and other current assets -- 1,539 Accounts payable (53,483) 69,019 Due to shareholders -- (94) Accrued liabilities 90 25,007 ----------- --------- Cash used in operating activities (1,104,563) (34,000) ----------- --------- Investing activities: Additions of fixed assets (56,743) -- ----------- --------- Cash used in investing activities (56,743) -- ----------- --------- Financing activities: Sale of stock, net of expenses 2,671,850 82,350 Acquisition of subsidiary (300,000) -- Repayments of notes payable (888) (570) ----------- --------- Cash provided by financing activities 2,370,962 81,780 ----------- --------- Increase in cash 1,209,656 47,780 Cash, beginning of period 1,482,786 4,240 ----------- --------- Cash, end of period $ 2,692,442 $ 52,020 =========== ========= Supplemental cash flow information: Interest paid $ -- $ 1,295 Income taxes paid (refunded) -- -- Noncash investing activities: Stock issued and options granted for services $ 718,088 $ 93,000 The accompanying notes are an integral part of these condensed consolidated financial statements. F-4 SLS INTERNATIONAL, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - BASIS OF PRESENTATION The accompanying unaudited condensed consolidated financial statements at March 31, 2004 have been prepared in accordance with U.S. 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 position as of March 31, 2004 and results of operations and cash flows for the three months ended March 31, 2004. 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 2003 financial statements have been reclassified to conform to the 2004 presentations. The statements should be read in conjunction with the financial statements and footnotes thereto included in our Form 10-KSB for the year ended December 31, 2003. NOTE 2 - COMMITMENTS AND CONTINGENCIES Going Concern The accompanying unaudited condensed consolidated financial statements at March 31, 2004 have been prepared in conformity with U.S. generally accepted accounting principles which contemplate our continuance as a going concern. We have suffered losses from operations during the three months ended March 31, 2004 and the years ended December 31, 2003, 2002, and 2001. Our 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 consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary if we are unable to continue in existence. NOTE 3 - NOTES PAYABLE At December 31, 2003 and March 31, 2004, there is a note payable to an individual in the amount of $25,000. This note bears interest of 7% and is past due. There is also a note payable for equipment in the amount of $19,877 and $18,989 as of December 31, 2003 and March 31, 2004, respectively. This note bears interest of 5.16% and matures in September of 2008. Interest expense for the year ended December 31, 2003 and the quarter ended March 31, 2004 was $5,763 and $505, respectively. F-5 NOTE 4 - STOCK TRANSACTIONS In the quarter ended March 31, 2004, 181,000 shares shown at December 31, 2003 as "stock not issued but owed to buyers" were issued. In July 2003, we entered into an endorsement agreement with the recording artist Sting through Steerpike Ltd. The agreement grants 1,100,000 options in exchange for future endorsements of our products. Each option is convertible into one share of common stock at a strike price of $0.25 and is exercisable for a period of five years. 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, using the Black-Scholes pricing model, on an accelerated method, thereby recording a larger portion of the costs in the earlier months of the two year period. Consulting expense relating to this agreement was $469,638 for the quarter ended March 31, 2004. As of March 31, 2004 approximately 790,000 of the 1,100,000 options have been earned and expensed. Expenses to be recorded in the remaining quarters of the year ended December 31, 2004 and 2005 are unknown at this time because they are partly based on the market price over those periods. In November 2003, an agreement was signed with William Fischbach for consulting services to be performed November 10, 2003 to November 10, 2006. As compensation for consulting services we agreed to issue 400,000 shares of common stock. 400,000 shares of common stock were issued on November 11, 2003. Using the market value of the date the agreement was signed, the shares were valued at $780,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost is amortized over the three-year period of the agreement. Consulting expense relating to this agreement was $65,000 for the quarter ended March 31, 2004. On March 31, 2004 there was $678,671 remaining in unamortized stock issued for services for this agreement. The agreement also calls for the issuance of options, not to exceed an aggregate of 800,000, to Mr. Fischbach on January 1 or each year based on the previous year's performance levels. No options were issued on January 1, 2004 under this agreement. As of March 31, 2004, Mr. Fischbach had earned no options based on his performance in the quarter ended March 31, 2004. The agreement also calls for additional compensation to Mr. Fischbach in the form of a cash fee of 2% of the dollar amount of value provided in a merger, acquisition, or other transaction resulting directly from Mr. Fischbach's services. As of March 31, 2004, Mr. Fischbach had earned no cash fee based on the value provided to us in the quarter ended March 31, 2004. In the quarter ended March 31, 2004, 185,200 Class A warrants were exercised for 185,200 shares of common stock for a total of $92,600. As of March 31, 2004, 18,000 shares had not been issued and are thereby F-6 shown in these financial statements as stock not issued but owed to buyers. 565,200 Class A warrants are outstanding as of March 31, 2004. The expiration date of the Class A warrants has been extended to August 5, 2004. In the quarter ended March 31, 2004, 6,000 Class B warrants were exercised for 6,000 shares of common stock for a total of $18,000. 3,977,400 Class B warrants are outstanding as of March 31, 2004. The expiration date of the Class B warrants has been extended to August 5, 2004. In the quarter ended March 31, 2004, we commenced an offering of Series B preferred stock and sold 143,500 shares of preferred stock, series B, for $2,561,250, net of expenses. This preferred stock contained a beneficial conversion feature. The feature allows the holder to convert the preferred to 10 shares of common stock six months after buying the shares. Attached to each preferred share is ten Class C warrants. Each Class C warrant has a term of three years and provides the right to purchase one share of our common stock at $7.00 per share. If the average closing market price for our common stock is equal to or greater than $10.50 for a period of 30 days, then such warrants are capable of being repurchased with a 30-day notice, at a price of $.001 per warrant. A discount on preferred shares of $1,342,500 relating to the beneficial conversion feature was recorded and will be amortized over the six month period beginning with the date the shareholders purchased their shares. In the quarter ended March 31, 2004, $971,477 of the unamortized discount on preferred shares, series A and B, has been amortized to retained earnings. At March 31, 2004, the unamortized discount on preferred shares, series A and B, was $2,257,599. In the quarter ended March 31, 2004, 33,940 shares of preferred stock, series A, were converted to 339,400 shares of common stock. In the quarter ended March 31, 2004, 70,000 options were granted for consulting services. The options have a strike price equal to the market price on their grant date, ranging from $2.73 to $3.10. Using the Black-Scholes pricing model, the options were valued at $114,700 and recorded as consulting expense. NOTE 5 - UNAMORTIZED COST OF STOCK ISSUED FOR SERVICES During the years ended December 31, 2003 and 2002, we issued or agreed to issue 3,215,452 shares of common stock, granted 500,000 options for common stock, and 100,000 options for preferred stock, series A, as part of consulting agreements. The value of stock issued and options granted totaled $913,036 and $1,599,213 for the years ended December 31, 2003 and 2002. This cost is recorded as a debit in the equity F-7 section of the balance sheet as unamortized cost of stock issued for services. The balance is amortized into consulting expense over the lives of the various consulting agreements. For the quarter ended March 31, 2004, $70,005 was amortized into consulting expense. Unamortized cost of stock issued for services was $711,200 as of March 31, 2004. NOTE 6 - CONSULTING, PROMOTIONAL AND INVESTOR RELATIONS SERVICES Consulting and investor relation services expense was $1,015,943 for the quarter ended March 31, 2004. Consulting and investor relation expenses incurred are detailed below: Consulting expenses relating to stock issued for consulting agreements was $70,005 (See Note 5) in the quarter ended March 31, 2004. Consulting expenses relating to options issued for services was $584,338 (See Note 4) for the quarter ended March 31, 2004. In the quarter ended March 31, 2004, we settled a lawsuit brought by a former consultant. The former consultant returns 100,000 shares of common stock for cancellation in exchange for $250,000 payable in March and April of 2004. This settlement was expensed as consulting expense in the quarter ended March 31, 2004. Various individuals and corporations performed consulting services and investor relation services for us during the quarter ended March 31, 2004 and were paid $111,600. NOTE 7 - ACQUISITIONS We entered into an agreement with the owners of SA Sound B.V. and SA Sound USA, Inc. giving us an option to acquire said companies at any time prior to February 27, 2004 for a purchase price of 370,000 euros, approximately $467,000. We paid 50,000 euros, approximately $63,000 for this option. The option agreement entitled us to a refund of the option price if the due diligence performed disclosed any material adverse facts. After completion of the due diligence, we determined not to exercise the option to purchase and we have asserted a right to a refund of the option price. The sellers have challenged the return of the option fee. $109,165 has been recorded as acquisitions expense in the quarter ended March 31, 2004 in relation to the option price and related legal fees for this acquisition attempt. On March 12, 2004, we acquired Evenstar, Inc., by a merger with and into our newly formed, wholly owned subsidiary, Evenstar Mergersub, Inc. (Mergersub). In consideration for Evenstar, Inc., we paid $300,000 in cash and issued 300,000 shares of common stock to the stockholders of Evenstar, Inc. Using the market value of the common stock on the day of the acquisition and the amount of cash given, the total acquisition price was $1,161,000. An asset was recorded on these financial statements in the amount of $12,498 for a patent acquired in the F-8 merger. Evenstar had no other assets or liabilities, therefore, the remaining $1,148,502 was recorded as goodwill on these financial statements. On March 12, 2004 we performed an impairment test on the goodwill recorded in the merger with Evenstar, Inc. We determined that the goodwill was impaired and an impairment charge of $1,148,502 was recorded. This charge is shown on the condensed consolidated statement of operations in the general and administrative expenses. NOTE 8 - SUBSEQUENT EVENTS From April 1 to May 4, 2004, we sold 30,700 shares of preferred stock, series B, for $614,000. From April 1 to May 4, 2004, 4,000 shares of preferred stock, series A, were converted to 40,000 shares of common stock. In the second quarter of 2004, we intend to make a rescission offer to all warrant holders who exercised warrants during the period from May 1, 2002 through the current period. We are doing this because the registration statement filed with the US Securities and Exchange Commission to register the common stock issuable upon exercise of the warrants may not have been "current" because it had not been amended to include our most recent audited financial statements. The former warrant holders will be entitled to rescind their purchases. Once made, the rescission offer is open for 30 days. The rescission offer would require us to purchase warrants back at their original exercise price, $.50 for the Class A warrants and $3.00 for the Class B warrants, at each warrant holder's option. The current market price is well above the $.50 exercise price of the Class A warrants so no adjustment to the financial statements for the year ended December 31, 2003 and the quarter ended March 31, 2004 have been made for the rescission offer. The current market price is below the $3.00 exercise price of the Class B warrants. 22,600 Class

B warrants have been exercised as of March 31, 2004, so the rescission offer would not have a material liability effect on these financial statements. Therefore, no adjustment has been made. If all warrant holders accepted the rescission offer, we would be required to pay $1,340,700 plus interest, which amount would be reduced to the extent of the proceeds from any sales of the underlying common stock by the former warrant holders. Acceptance of the rescission offer by all former warrant holders could have a material adverse effect of these financial statements. F-9 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM STOCKHOLDERS AND DIRECTORS SLS INTERNATIONAL, INC. We have audited the accompanying balance sheet of SLS International, Inc. as of December 31, 2003 and 2002 and the related statements of operations, shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with U.S. generally accepted accounting principles. 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 March 12, 2004 F-10 SLS INTERNATIONAL, INC. BALANCE SHEET December 31, December 31, 2003 2002 ------------ ----------- Assets Current assets: Cash $ 1,482,786 $ 4,240 Accounts receivable, less allowance for doubtful accounts of $45,000 and $132,396 for December 31, 2003 and 2002 277,665 165,024 Inventory 590,297 261,573 Prepaid expenses and other current assets 6,850 6,936 ------------ ----------- Total current assets 2,357,598 437,773 ------------ ----------- Fixed assets: Vehicles 73,376 31,026 Equipment 159,212 55,083 Leasehold improvements 175,621 3,376 ------------ ----------- 408,209 89,485 Less accumulated depreciation 88,016 63,261 ------------ ----------- Net fixed assets 320,193 26,224 ------------ ----------- $ 2,677,791 $ 463,997 ============ =========== Liabilities and Shareholders' Equity (Deficit) Current liabilities: Current maturities of long-term debt and notes payable $ 28,946 $ 414,720 Accounts payable 357,287 417,449 Due to shareholders -- 23,193 Accrued liabilities 26,138 170,897 ------------ ----------- Total current liabilities 412,371 1,026,259 ------------ ----------- Notes payable, less current maturities 15,931 -- ------------ ----------- Commitments and contingencies: Shareholders' equity (deficit): Preferred stock, Series A, $.001 par, 2,000,000 shares authorized; 1,545,300 issued at December 31, 2003 1,545 -- Preferred stock, Series A, not issued but owed to buyers; 315,000 shares at December 31, 2002 -- 315 Preferred stock, Series B, $.001 par, 1,000,000 shares authorized; no shares issued as of December 31, 2003 and 2002 -- -- Discount on preferred stock (1,886,576) (233,294) Contributed capital - preferred 7,411,585 1,852,183 Common stock, $.001 par; 75,000,000 shares authorized; 28,230,180 shares and 21,453,528 shares issued at December 31, 2003 and 2002 28,231 21,454 Common stock not issued but owed to buyers; 183,000 shares and '1,222,000 shares at December 31, 2003 and 2002 183 1,222 Contributed capital - common 8,319,286 3,386,624 Unamortized cost of stock issued for services (781,204) (524,984) Retained deficit (10,843,561) (5,065,782) ------------ ----------- Total shareholders' equity (deficit) 2,249,489 (562,262) ------------ ----------- $ 2,677,791 $ 463,997 ============ =========== The accompanying notes are an integral part of these financial statements. F-11 SLS INTERNATIONAL, INC. STATEMENT OF OPERATIONS Year Ended December 31, -- 2003 2002 2001 ------------ ------------ ------------ Revenue $ 968,245 $ 790,582 $ 353,797 Cost of sales 601,213 537,243 286,924 ------------ ------------ ------------ Gross profit 367,032 253,339 66,873 General and administrative expenses 4,492,238 2,468,565 1,068,335 ------------ ------------ ------------ Loss from operations (4,125,205) (2,215,226) (1,001,462) Other income (expense): Interest expense (39,170) (33,306) (46,011)

Interest and miscellaneous, net 185,034 6,207 7,299 ------------ ------------ ------------ 145,864 (27,099) (38,712) ------------ ------------ ------------ Loss before income tax (3,979,341) (2,242,325) (1,040,174) Income tax provision -- -- -- ------------ ------------ ------------ Net loss (3,979,341) (2,242,325) (1,040,174) ------------ ------------ ------------ Deemed dividend associated with beneficial conversion of preferred stock (1,798,438) (552,100) (24,706) ------------ ------------ ------------ Net loss availiable to common shareholders $ (5,777,779) $ (2,794,425) $ (1,064,880) ============ ============ ============ Basic and diluted earnings per share $ (0.23) $ (0.14) $ (0.06) ============ ============ ============ Weighted average shares outstanding 25,496,816 20,446,711 17,406,111 ============ ============ ============ The accompanying notes are an integral part of these financial statements. F-12 SLS INTERNATIONAL, INC. STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT) Preferred Stock, Series A Common Stock ---------------- Discount on Contributed ------------------- Shares Amount Preferred Capital Shares Amount --------- ------ ----------- ----------- --------- ------- Balance, January 1, 2001 -- $ -- $ -- $ -- 14,271,528 $14,272 Net loss for the year -- -- -- -- Sales of preferred stock 102,000 102 -- 254,898 -- -- Beneficial conversion of preferred -- -- (191,400) 191,400 -- -- Preferred discount amortization -- -- 24,706 -- -- -- Sales of common stock, net of expense -- -- -- -- 4,000,000 4,000 Warrants exercised -- -- -- -- 788,000 748 --------- ------ ----------- ----------- --------- ------- Balance, December 31, 2001 102,000 102 (166,694) 446,298 19,059,528 19,020 --------- ------ ----------- ----------- --------- ------- Net loss for the year -- -- -- -- -- -- Sales of preferred stock 315,000 315 -- 787,185 -- -- Beneficial conversion of preferred -- -- (618,700) 618,700 -- -- Preferred discount amortization -- -- 552,100 -- -- -- Stock issued from prior period sales -- -- -- -- -- 40 Conversion of preferred to common (102,000) (102) -- -- -- -- Sales of common stock -- -- -- -- 100,000 100 Common stock issued for services -- -- -- -- 2,195,000 2,195 Options issued for services -- -- -- -- -- -- Services paid for on behalf of company -- -- -- -- -- -- Amortization of stock issued for services -- -- -- -- -- -- Common stock warrants exercised -- -- -- -- 99,000 99 --------- ------ ----------- ----------- --------- ------- Balance, December 31, 2002 315,000 315 (233,294) 1,852,183 21,453,528 21,454 --------- ------ ----------- ----------- --------- ------- Net loss for the year -- -- -- -- -- -- Sales of preferred stock 1,468,300 1,468 -- 3,669,282 -- -- Beneficial conversion of preferred -- -- (3,451,720) 3,451,720 -- -- Preferred discount amortization -- -- 1,798,438 -- -- -- Stock issued from prior period sales -- -- -- -- 1,220,000 1,220 Conversion of preferred to common (238,000) (238) -- (1,561,760) 2,380,000 2,380 Common stock issued for services -- -- -- -- 720,452 720 Options issued to employees & directors -- -- -- -- -- -- Options issued for services -- -- -- -- -- -- Options exercised for common stock -- -- -- -- 79,000 79 Amortization of stock issued for services -- -- -- -- -- -- Conversion of "A" warrants for services -- -- -- -- 394,600 395 Common stock warrants exercised -- -- -- -- 1,982,600 1,983 Other -- -- -- 160 -- -- --------- ------ ----------- ----------- --------- ------- Balance, December 31, 2003 1,545,300 $1,545 $(1,886,576) $ 7,411,585 28,230,180 $28,231 ========= ====== =========== =========== ========== ======= [RESTUBBED] Unamortized cost of stock Amount Contributed issued Retained Unissued Capital for services Deficit Total -------- ---------- ----------- ------------ ----------- Balance, January 1, 2001 $ -- $ 401,528 $ -- $ (1,206,477) $ (790,677) Net loss for the year -- -- -- (1,040,174) (1,040,174) Sales of preferred stock -- -- -- -- 255,000 Beneficial conversion of preferred -- -- -- -- -- - Preferred discount amortization -- -- -- (24,706) -- Sales of common stock, net of expense -- 915,685 -- -- 919,685 Warrants exercised 40 393,212 -- -- 394,000 ------- ---------- ----------- ------------ ----------- Balance, December 31, 2001 40 1,710,425 -- (2,271,357) (262,166) ------- ---------- ----------- ------------ ----------- Net loss for the year -- -- -- (2,242,325) (2,242,325) Sales of preferred stock -- -- -- -- 787,500 Beneficial conversion of preferred -- -- -- -- -- - Preferred discount amortization -- -- -- (552,100) -- Stock issued from prior period sales (40) -- -- -- -- Conversion of preferred to common 1,020 (918) -- -- -- Sales of common stock 200 29,700 -- -- 30,000 Common stock issued for services -- 1,071,755 (1,073,950) -- -- Options issued for services -- 426,164 (426,164) -- -- Services paid for on behalf of company -- 99,099 (99,099) -- -- Amortization of stock issued for services -- -- 1,074,229 -- 1,074,229 Common stock warrants exercised 2 50,399 -- -- 50,500 ------- ---------- ----------- ------------ ----------- Balance, December 31, 2002 1,222 3,386,624 (524,984) (5,065,782) (562,262) ------- ---------- ----------- ------------ ----------- Net loss for the year -- -- -- (3,979,341) (3,979,341) Sales of preferred stock -- -- -- -- 3,670,750 Beneficial conversion of preferred -- -- -- -- -- - Preferred discount amortization -- -- -- (1,798,438) -- Stock issued from prior period sales (1,220) -- -- -- -- Conversion of preferred to common -- 1,559,618 -- -- -- Common stock issued for services -- 912,316 (913,036) -- -- Options issued to employees & directors -- 23,134 -- -- 23,134 Options issued for services -- 1,142,432 -- -- 1,142,432 Options exercised for common stock 181 64,740 -- -- 65,000 Amortization of stock issued for services -- -- 656,816 -- 656,816 Conversion of "A" warrants for services -- 199,605 -- -- 200,000 Common stock warrants exercised -- 1,030,817 -- -- 1,032,800 Other -- -- -- -- 160 -------

---------- ----------- ------------ ----------- Balance, December 31, 2003 $ 183 $8,319,286 $ (781,204) $(10,843,561) $ 2,249,489 ======= ========== =========== ============ =========== The accompanying notes are an integral part of these financial statements. F-13 SLS INTERNATIONAL, INC. STATEMENT OF CASH FLOWS Year Ended December 31, --------------------------------------- 2003 2002 2001 ----------- ----------- ----------- Operating activities: Net loss $(3,979,341) $(2,242,325) $(1,040,174) Adjustments to reconcile net income to cash flows from operating activities: Depreciation and amortization 24,755 15,018 15,838 Amortization of cost of stock issued for services 856,816 1,074,229 -- Expense of stock options granted for services 1,165,566 -- -- Gain on sale of fixed assets -- (5,900) -- Change in assets and liabilities- Accounts receivable, less allowance for doubtful accounts (112,641) (95,839) (53,237) Inventory (328,724) (10,575) 17,564 Prepaid expenses and other current assets 86 (4,855) 80,329 Accounts payable (60,162) 220,616 (111,279) Due to shareholders (23,193) (8,693) 4,639 Deferred revenue -- -- (70,270) Accrued liabilities (144,759) 103,868 33,981 ----------- ----------- ----------- Cash used in operating activities (2,601,597) (954,456) (1,122,609) ----------- ----------- ----------- Investing activities: Proceeds from sale of fixed assets -- 5,900 -- Additions of fixed assets (318,724) (4,353) (14,324) ----------- ----------- ----------- Cash provided by (used in) investing activities (318,724) 1,547 (14,324) ----------- ----------- ----------- Financing activities: Sale of stock, net of expenses 4,768,550 868,000 1,568,685 Borrowing of notes payable 21,461 55,000 135,000 Repayments of notes payable (391,144) (14,241) (536,020) ----------- ----------- ----------- Cash provided by financing activities 4,398,867 908,759 1,167,665 ----------- ----------- ----------- Increase (decrease) in cash 1,478,546 (44,150) 30,732 Cash, beginning of period 4,240 48,390 17,658 ----------- ----------- ----------- Cash, end of period $ 1,482,786 $ 4,240 $ 48,390 =========== =========== =========== Supplemental cash flow information: Interest paid $ 43,345 $ 6,766 $ 14,574 Income taxes paid (refunded) -- -- -- Noncash investing activities: Stock issued and options granted for services $ 2,278,602 $ 1,599,213 $ -- Conversion of notes payable -- 50,000 -- The accompanying notes are an integral part of these financial statements. F-14 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 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 $39,543 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 $24,755, $15,018, and $15,838 in the years ended December 31, 2003, 2002, and 2001. CONCENTRATION OF CREDIT RISK: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company's cash equivalents are in major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas, however most are in the same industry; therefore, customers may be similarly affected by changes in economic and other conditions within the industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. As of December 31, 2003, approximately 26% of the Company's net accounts receivable balance was due from three customers. 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 $31,435, $22,095 and $17,569 for the years ended December 31, 2003, 2002 and 2001. F-15 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. ADVERTISING AND PROMOTIONAL EXPENSES: Advertising and promotional expenses are charged to operations in the period incurred. Advertising and promotion expenses were $150,713, $42,209, and $88,804 for the years ended December 31, 2003, 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. 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. The carrying values of these assets approximate their fair market values. 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 F-16 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 31, 2003, there had been no impairment in the carrying value of long-lived assets. GOODWILL AND OTHER INTANGIBLE ASSETS: Goodwill and indefinite life intangible assets are recorded at fair value and not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators arise, as required by SFAS No. 142. As of December 31, 2003 the Company had no goodwill or other intangible 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. 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. RECENTLY ISSUED ACCOUNTING STANDARDS: In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. The Interpretation was originally immediately effective for variable interest entities created after January 31, 2003, and effective in the fourth quarter of the Company's fiscal 2003 for those created prior to February 1, 2003. However, in October 2003, the FASB deferred the effective date for those variable interest entities created prior to February 1, 2003, until the Company's first quarter of fiscal 2004. The Company has substantially completed the process of evaluating the F-17 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. Interpretation and believes its adoption will not have a material impact on its financial position or results of operations. In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The standard is effective for contracts entered onto or modified after June 30, 2003, and for hedging relationships designed after June 30, 2003. The Company's adoption of SFAS No. 149 did not have a material impact on its financial position or results of operations. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes how an issuer classifies and measures certain freestanding financial instruments with characteristics of liabilities and equity and requires that such instruments be classified as liabilities. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective in the fourth quarter of the Company's fiscal 2003. The Company's adoption of SFAS No. 150 did not have material impact on its financial position or results of operation. 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. 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 provides 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. During 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, 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. See Note 12 for details of employee stock options issued during the year ended December 31, 2003. F-18 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 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. RECLASSIFICATIONS Certain amounts in the financial statements for the prior period have been reclassified to conform to the current period's presentation. 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, 2003, 2002 and 2001, the Company incurred losses from operations of $3,979,341, $2,242,325, and $1,040,174 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, 2003, no formal agreements had been entered into although management is negotiating licensing agreements with entities that 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. F-19 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 3. LONG TERM DEBT AND NOTES PAYABLE Long term debt and notes payable consists of the following at December 31, 2003 and 2002: December 31, 2003 2002 -------- -------- 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 25,000 357,633 Equipment note, payments in monthly installments of $407 beginning Oct. 2003, ending Sept. 2008. Interest at 5.16% 19,877 -- Vehicle note, payments in monthly installments of $518 beginning June 1999, ending April 2003. Interest at 8.75% -- 2,087 -------- -------- 44,877 414,720 Less current portion 28,946 414,720 -------- -------- Long-term portion $ 15,931 $ -- ======== ======== The aggregate principal amounts due in the future are as follows: $28,946 in 2004, $4,154 in 2005, $4,374 in 2006, $4,605 in 2007, and $2,798 in 2008. Interest expense accrued on long-term debt was $5,763 and $65,366 in the years ended December 31, 2003 and 2002. 4. COMMITMENTS Rent expense for operating leases was approximately $62,150, $56,400 and $33,425 for the years ended December 31, 2003, 2002 and 2001. The current lease expires on August 31, 2004. Future minimum lease commitments under non-cancelable leases are as follows: $53,200 for 2004. F-20 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 5. INCOME TAXES The Company does not have an income tax provision in 2003, 2002 and 2001. The Company has loss carryforwards of approximately $5,485,000 expiring from 2011 to 2017. Deferred tax is comprised of the following: Non-current asset: 2003 2002 2001 ----------- ----------- --------- Net operating loss $ 1,864,900 $ 1,123,700 $ 763,800 Valuation allowance (1,864,900) (1,123,700) (763,800) ----------- ----------- --------- Total deferred tax, net -- -- -- =========== =========== ========= A percent reconciliation of the provision for income taxes to the statutory federal rate is as follows: 2003 2002 2001 ----- ----- ----- Statutory federal income tax rate (34.0%) (34.0%) (34.0%) Non deductible expense 15.3% 17.0% 2.0% Change in valuation allowance 18.7% 17.0% 32.0% ----- ----- ----- Effective tax rate 0.0% 0.0% 0.0% ===== ===== ===== 6. RELATED PARTY TRANSACTIONS The Company rents equipment owned by a shareholder for a rental fee. In 2003, 2002 and 2001, the Company collected $0, $1,740 and $5,154 in rent for the shareholder. Company revenue from the rental totaled approximately $0, $174 and $515 for the years ended December 31, 2003, 2002 and 2001. 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 and $322 were paid in the years ended December 31, 2003 and 2002. The note was repaid in full on June 17, 2003. The note balance on December 31, 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 $2,500 and $444 were paid in the years ended December 31, 2003 and 2002. The note was repaid in full on July 18, 2003. The note balance on December 31, 2003 was $0. 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. F-21 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. There was an amount due from a shareholder of $511 as of December 21, 2003. There was an amount due to a shareholder of $23,193 and $31,886 as of December 31, 2002 and 2001. Amounts owed by or to shareholders to the Company are charged or credited interest. 7. MAJOR CUSTOMERS AND SUPPLIERS In 2003, the Company received approximately 32% of its revenue from five customers with the largest customer accounting for 16% of total revenue. The Company purchased approximately 87% of the cost of sales from five vendors with the largest two vendors accounting for 55% of total cost of sales. 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. 8. STOCKHOLDERS' EQUITY Year ended December 31, 2001: 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 expiration date has been extended to August 5, 2004 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 B warrants expiration date has been extended to August 5, 2004. 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 fiscal 2001, the Company sold 102,000 shares of preferred stock, series A, for $255,000. At 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. The shares were issued in the year ended December 31, 2003 and are therefore not shown as being owed at year end. This preferred stock contained a beneficial conversion feature. The feature allows 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 is amortized over a one year period beginning with the date the F-22 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. shareholders purchased their shares. As of December 31, 2001, $24,706 has been amortized to retained earnings. At December 31, 2001, the unamortized discount on preferred shares was $166,694. Year ended December 31, 2002: 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 and 2003, 2,000 shares had not been issued and are thereby shown in these financial statements as stock not issued but owed to buyers. 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 2002, the Company sold 315,000 shares of preferred stock, series A, 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. The shares were issued in the year ending December 31, 2003 and are therefore not shown as being owed at year end. This preferred stock contained a beneficial conversion feature. The feature allows 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 is amortized over a one year period beginning with the date the shareholders purchased their shares. As of December 31, 2002 and 2001, $552,100 and $24,706 has been amortized to retained earnings. 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, series A, 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 is 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. Consulting expense relating to this agreement was $1,388 for the year ended December 31, 2003. On December 31, 2003 there was no remaining amount in unamortized cost of stock issued for services for this agreement. F-23 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 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. The remained 200,000 shares were issued during the year ended December 31, 2003. 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. 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. The expense is 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. Consulting expense relating to these agreements was $8,790 for the year ended December 31, 2003. On December 31, 2003 there was no remaining amount in unamortized cost of stock issued for services for this agreement. 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. 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. Due to the cancellation F-24 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. of the agreement, the Company entered litigation and in February of 2004 paid $35,000 to settle the case (See Note 12). 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 was 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 as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense is 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 is 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. Consulting expense relating to this agreement was $27,125 for the year ended December 31, 2003. On December 31, 2003, there was no remaining amount in unamortized cost of stock issued for services for this agreement. F-25 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 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 and 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 is 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. Consulting expense relating to this agreement was $22,800 for the year ended December 31, 2003. On December 31, 2003 there was no remaining balance in unamortized cost of stock issued for services for this agreement. 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. Consulting expense relating to this agreement was $79,461 for the year ended December 31, 2003. On December 31, 2003 there were no remaining amounts in unamortized cost of stock issued for services for this agreement. 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 F-26 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 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. Consulting expense relating to this agreement was $79,461 for the year ended December 31, 2003. On December 31, 2003 there was no remaining amount in unamortized cost of stock issued for services for this agreement. 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 is 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. Consulting expense relating to this agreement was $191,292 for the year ended December 31, 2003. On December 31, 2003 there was no remaining amount in unamortized stock issued for services for this agreement. 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 is 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. Consulting expense relating to this agreement was $114,667 for the year ended December 31, 2003. On December 31, 2003 there was no remaining amount in unamortized stock issued for services for this agreement. F-27 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. Year ended December 31, 2003: In 2003, 1,966,000 Class A warrants were exercised for 1,966,000 shares of common stock for a total of $983,000. Also in 2003, 394,600 Class A warrants were exercised for 394,600 shares of common stock for services rendered (See Note 10). As of December 31, 2003, 2,000 shares had not been issued and are thereby shown in these financial statements as stock not issued but owed to buyers. 750,400 Class A warrants are outstanding as of December 31, 2003. The expiration date of the Class A warrants has been extended to August 5, 2004. In 2003, 16,600 Class B warrants were exercised for 16,600 shares of common stock for a total of $49,800. 3,983,400 Class B warrants are outstanding as of December 31, 2003. The expiration date of the Class B warrants has been extended to August 5, 2004. In 2003, 260,000 options were exercised for 260,000 shares of common stock for a total of $65,000. As of December 31, 2003, 181,000 shares had not been issued and are thereby shown in these financial statements as stock not issued but owed to buyers. In fiscal 2003, the Company sold 1,468,300 shares of preferred stock, series A, for $3,670,750. The preferred stock offering closed on July 31, 2003. This preferred stock contained a beneficial conversion feature. The feature allows the holder to convert the preferred to 10 shares of common stock one year after buying the shares. A discount on preferred shares of $3,451,720 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. As of December 31, 2003, 2002 and 2001,

$1,798,438, $552,100 and $24,706 has been amortized to retained earnings. At December 31, 2003, the unamortized discount on preferred shares was $1,866,576. During 2003, 238,000 shares of preferred stock, series A, were converted to 2,380,000 shares of common stock. In February 2003, an agreement was signed with Tom Puccio for consulting services to be performed February 15, 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 is amortized over the six month period of the agreement. Consulting expense relating to this agreement was $93,000 for the year ended December 31, 2003. On December 31, 2003 there was no remaining amount in unamortized stock issued for services for this agreement. In July 2003, the Company entered into an endorsement agreement with the recording artist Sting through Steerpike Ltd. The agreement grants F-28 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 1,100,000 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 and is exercisable for a period of five years. 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, using the Black-Scholes pricing model, on an accelerated method, thereby recording a larger portion of the costs in the earlier months of the two year period. Consulting expense relating to this agreement was $1,142,432 for the year ended December 31, 2003. Expenses to be recorded in the periods ended December 31, 2004 and 2005 are unknown at this time because they are partly based on the market price over those periods. As of December 31, 2003 approximately 620,000 of the 1,100,000 options have been earned and expensed. In October 2003, an agreement was signed with Zane Sellis for consulting services to be performed October 28, 2003 to October 28, 2005. As compensation for consulting services the Company agreed to issue 3,226 shares of common stock. 3,226 shares of common stock were issued on December 1, 2003. Using the market value of the date the agreement was signed, the shares were valued at $5,162 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost is amortized over the two year period of the agreement. Consulting expense relating to this agreement was $453 for the year ended December 31, 2003. On December 31, 2003 there was $4,709 remaining in unamortized stock issued for services for this agreement. In November 2003, an agreement was signed with George Iordanou for consulting services to be performed November 6, 2003 to November 6, 2005. As compensation for consulting services the Company agreed to issue 3,226 shares of common stock. 3,226 shares of common stock were issued on December 1, 2003. Using the market value of the date the agreement was signed, the shares were valued at $4,774 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost is amortized over the two year period of the agreement. Consulting expense relating to this agreement was $360 for the year ended December 31, 2003. On December 31, 2003 there was $4,415 remaining in unamortized stock issued for services for this agreement. In November 2003, an agreement was signed with William Fischbach for consulting services to be performed November 10, 2003 to November 10, 2006. As compensation for consulting services the Company agreed to issue 400,000 shares of common stock. 400,000 shares of common stock were issued on November 11, 2003. Using the market value of the date the agreement was signed, the shares were valued at $780,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost is amortized over the three year period of the agreement. Consulting expense relating to this agreement was $36,329 for the year ended December 31, 2003. On December 31, 2003 there was $743,671 remaining in unamortized stock issued for services for this agreement. The agreement also calls for the issuance of options, not to exceed an aggregate of 800,000, to Mr. Fischbach on January 1 or each year based on the previous year's F-29 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. performance levels. No options were issued on January 1, 2004 under this agreement. The agreement also calls for additional compensation to Mr. Fischbach in the form of a cash fee of 2% of the dollar amount of value provided in a merger, acquisition, or other transaction resulting directly from Mr. Fischbach's services. As of December 31, 2003, no cash fee has been paid. In November 2003, an agreement was signed with Edward Decker for consulting services to be performed November 20, 2003 to November 20, 2005. As compensation for consulting services the Company agreed to issue 7,000 shares of common stock. 7,000 shares of common stock were issued on December 1, 2003. Using the market value of the date the agreement was signed, the shares were valued at $15,050 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost is amortized over the two year period of the agreement. Consulting expense relating to this agreement was $845 for the year ended December 31, 2003. On December 31, 2003 there was $14,205 remaining in unamortized stock issued for services for this agreement. In November 2003, an agreement was signed with Christoper Obssuth for consulting services to be performed November 20, 2003 to November 20, 2005. As compensation for consulting services the Company agreed to issue 7,000 shares of common stock. 7,000 shares of common stock were issued on December 1, 2003. Using the market value of the date the agreement was signed, the shares were valued at $15,050 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost is amortized over the two year period of the agreement. Consulting expense relating to this agreement was $845 for the year ended December 31, 2003. On December 31, 2003 there was $14,205 remaining in unamortized stock issued for services for this agreement. 9. UNAMORTIZED COST OF STOCK ISSUED FOR SERVICES As detailed in Note 8, during the years ended December 31, 2003 and 2002, the Company issued or agreed to issue 3,215,452 shares of common stock, granted 500,000 options for common stock, and 100,000 options for preferred stock as part of consulting agreements. The value of stock issued and options granted totaled $913,036 and $1,599,213 for the years ended December 31, 2003 and 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 is amortized into consulting expense over the lives of the various consulting agreements. For the year ended December 31, 2003 and 2002, $656,816 and $1,074,229 were amortized into consulting expense. Unamortized cost of stock issued for services was $524,984 as of December 31, 2002 and $781,204 as of December 31, 2003. There was no stock issued for services in the year ended December 31, 2001. F-30 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 10. CONSULTING AND INVESTOR RELATIONS SERVICES Consulting and investor relation services expense was $3,104,153, $1,303,770, and $52,799 for the years ended December 31, 2003, 2002, and 2001. Consulting and investor relation expenses incurred in 2003, 2002, and 2001 are detailed below. Consulting expenses relating to stock issued for consulting agreements was $656,816, $1,074,229, and $0 (See Note 9) in the years ended December 31, 2003, 2002, and 2001 and relating to options issued for services was $1,142,432, $0, and $0 (See Note 8) for the years ended December 31, 2003, 2002, and 2001. Ronald Gee contracted with SLS for promotional services and was paid $335,000 to disseminate information pursuant to the Company's obligation under the Exchange Act. All services were rendered in the third and fourth quarter of the year ended December 31, 2003. Atlantic Services Ltda, DBA Atlantic Services and Phantasma Holding Corp/Red Sea Mgt. Located in Costa Rica contracted with SLS and was paid $100,000 to provide SLS consultation and to identify and introduce companies/individuals that may be potential agents, partners, distributors, spokespeople and/or investors. All services were rendered in the third quarter of the year ended December 31, 2003. Berkshire International LLC DBA Phantasma Holding Corp/Berkshire located in Costa Rica contracted with SLS to provide the services of business development to identify and introduce companies that may be potential partners, support in the implementation of a marketing program and to promote the image of the Company and was paid $150,000. The term of the agreement was from August 11 to November 11, 2003. Fitzgerald Galloway contracted with SLS to identify private or public companies for merger and/or acquisition with or by SLS for a period from July 23, 2003 to August 23, 2003 and was paid a fee of $20,000. Wall Street Investor Relations Corp contracted with SLS for public relations, investor relations and capital raising for a period completed by September 30, 2003 and received a fee of $8,000. G. Ghecko Enterprises DBA Red Sea Management, located in Costa Rica, contracted with SLS and was paid $50,000 to provide SLS consultation and the service of business development to identify and introduce companies that may be potential partners. The contract was later voided and a refund of $50,000 was received in January 2004. Art Malone, Jr. provided services for the purpose of securing the appropriate mechanisms to market SLS's products for a fee of $15,000. The services were from September 1, 2003 to December 31, 2003. F-31 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. Bill Fischbach provided services for the purpose of public relations, retail distribution contacts, and business development to the Company for a fee of $78,870. The services were rendered in the third quarter of 2003. Various individuals and corporations performed consulting services and investor relation services for the Company during the year ended December 31, 2003, 2002, and 2001 and were paid $498,035, $229,541, and $52,799. 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 2001. In 2002, the Company granted 500,000 options for common stock as part of consulting agreements detailed in Note 8. In 2003, the Company issued 1,100,000 options for common stock as part of consulting agreements detailed in Note 8.

The Company accounts for these grants under Accounting Principles Board Opinion No. 25 under which expense has been recognized for services. There were no options granted in the year ended December 31, 2001. The following table summarizes the options granted: 2002 2003 ------------- ----------- Dividend Yield 0% 0% Weighted Average Expected Stock Volatility 29% 146.60% Weighted Average Risk Free Interest Rate 2.70% 3.46% Expected Option Lives 6 months to 10 5 years years Value of Options Granted $426,164 $1,142,432* *Only options earned in 2003 are valued here. Options to be earned in 2004 and 2005 have not been valued as they will be valued on the date they are earned. See Note 8. Weighted Weighted Options 2003 Average 2002 Average ------- --------- -------- ------- -------- Outstanding at beginning of year 500,000 $0.30 -- -- Granted 1,100,000 0.25 500,000 $0.30 Exercised 260,000 0.25 -- -- Expired -- - -- -- --------- ----- ------- ----- Outstanding at end of year 1,340,000 $0.27 500,000 $0.30 ========= ===== ======= ===== F-32 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. The weighted average exercise price of the options is $0.27 at December 31, 2003. 12. EMPLOYEE STOCK OPTIONS During the year ended December 31, 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. The board of directors approved 145,000 options for employees and directors in the year ended December 31, 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 year ended December 31, 2003. There were no employee stock options in the years ended December 31, 2002 or 2001. The following table summarizes the options granted: Dividend Yield 0% Weighted Average Expected Stock Volatility 52.5% Weighted Average Risk Free Interest Rate 4.04% Expected Option Lives 10 years Value of Options Granted $23,134 Weighted Options 2003 Average ------- ------- -------- Outstanding at beginning of year -- -- Granted 145,000 $0.25 Exercised -- -- Expired -- -- ------- ----- Outstanding at end of year 145,000 $0.25 ======= ===== The weighted average exercise price of the options is $0.25 at December 31, 2003. F-33 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. 13. SUBSEQUENT EVENTS In February of 2004, the Class A and Class B warrants expiration dates were both extended to August 5, 2004. From January 1 to March 26, 2004, 175,200 Class A warrants were exercised for 175,200 shares of common stock for a total of $87,600. From January 1 to March 26, 2004, 19,940 shares of preferred stock, series A, were converted into 199,400 shares of common stock. In January of 2004, 181,000 shares of common stock owed to buyers at December 31, 2003 were issued. In March of 2004, the Company commenced an offering of Series B preferred stock. 1,000,000 shares of preferred stock, series B, is being offered at $20.00 per share. Each share is convertible into ten shares of the Company's common stock six months after purchase. Prior to conversion, the shares have no voting rights. Attached to each preferred share are ten of the Company's class C warrants. Each Class C warrant has a term of three years and provides the right to purchase one share of the Company's common stock at $7.00 per share. The Class C warrants are immediately exercisable and detachable from the preferred share. If the average closing market price for the Company's common stock is equal to or greater than $10.50 for a period of 30 days, then such warrants are capable of being repurchased by the Company, with 30-day notice, at a price of $.001 per warrant. Through March 26, 2004, 143,500 shares of the preferred stock, series B, have been sold for $2,870,000. In February of 2004, the Company settled a lawsuit brought by an entity that had previously been a consultant to the Company. The settlement amount of $35,000 has been accrued in the financial statements for the year ended December 31, 2003. In March of 2004, the Company settled a lawsuit brought by a former consultant to the Company. The former consultant returns 100,000 shares of common stock of the Company for cancellation in exchange for $250,000 payable in March and April of 2004. This settlement has not been accrued in the financial statements for the year ended December 31, 2003. In February of 2004, the Company entered into an agreement with the owners of SA Sound B.V. and SA Sound USA, Inc. giving the Company an option to acquire said companies at any time prior to February 27, 2004 for a purchase price of 370,000 euros, approximately $467,000. The Company paid 50,000 euros, approximately $63,000 for this option. The option agreement entitled the Company to a refund of the option price if the due diligence performed by the Company disclosed any material adverse facts about said companies. After completion of the due diligence, the Company determined not to exercise the option to purchase and has asserted its right to a refund of the option price. F-34 SLS INTERNATIONAL, INC. NOTES TO FINANCIAL STATEMENTS. The sellers are challenging the return of the option price. None of the above items or amounts have been reflected in the financial statements as of December 31, 2003. In March of 2004, the Company completed a merger with Evenstar, Inc. into a newly formed, wholly owned subsidiary. In exchange for said merger, the Company paid $300,000 in cash and issued 300,000 shares of common stock to the seller. Based on market value of the common stock on the date of closing and the cash given, the purchase price was approximately $1,160,000. Simultaneously with the merger, the Company hired the seller as director of its electronics division and issued the seller options to purchase 100,000 shares of common stock at market value on the day of merger closing. The seller is also entitled to annual options based on the amount of gross profits received from sales of products containing the technologies acquired from the merger. Evenstar, Inc has virtually no assets other than patents and has not shown any revenue for the past two years. The excess of the purchase price (approximately $1,160,000) over the cost of the patents (approximately $4,000, net of amortization) will be recorded as goodwill in the first quarter of 2004. Simultaneously, the Company will take a charge for impairment of goodwill of the same amount. The impairment charge will be recorded in the financial statements for the quarter ended March 31, 2004. In March of 2004, the Company issued 300,000 shares of common stock in relation to the Evenstar, Inc. merger. In the second quarter of 2004, the Company intends to make a rescission offer to all warrant holders who exercised warrants during the period from May 1, 2002 through the current period. During such period, the registration statement that the Company filed with the US Securities and Exchange Commission to register the common stock issuable upon exercise of the warrants may not have been "current" because it had not been amended to include the Company's most recent audited financial statements. As a result , the former warrant holders may be entitled to rescind their purchases and the Company has decided to make the rescission offer. Once made, the rescission offer is open for 30 days. The rescission offer would require the Company to purchase warrants back at their original exercise price, $.50 for the Class A warrants and $3.00 for the Class B warrants, at each warrant holder's option. The current market price is well above the $.50 exercise price of the Class A warrants so no adjustment to the financial statements for the year ended December 31, 2003 has been made for the rescission offer. The current market price is below the $3.00 exercise price of the Class B warrants. Only 16,600 Class B warrants have been exercised as of December 31, 2003, so any effect of the rescission offer would have an immaterial effect of these financial statements, therefore, no adjustment has been made. If all warrant holders accepted the rescission offer, the Company would be required to pay $1,246,800 plus interest, which amount would be reduced to the extent of the proceeds from any sales of the underlying common stock by the former warrant holders. Acceptance of the rescission offer by all former warrant holders could have a material adverse effect of these financial statements. F-35 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. 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. II-1 SEC Registration $ 141.49 Legal Fees and $ 15,000.00 Expenses* Accounting Fees* $ 3,000.00 Miscellaneous* $ 2,000.00 ------------- Total. $ 20,141.49 ============= ------------ * Estimated ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES 2003 In 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 Company also issued an aggregate of 420,452 shares of common stock under consulting agreements entered into during 2003. The issuances were made in reliance on Section 4(2) of the Securities Act of 1933, as amended. The net proceeds from these sales and issuances in 2003 were used for working capital purposes. We used one registered broker-dealer for the sale of approximately 265,968 shares of preferred stock and paid commissions of $33,246 for such sales. 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. II-2 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 WHERE LOCATED --- -- Plan of Reorganization Exhibit 2 to Registration Statement on Form SB-2 filed August 15, 2000 Articles of Incorporation Exhibit 3(i) to Registration Statement on Form SB-2 filed August 15, 2000 Amendment and Restatement of Certificate of Exhibit 3(ii) to Registration Statement on Incorporation Form SB-2 filed August 15, 2000 By-Laws Exhibit 3(iii) to Registration Statement on Form SB-2 filed August 15, 2000 Amendment to By-laws (Article VIII) Exhibit 3.4 to Annual Report on Form 10-KSB filed March 30, 2004 Specimen Certificate of Common Stock Exhibit 4(i) to Amendment No. 1 to Registration Statement on Form SB-2 filed December 1, 2000 Form of A Warrant 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 Alfred V. Greco, PLLC Exhibit 5(i) to Amendment No. 1 to Form SB-2 filed December 1, 2001. Commercial Property Lease Agreement between Scenic Properties, Exhibit 10.1 to Form 10-QSB for quarter ended Inc., and SLS International, Inc., dated September 1, 2003 September 30, 2003, filed November 11, 2003 Agreement dated February 24, 2000 between Igor Levitsky and Exhibit 10(i) to Amendment No. 1 to Sound and Lighting Specialists, Inc. Registration Statement on Form SB-2 filed December 1, 2000 Assignment of Technology Rights by Igor Levitsky dated Exhibit 10(iii) to Amendment No. 1 to November 9, 2000 Registration Statement on Form SB-2 filed December 1, 2000 Form of Distributor Agreement Exhibit 10(iv) to Amendment No. 2 to Registration Statement on Form SB-2 filed January 16, 2001 II-3 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 Letter Agreement, dated January 5, 2002 between Exhibit 10.1 to Amendment No. 1 to SLS International, Inc. and Internet PR Group Inc. Form 10-QSB for quarter ended March 31, 2002, filed May 21, 2003 Share Purchase Agreement, dated January 22, 2002 Exhibit 10.2 to Amendment No. 1 to between SLS International, Inc. and Herbie Herbert Form 10-QSB for quarter ended March 31, 2002, filed May 21, 2003 Share Purchase Agreement, dated January 22, 2002 Exhibit 10.3 to Amendment No. 1 to between SLS International, Inc. and Thomas Panos Form 10-QSB for quarter ended March 31, 2002, filed May 21, 2003 Consulting Agreement, dated April 9, 2002, between SLS Exhibit 10.1 to Amendment No. 1 to International, Inc. and The Equitable Group, LLC Form 10-QSB for quarter ended June 30, 2002, filed May 21, 2003 Letter Agreement, dated April 2, 2002, between SLS Exhibit 10.2 to Amendment No. 1 to

International, Inc. and Muir Crane & Co. Form 10-QSB for quarter ended June 30, 2002, filed May 21, 2003 Letter Agreement, dated April 18, 2002, between SLS Exhibit 10.3 to Amendment No. 1 to International, Inc. and Sam F. Hamra Form 10-QSB for quarter ended June 30, 2002, filed May 21, 2003 Consulting Services Agreement, dated June 19, 2002, between Exhibit 10.4 to Amendment No. 1 to SLS International, Inc. and Liquid Solutions Corp. Form 10-QSB for quarter ended June 30, 2002, filed May 21, 2003 Letter Agreement, dated July 17, 2002, between SLS Exhibit 10.1 to Amendment No. 1 to International, Inc. and Alfred V. Greco PLLC regarding Form 10-QSB for quarter ended September 30, settlement of Alfred V. Greco v. SLS International, Inc. 2002, filed May 21, 2003 Letter Agreement, dated July 17, 2002, between SLS Exhibit 10.2 to Amendment No. 1 to International, Inc. and Alfred V. Greco PLLC Form 10-QSB for quarter ended September 30, regarding services to be provided by Alfred V. Greco PLLC 2002, filed May 21, 2003 Consulting Agreement, dated August 15, 2002, Exhibit 10.3 to Amendment No. 1 to between SLS International, Inc. and Atlantic Services Ltd. Form 10-QSB for quarter ended September 30, 2002, filed May 21, 2003 II-4 Consulting Agreement, dated September 10, 2002, Exhibit 10.4 to Amendment No. 1 to Form 10-QSB between SLS International, Inc. and Art Malone Jr. for quarter ended September 30, 2002, filed May 21, 2003 Settlement Agreement and General Release dated Exhibit 10.20 to Form 10-KSB for year ended April 1, 2003 between McQuerterGroup and SLS December 31, 2002, filed May 21, 2003 International, Inc. Letter Agreement dated October 25, 2002 between Exhibit 10.21 to Form 10-KSB for year ended SLS International, Inc. and Patrick J. Armstrong December 31, 2002, filed May 21, 2003 Letter Agreement dated October 25, 2002 between Exhibit 10.22 to Form 10-KSB for year ended SLS International, Inc. and Larry R. Stessel December 31, 2002, filed May 21, 2003 Consulting Agreement, dated November 18, 2002 Exhibit 10.23 to Form 10-KSB for year ended between SLS International, Inc. and Atlantic Services Ltd. December 31, 2002, filed May 21, 2003 Investor Relations and Financial Public Relations Exhibit 10.24 to Form 10-KSB for year ended Consulting Agreement, dated December 15, 2002 December 31, 2002, filed May 21, 2003 between SLS International, Inc. and Worldwide Financial Marketing, Inc. Consulting Agreement dated February 20, 2003, Exhibit 10.1 to Form 10-QSB for quarter ended between SLS International, Inc. and Tom Puccio March 31, 2003, filed June 16, 2003 Option Agreement, dated as of May 19, 2003, Exhibit 10.1 to Form 10-QSB for quarter ended between the Company and Steerpike (Overseas) Ltd. June 30, 2003, filed August 14, 2003 Letter Agreement, dated as of May 19, 2003, between the Exhibit 10.2 to Form 10-QSB for quarter ended Company and Steerpike (Overseas) Ltd. June 30, 2003, filed August 14, 2003 Letter Agreement, dated as of May 19, 2003, between the Exhibit 10.3 to Form 10-QSB for quarter ended Company and Steerpike Inc. June 30, 2003, filed August 14, 2003 Letter Agreement, dated as of July 10, 2003, between the Exhibit 10.4 to Form 10-QSB for quarter ended Company and Alfred V. Greco PLLC, amending prior letter June 30, 2003, filed August 14, 2003 agreement, dated July 17, 2002, concerning the settlement of certain litigation between such parties II-5 Consulting Agreement, dated as of July 14, 2003, between SLS Exhibit 10.2 to Form 10-QSB for quarter ended International, Inc. and Atlantic Services Ltda. September 30, 2003, filed November 11, 2003 Consulting Agreement, dated as of July 22, 2003, between SLS Exhibit 10.3 to Form 10-QSB for quarter ended Loudspeakers and Atlantic Services Ltda. September 30, 2003, filed November 11, 2003 Consulting Agreement, dated as of August 11, 2003, between SLS Exhibit 10.4 to Form 10-QSB for quarter ended International, Inc. and G. Ghecko Enterprises September 30, 2003, filed November 11, 2003 Contract for Promotional Services, dated July 14, 2003, Exhibit 10.5 to Form 10-QSB for quarter ended between Ronald E. Gee and SLS International, Inc. September 30, 2003, filed November 11, 2003 Contract for Promotional Services, dated August 5, 2003, Exhibit 10.6 to Form 10-QSB for quarter ended between Ronald E. Gee and SLS International, Inc. September 30, 2003, filed November 11, 2003 Contract for Promotional Services, dated September 5, 2003, Exhibit 10.7 to Form 10-QSB for quarter ended between Ronald E. Gee and SLS International, Inc. September 30, 2003, filed November 11, 2003 Consulting Agreement, dated as of August 11, 2003, between SLS Exhibit 10.8 to Form 10-QSB for quarter ended Loudspeakers and Berkshire International, LLC September 30, 2003, filed November 11, 2003 Letter Agreement, dated August 29, 2003, between SLS Exhibit 10.9 to Form 10-QSB for quarter ended International and Art Malone, Jr. September 30, 2003, filed November 11, 2003 Consulting Agreement, dated August 21, 2003, between SLS Exhibit 10.10 to Form 10-QSB for quarter ended International, Inc. and Grant Galloway September 30, 2003, filed November 11, 2003 Agreement, dated July 31, 2003 between SLS International, Inc. Exhibit 10.11 to Form 10-QSB for quarter ended and Wall Street Investor Relations Corp. September 30, 2003, filed November 11, 2003 30 Days Public Relations Services Contracts, dated July 23, Exhibit 10.12 to Form 10-QSB for quarter ended 2003, between Fitzgerald Galloway Consulting and SLS September 30, 2003, filed November 11, 2003 International, Inc. Merger Agreement, dated

March 12, 2004, among SLS Exhibit 10.1 to Form 8-K filed March 17, 2004 International, Inc., Evenstar, Inc., Joel A. Butler, David L. Butler, Patrick D. Butler, and Evenstar Mergersub, Inc. II-6 Employment Agreement, dated March 12, 2004, between SLS Exhibit 10.2 to Form 8-K filed March 17, 2004 International, Inc. and Joel A. Butler Consulting Services Agreement, dated October 28, 2003, between Exhibit 10.41 to Annual Report on Form 10-KSB SLS International, Inc. and Zane Sellis filed March 30, 2004 Consulting Services Agreement, dated November 6, 2003, between Exhibit 10.42 to Annual Report on Form 10-KSB SLS International, Inc. and George Iordanou filed March 30, 2004 Consulting Services Agreement, dated November 10, 2003, Exhibit 10.43 to Annual Report on Form 10-KSB between SLS International, Inc. and William F. Fischbach filed March 30, 2004 Consulting Services Agreement, dated November 20, 2003, Exhibit 10.44 to Annual Report on Form 10-KSB between SLS International, Inc. and Edward Decker filed March 30, 2004 Consulting Services Agreement, dated November 20, 2003, Exhibit 10.45 to Annual Report on Form 10-KSB between SLS International, Inc. and Christopher Obssuth filed March 30, 2004 Stipulation for Entry of Judgment and Mutual General Release Exhibit 10.46 to Annual Report on Form 10-KSB filed March 30, 2004 Stock Option Agreement, dated February 9, 2004, between SLS Exhibit 10.1 to Quarterly Report on Form 10-QSB International, Inc., and Ryan Schinman filed May 17, 2004 Letter Agreement, dated May 19, 2004, between SLS Exhibit 10.2 to Quarterly Report on Form 10-QSB International, Inc., and Kenny Securities Corp. filed May 17, 2004 List of Subsidiaries of SLS International, Inc. Exhibit 21 to Form 10-KSB for year ended December 31, 2003, filed March 30, 2004 Consent of Weaver & Martin LLC Independent Filed herewith. Certified Public Accountants Consent Order of Missouri Securities Division and Exhibit 99(iv) to Post-Effective Amendment No. SLS International, Inc. 1 filed May 30, 2001 Promotional Shares Lock-In Agreement Exhibit 99(v) to Post-Effective Amendment No. 1 filed May 30, 2001 Modification to Consent Order of Missouri Securities Division Exhibit 99.1 to Post-Effective Amendment No. 2 and SLS International, Inc. filed February 9, 2004 II-7 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. II-8 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 June 28, 2004. 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: NAME TITLE DATE ------------------------------------ --- -------------------------- /s/ JOHN M. GOTT President, Chief Executive Officer, June 28, 2004 ------------------------------------ Chief Financial Officer, Director John M. Gott /s/ ROBERT H. LUKE, Ph.D Director June 28, 2004 ------------------------------------ Robert H. Luke, Ph.D /s/ MICHAEL L. MAPLES Director June 28, 2004 ------------------------------------ Michael L. Maples /s/ ED MOIST Controller June 28, 2004 ------------------------------------ Ed Moist II-9