SLS INTERNATIONAL INC
Form 10QSB
June 16, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[x] Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2003
or

[ ] Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the Transition Period from _________ to ___________

Commission File Number: 333-43770

SLS INTERNATIONAL, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware	52-2258371
(State of Incorporation)	(IRS Employer Identification No.)
3119 South Scenic Springfield, Missouri	65807
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (417) 883-4549

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. N/A Yes [ ] No [ ]

On June 5, 2003, 23,196,528 shares of SLS International, Inc. common stock were outstanding.

Transitional Small Business Disclosure Format (check one):
Yes [ ] No [x]

SLS INTERNATIONAL, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SLS INTERNATIONAL, INC.
CONDENSED BALANCE SHEET

	March 3 2003 (unaudite
Assets	
Current assets:	
Cash	$ 52,0
Accounts receivable, less allowance for doubtful accounts of of $132,396 for March 31, 2003 and December 31, 2002	26,1
Inventory	324,5
Prepaid expenses and other current assets	5,3
Total current assets	408,1
Fixed assets:	
Vehicles	31,0
Equipment	55,0
Leasehold improvements	3,3
	89,4
Less accumulated depreciation	65,9

Net fixed assets	23,5
	$ 431,6
Liabilities and Shareholders' Deficit	
Current liabilities:	
Current maturities of long-term debt and notes payable	$ 414,1
Accounts payable	486,4
Due to shareholders	23,0
Accrued liabilities	195,9
Total current liabilities	1,119,6
Commitments and contingencies:	
Shareholders' deficit:	
Preferred stock not issued but owed to buyers, $.001 par, 5,000,000 shares authorized; 281,940 and 315,000 shares at March 31, 2003 and December 31, 2002	2
Discount on preferred stock	(108,4
Contributed capital - preferred	1,942,9
Common stock, $.001 par; 75,000,000 shares authorized; 23,193,528 shares and 21,453,528 shares issued at March 31, 2003 and December 31, 2002	23,1
Common stock not issued but owed to buyers; 442,000 shares and '1,222,000 shares at March 31, 2003 and December 31, 2002	4
Contributed capital - common	3,478,7
Unamortized cost of stock issued for services	(371,6
Retained deficit	(5,653,5
Total shareholders' deficit	(687,9
	$ 431,6

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

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SLS INTERNATIONAL, INC.
CONDENSED STATEMENT OF OPERATIONS

	For The Three Months Ended March 31,	
	2003	2002
	(unaudited)	
Revenue	$ 104,777	$ 135,186
Cost of sales	57,436	85,111

Gross profit	47,341	50,075
General and administrative expenses	502,149	498,497
Loss from operations	(454,808)	(448,422)
Other income (expense):		
Interest expense	(7,637)	(6,433)
Interest and miscellaneous, net	8,000	7
	363	(6,426)
Loss before income tax	(454,445)	(454,848)
Income tax provision	--	--
Net loss	(454,445)	(454,848)
Deemed dividend associated with beneficial conversion of preferred stock	(133,278)	(69,765)
Net loss availiable to common shareholders	$ (587,723)	$ (524,613)
Basic and diluted earnings per share	$ (0.03)	$ (0.03)
Weighted average shares outstanding	23,095,528	20,892,278

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

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SLS INTERNATIONAL, INC.
CONDENSED STATEMENT OF CASH FLOWS

	For The
	2003
Operating activities:	
Net loss	$(454,44
Adjustments to reconcile net income to cash flows from operating activities:	
Depreciation and amortization	2,70
Amortization of cost of stock issued for services	246,37
Change in assets and liabilities-	

Accounts receivable, less allowance for doubtful accounts	138,82
Inventory	(62,92
Prepaid expenses and other current assets	1,53
Accounts payable	69,01
Due to shareholders	(9
Accrued liabilities	25,00
Cash used in operating activities	(34,00
Financing activities:	
Sale of common stock	82,35
Borrowing of notes payable	
Repayments of notes payable	(57
Cash provided by financing activities	81,78
Increase (decrease) in cash	47,78
Cash, beginning of period	4,24
Cash, end of period	$ 52,02
Supplemental cash flow information:	
Interest paid	$ 1,29
Income taxes paid (refunded)	-
Noncash investing activities:	
Stock issued and options granted for services	$ 93,00

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

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SLS INTERNATIONAL, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - COMMITMENTS AND CONTINGENCIES

Going Concern

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

NOTE 3 - NOTES PAYABLE

The interest rate on the current notes range from 7% to 10% and all are past due or demand notes.

NOTE 4 - STOCK TRANSACTIONS

In May, 2001, the Company completed a public offering. The number of shares sold was 4,000,000. Included with the purchase of the shares was a Class A warrant and a Class B warrant. The Class A warrants expire on August 4, 2003 and are exercisable at a price of $.50 per share. The Class B warrant has a term of 2 years and are exercisable at a price of $3.00 per share. The warrants are detachable from the common stock but

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are not separable from each other until the Class A warrant is exercised.

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

In the three months ended March 31, 2003, the Company sold 32,940 shares of preferred stock for $82,350. This preferred stock contained beneficial conversion features. The features allows the holder to convert the preferred to 10 shares of common stock after a one year period. A discount on preferred shares of $8,470 relating to the beneficial conversion feature was recorded on these sales which will be amortized over a one year period beginning with the date the shareholders purchased their shares. $133,278 was amortized to retained earnings in the three months ended March 31, 2003. At March 31, 2003, the unamortized beneficial conversion on preferred shares was $108,486.

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

months ended March 31, 2003. On March 31, 2003, there was $0 remaining in unamortized cost of stock issued for services on the balance sheet.

In January of 2002, three agreements were signed for consulting services to be performed. The agreements paid 300,000 shares to the consultants in exchange for $3,000, an executed note receivable for $27,000, and services to be rendered. As of March 31, 2003, 200,000 of the shares had not been issued and are therefore recorded as common stock not issued but owed to buyers on these financial statements. 100,000 of the common shares were issued on November 19, 2002. Using the market value on the date the agreements were signed, the shares were valued at $237,000. Value of the shares over consideration given is $207,000 and is recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The

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expense will be amortized over a one year period. Consulting expense relating to these agreements was $8,790 for the three months ended March 31, 2003. On March 31, 2003 there was $0 remaining in unamortized cost of stock issued for services on the balance sheet. A valuation allowance of $27,000 has been used to offset the resulting note receivable from the transaction and therefore $0 is reflected in the asset section of the balance sheet for the note receivables.

In April of 2002, an agreement was signed with The Equitable Group, LLC for consulting services to be performed from March 26, 2002 to September 26, 2002. As compensation for consulting services, the Company agreed to issue 600,000 shares of common stock, of which 100,000 were nonrefundable, to the consultant. The Company issued 100,000 shares on April 9, 2002. Using the market value on the date the agreement was signed, the shares were valued at $51,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock given for services. On May 2, 2002, the Company terminated the agreement. Upon termination of the agreement all unamortized costs were amortized as consulting expense.

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

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

section of the balance sheet as unamortized cost of stock issued for

services. At December 31, 2002, the consulting agreement had been terminated and all costs were amortized.

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

In August of 2002, an agreement was signed with Atlantic Services, Ltd., a foreign corporation based in Costa Rica, for consulting services to be performed August 15, 2002 to August 15, 2003. As compensation for consulting services the Company agreed to issue 125,000 shares of common stock. 125,000 shares of common stock were issued on August 15, 2002. Using the market value on the date the agreement was signed, the shares were valued at $43,750 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The expense will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was $10,937 for the three months ended March 31, 2003. On March 31, 2003, there was $16,188 remaining in unamortized cost of stock issued for services on the balance sheet.

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

In October of 2002, an agreement was signed with Patrick Armstrong of Titan Entertainment Group for consulting services to be performed

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

the Black-Scholes pricing model, the options were valued at $57,471 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. All costs will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was $24,118 for the three months ended March 31, 2003. On March 31, 2003, there was $55,343 remaining in unamortized cost of stock issued for services on the balance sheet.

In October of 2002, an agreement was signed with Larry Stessel of Titan Entertainment Group for consulting services to be performed November 5, 2002 to November 5, 2003. As compensation for consulting services the Company agreed to issue 100,000 shares of common stock and 250,000 options for 250,000 shares of common stock. The options have a strike price of $.30 and expire ten years from date of issuance. 100,000 shares of common stock were issued on November 5, 2002. Using the market value on the date the agreement was signed, the shares were valued at $39,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. Using the Black-Scholes pricing model, the options were valued at $57,471 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. All costs will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was $24,118 for the three months ended March 31, 2003. On March 31, 2003, there was $55,343 remaining in unamortized cost of stock issued for services on the balance sheet.

In December of 2002, an agreement was signed with Atlantic Services, Ltd., a foreign corporation based in Costa Rica, for consulting services to be performed December 2, 2002 to June 2, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock and the president of the Company agreed to issue 300,000 options to purchase 300,000 shares of common stock owned by him personally. The options have a strike price of $.05 and expire 30 days after the current lock-up period ends on the president's shares. 300,000 shares of common stock were issued on December 9, 2002. Using the market value on the date the agreement was signed, the shares were valued at $114,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services.

Using the Black-Scholes pricing model, the options were valued at $99,099 and recorded as a credit to additional paid in capital - common stock and a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was $106,550 for the three months ended March 31, 2003. On March 31, 2003, there was $84,742 remaining in unamortized cost of stock issued for services on the balance sheet.

In December 2002, an agreement was signed with Worldwide Financial Marketing, Inc. for consulting services to be performed December 15, 2002 to December 15, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock. 300,000 shares of common stock were issued on December 13, 2002. Using the market value of the date the agreement was signed, the shares were valued at $120,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the one year period of the agreement. Consulting expense relating to this agreement was $30,000 for the three months ended March 31, 2003. On March 31, 2003, there was $84,667 remaining in

unamortized cost of stock issued for services on the balance sheet.

In February 2003, an agreement was signed with Tom Puccio for consulting services to be performed February 25, 2003 to August 25, 2003. As compensation for consulting services the Company agreed to issue 300,000 shares of common stock. 300,000 shares of common stock were issued on February 25, 2003. Using the market value of the date the agreement was signed, the shares were valued at $93,000 and recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The cost will be amortized over the six month period of the agreement. Consulting expense relating to this agreement was $17,670 for the three months ended March 31, 2003. On March 31, 2003, there was $75,330 remaining in unamortized cost of stock issued for services on the balance sheet.
In the three months ended March 31, 2003, 66,000 shares of preferred stock were converted into 660,000 shares of common stock. 420,000 shares were issued in February of 2003. The remaining 240,000 shares were unissued at March 31, 2003 and are therefore shown in common stock not issued but owed to buyers.

NOTE 5 - SUBSEQUENT EVENTS
In April 2003, 60,000 shares of preferred stock were converted into 600,000 shares of common stock.

On April 19, 2003, the board of directors approved and ratified all the consulting agreements detailed in Note 4.

In May 2003, the expiration date on the Class A warrants was extended to August 4, 2003.

NOTE 6 - UNAMORTIZED COST OF STOCK ISSUED FOR SERVICES
As detailed in Note 4, the Company issued or agreed to issue 2,795,000 shares of common stock and 1,500,000 options as part of consulting agreements in the year ended December 31, 2002 and the three months ended March 31, 2003. The value of stock issued and options granted totaled $1,692,213 for the period of January 1, 2002 through March 31, 2003. This cost is recorded as a debit in the equity section of the balance sheet as unamortized cost of stock issued for services. The balance will be amortized into consulting expense over the lives of the various consulting agreements. $1,074,229 for the year ended December 31, 2002 and $246,371 for the three months ended March 31, 2003, was amortized into consulting expense for those periods. Unamortized cost of stock issued for services was $371,613 as of March 31, 2003.

NOTE 7 - RELATED PARTY TRANSACTIONS
On January 18, 2002, the Company borrowed $5,000 from a friend of the president of the Company. The note is a demand note and bears interest at 7%. Monthly interest payments totaling $45 have been paid in the three months ended March 31, 2003. The note balance on March 31, 2003 was $5,000.

On November 13, 2002, the Company borrowed $50,000 from a friend of the president of the Company. The note is a demand note and bears interest at 10%. Monthly interest payments totaling $1,250 have been paid in the three months ended March 31, 2003. The note balance on March 31, 2003 was $50,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We manufacture premium-quality loudspeakers and sell them through our dealer networks. The speakers use our proprietary ribbon-driver technology and are generally recognized in the industry as high-quality systems. We sell a Professional Line of loudspeakers, a Commercial Line of loudspeakers, and Home Theatre systems.

From the early 1970's through 1999 we derived substantially all of our revenue from marketing, renting, selling and installing sound and lighting systems. In June 1999, due to the favorable customer acceptance of our recently custom designed loudspeaker systems, we ceased these historical operations and began focusing all efforts towards becoming a loudspeaker manufacturer and selling to dealers and contractors on a wholesale basis. As a result, we have been essentially in a development stage, as we are bringing to market products that we introduced in 2000 and 2001 and designing and bringing to market additional products.

In June 2000, we asked dealers and distributors to sell our Professional Line of products. These dealers and distributors started to form our current network of approximately 50 dealers and 7 foreign distributors and we began shipping to them. However, most of the Professional Line required new ribbon drivers that we completed and implemented into the product line in early 2001.

In September 2000, we introduced our Home Theatre systems and sales for those systems began immediately. From September through December 2000, we added 20 new Home Theatre dealers in the US and began marketing efforts to establish distributors and dealers outside the US.

In June 2001, we introduced a Commercial Line of loudspeakers that utilize our PRD500 Ribbon Driver and in September of 2001 we finished the development of our PRD1000 Ribbon Driver and began implementing them into our Professional Line. Our PRD drivers upgraded the previous drivers that we purchased from third-party manufacturers and the cost to us is one-sixth of the price that we had been paying for the previous drivers.

SLS International, Inc. was formed on July 25, 2000 and had no previous operations. On the same date, this corporation merged with Sound and Lighting Specialist Inc., its sole shareholder. All of the financial information reported for periods prior to the merger are the results of operations of Sound and Lighting Specialist, Inc. All of the operating activity reported for periods after the merger are the results of operations of SLS International, Inc. After effectiveness of the merger, Sound and Lighting Specialist, Inc. ceased to exist as a separate corporate entity. The information in this section should be read together with the financial statements, the accompanying notes to the financial statements and other sections included in this report.

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RESULTS OF OPERATIONS

Quarter ended March 31, 2003 as compared to the quarter ended March 31, 2002. For the quarter ended March 31, 2003, revenue decreased to $104,777 from $135,186 in 2002, a 22% decrease, resulting primarily from inventory delays that prevented the completion of a backlog of orders and deliveries. Our gross profit

percentage increased to approximately 45% in the 2003 period from approximately 37% in the 2002 period, primarily as a result of the sale of more higher-margin products, as well as increased manufacturing efficiencies. Our net loss was virtually unchanged at $454,445 in the 2003 quarter, compared to $454,848 in the first quarter of 2002.

General and administrative expenses for the 2003 first quarter increased slightly to $502,149 from $498,497 in the 2002 first quarter. In the 2003 quarter, we incurred $246,371 of non-cash cost for consulting expenses relating to the issuance of stock under consulting agreements entered into in the 2003 first quarter and prior periods, as compared to $64,927 of non-cash cost for consulting expenses in the 2002 first quarter. We also incurred $0 of bad debt expense in the 2003 first quarter, compared to $109,352 in the 2002 first quarter.

Interest expense increased to $7,637 in the 2003 first quarter as compared to $6,433 in the 2002 first quarter, due to increased borrowings. In the 2003 first quarter, we had $8,000 of interest and miscellaneous income related to the collection of accounts receivable that had been written off in prior periods.

Quarter ended March 31, 2002 as compared to the quarter ended March 31, 2001. For the quarter ended March 31, 2002, revenue increased to $135,186 from $39,748 in 2001, a 240% increase, resulting primarily from the expansion of our loudspeaker product line and the continued growth in sales of our loudspeakers. Our gross profit percentage decreased to approximately 37% in the 2002 period from approximately 46% in the 2001 period, primarily as a result of sales made to representatives and dealers at introductory and sales sample prices. Also, certain products were given to industry professionals for their use and for later promotions using their comments and names. Despite the revenue increase of $95,438, our net loss increased by $256,920, to $454,848 in the first quarter of 2002 as compared to a net loss of $206,117 in the comparable quarter of 2001. The greater net loss was the result of increased general and administrative expenses, discussed below.

General and administrative expenses for the 2002 first quarter increased to $498,497 from $209,929 in the 2001 first quarter, primarily as a result of $109,352 of bad debt expense (compared to $0 in the 2001 quarter) and $64,927 of expenses amortized in the quarter reflecting a portion of the fair value of stock issued under consulting agreements entered into during the quarter and in prior periods. A total of $318,000 in non-cash costs were accrued under these consulting agreements, and the remainder of such expenses will be amortized in future periods. Other factors causing the increase in general and administrative expenses include a new employee handling our development of a transducer, a new controller for our financial operations, a new national sales manager, increased trade show participation to promote our products, and consultant expense targeted toward increased exposure and relations with top musical artists.

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Interest expense decreased to $6,433 in the 2002 first quarter as compared to $14,621 in the 2001 first quarter, due to decreased borrowings.

FINANCIAL CONDITION

On March 31, 2003, our current liabilities exceeded current assets by $711,506, compared to $588,486, on December 31, 2002. Total liabilities exceeded total assets by $687,986, compared to $562,262 on December 31, 2002. The increased working capital deficit was primarily due to a reduction in accounts receivable of $138,828 and a $69,019 increase in accounts payable, partially offset by increases of $62,929 in inventory and $47,780 in cash. On March 31,

2003, we had a backlog of orders of approximately $100,000.

We have experienced operating losses and negative cash flows from operating activities in all recent years. The losses have been incurred due to the development time and costs in bringing our products through engineering and to the marketplace. In addition we have not paid notes payable and accounts payable on due dates. The report of our accountants contains an explanatory paragraph indicating that these factors raise substantial doubt about our ability to continue as a going concern.

We are experiencing significant cash shortages; we had $52,020 in cash on March 31, 2003. In order to continue operations, we have been dependent on raising additional funds and have continued to sell preferred stock in the beginning of 2003 to raise capital. In the first quarter of 2003 we sold preferred stock for $82,350.

In the first quarter of 2003, we entered into a six-month consulting agreement that required us to issue 300,000 shares of common stock. Total non-cash cost under such agreement is $93,000, $17,670 of which is reflected as amortized expenses in the quarter and the remainder of which is to be amortized in subsequent periods over the remaining term of the agreement. The difference between such total cost and the amount amortized is reflected as unamortized cost of stock issued for services on the balance sheet.

Long-term debt and notes payable remained virtually unchanged at $414,150 on March 31, 2003. One note totaling $1,517 is secured with equipment; and most of the remaining borrowings are from individuals, are unsecured and matured in the first quarter of 2002. However, these notes are payable to existing shareholders that are not making a demand on the notes and will continue to accrue the 7% interest (10% in the case of one note with a principal amount of $50,000) for an indefinite period of time. We expect that these shareholders will continue to permit these notes to remain outstanding, but they have the right to demand full payment at any time and they may do so, which would have a material adverse effect on our financial condition.

There is intense competition in the speaker business with other companies that are much larger and national in scope and have greater financial resources than we have. We will require additional capital to continue our growth in the wholesale speaker market. We are relying upon our ability to obtain the necessary financing through the issuance of equity and upon our relationships with our lenders to sustain our viability.

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In the past, we have been able to privately borrow money from individuals by the issuance of notes, preferred stock and common stock. We intend to continue to do so as needed. However, we cannot be certain that we will continue to be able to successfully obtain such financing. If we fail to do so, we may be unable to continue as a viable business.

FORWARD LOOKING INFORMATION

This report, as well as our other reports filed with the SEC and our press releases and other communications, contain forward-looking statements made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Forward-looking statements include all statements regarding our expected financial position, results of operations, cash flows, dividends, financing plans, strategy, budgets, capital and other expenditures, competitive positions, growth opportunities, benefits from new technology, plans and objectives of management, and markets for stock. These forward-looking statements are based largely on our expectations and, like any other business, are subject to a number of risks and uncertainties, many of which are beyond our

control. The risks include those stated in the "Risk Factors" section of our Annual Report on Form 10-KSB and economic, competitive and other factors affecting our operations, markets, products and services, expansion strategies and other factors discussed elsewhere in this report, our Annual Report on Form 10-KSB and the other documents we have filed with the Securities and Exchange Commission. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this report will in fact prove accurate, and our actual results may differ materially from the forward-looking statements.

ITEM 3. CONTROLS AND PROCEDURES

Our independent auditors recently completed their audit of our financial statements for the year ended December 31, 2002. As a result of such audit, we have been required to make restatements and reclassifications of our unaudited financial statements filed for the quarters ended March 31, June 30 and September 30, 2002. Such restatements and reclassifications call into question the effectiveness of our disclosure controls and procedures. We are currently considering enhancements to our controls and procedures, particularly with respect to the preparation of our quarterly unaudited financial statements.

As of May 1, 2003, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2003 for purposes of preparation of this Quarterly Report on Form 10-QSB. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2003, although as stated above, enhancements are under consideration.

PART II - OTHER INFORMATION

Item 2. Changes in Securities.

In the quarter ended March 31, 2003, the Company sold 32,940 shares of preferred stock for $82,350 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.

We also issued 300,000 shares of common stock under consulting agreements entered into during the quarter ended March 31, 2003. The issuances were made in reliance on Section 4(2) of the Securities Act of 1933, as amended.

The net proceeds from the sale of preferred stock in the first quarter of 2003 were used for working capital purposes. We did not use any registered securities broker-dealers in connection with any sales of stock. All of the foregoing uses of proceeds were direct or indirect payments to nonaffiliates.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. The following are being filed as exhibits to this Report:

Exhibit No.	Description of Exhibit
10.1	Consulting Agreement, dated February 25, 2003 between the Company and Tom Puccio
99.1	Chief Executive Officer and Chief Financial Officer Certification of Periodic Report

(b) Reports on Form 8-K. We filed no Reports on Form 8-K during the quarter ended March 31, 2003.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SLS INTERNATIONAL, INC.
(Registrant)

Date: June 16, 2003

By /s/ John Gott
John Gott
President and
Chief Financial Officer
(Principal Financial Officer)

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CERTIFICATIONS

I, John Gott, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of SLS International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ John Gott

John Gott, Chief Executive Officer and Chief Financial Officer
June 16, 2003

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