

Parametric Sound Corp

Form S-1

March 23, 2011

As filed with the Securities and Exchange Commission on March 23, 2011

Registration File No. 333-_____

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PARAMETRIC SOUND CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Nevada	3669	27-2767540
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1941 Ramrod Avenue, Suite #100
Henderson, NV 89014
(Address of Principal Executive Offices
including Zip Code)

(888) 477-2150
(Registrant's Telephone Number, including Area Code)

JAMES A. BARNES
Chief Financial Officer, Treasurer and
Secretary
PARAMETRIC SOUND CORPORATION
1941 Ramrod Avenue, Suite #100
Henderson, NV 89014
(888) 477-2150
(Name, address, including zip code, and
telephone number,
including area code, of agent for service)

Copies to:
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Durham Jones & Pinegar, P.C.
192 E. 200 N., Third Floor
St. George, Utah 84770
(435) 674-0400

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: x

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.001 par value	4,000,000	\$0.56	\$2,240,000	\$260.07

(1) Pursuant to Rule 416(a), this Registration Statement shall also cover any additional shares of the Registrant's Common Stock that become issuable by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without receipt of consideration that increases the number of the Registrant's outstanding shares of common stock.

(2) Pursuant to Rule 457(c), for all shares of Common Stock being registered hereunder with a sales price which cannot be presently determined, the Proposed Maximum Offering Price Per Share is \$0.56 per share of Common Stock, which is based on the average of the high and low prices for the Registrant's common stock as reported on the OTCBB on March 21, 2011.

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.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 23, 2011

PRELIMINARY PROSPECTUS

4,000,000 Shares

Common Stock

This prospectus relates to the sale or other disposition of up to 4,000,000 shares of common stock or interests therein by the selling stockholders identified in this prospectus.

We will not receive any of the proceeds from the sale or other disposition of the shares of our common stock by the selling stockholders. We will, however, receive the proceeds from the sale of shares of our common stock to certain selling stockholders to the extent they exercise for cash their warrants identified in this prospectus. We will pay the expenses incurred in registering the shares, including legal and accounting fees.

Our common stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) under the symbol "PAMT." On March 21, 2011, the last reported sales price for the common stock was \$0.51 per share.

INVESTING IN THE COMMON STOCK OFFERED IN THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 3.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is [_____], 2011.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The selling stockholders are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information in this registration statement or any related prospectus is accurate as of any date other than the date on the front of the applicable document, regardless of the time of delivery of this prospectus or any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since any such date.

The terms “we,” “us,” “our” and the “company,” as used in this prospectus, refer to Parametric Sound Corporation, unless otherwise indicated.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. We use words like “anticipates,” “believes,” “plans,” “expects,” “future,” “intends,” “will,” “should,” “would,” “could,” “potential,” “continue,” “ongoing,” “estimates” and similar expressions to identify these forward-looking statements.

You should not place undue reliance on our forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties that are beyond our control, including those we discuss in “Risk Factors,” and elsewhere in this prospectus. The information in this prospectus speaks only as of the date of this prospectus. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. You should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, especially “Risk Factors” and our consolidated financial statements and related notes included herein. Please see the section entitled “Where You Can Find More Information” on page 39 of this prospectus.

Our Business

We were incorporated on June 2, 2010 as a new, wholly owned subsidiary of LRAD Corporation in order to effect the separation and spin-off of its Hypersonic Sound (“HSS”) business as a stand-alone, independent, publicly traded company. On September 27, 2010, LRAD Corporation contributed most of its HSS business assets and through a pro rata dividend distribution effected the 100% spin-off to its stockholders of 15,306,064 shares of our common stock, representing all our outstanding common stock at that date.

We are a sound technology company focused on delivering directed parametric sound solutions to customers primarily in digital signage, point-of-purchase, in-store networks and related markets that benefit from sound that can be focused and controlled in specified locations.

A directed sound solution includes (a) the ability to accept various user media sources as input, typically a computer, a DVD player, mp3 player, radio, television or microphone, and (b) custom processing and control electronics allowing an amplifier to drive speakers (called emitters in parametric sound applications). We intend to continue the pioneering work performed in this field by our former parent, LRAD Corporation. Since 2004, over 11,000 HSS systems have been sold, mostly the HSS H450 product model. We are replacing the H450 model with an improved solution employing improved emitters complemented by new patent-pending processing and control electronics developed and licensed to us by Syzygy Licensing LLC (“Syzygy”), a corporation owned by our executive officers, including our Chief Executive Officer, Elwood G. Norris. Our prototypes evidence improved sound clarity, wider frequency response and reduced distortion with higher sound volume from less power input. Based on our costing of prototype components and estimates of assembly costs, we expect to produce new products at a reduced cost compared to the H450.

We believe improved sound quality produced at reduced cost differentiates us from competitors and opens new market opportunities for directed sound solutions. The existing emitter design has been proven repeatable, and we believe our new processing and control electronics package can be readily assembled by any number of electronic component manufacturers reducing the overall risk related to introducing our new generation of products. Our goal is to realize the potential of directed sound primarily targeting digital signage, point-of-purchase, in-store networks and related markets and applications. We also plan to explore uses for our technology in the emerging stereoscopic three-dimensional (3D) video market to reproduce sound for computers, homes and theaters.

Our shares of common stock are quoted on the Over-the-Counter Bulletin Board (OTCBB) under the symbol “PAMT.” We had 17,306,064 shares issued and outstanding by 1,020 holders of record of our common stock as of March 15, 2011.

Our address is 1941 Ramrod Avenue, Suite #100, Henderson, Nevada 89014, our telephone number is (888) 477-2150, and our internet website is located at www.parametricsound.com. The information on our website is not incorporated by reference into this report nor is it part of this report. See the section entitled “Where You Can Find More Information” on page 39 of this prospectus.

The Offering

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This prospectus relates to the sale or other disposition of shares of our common stock that were issued or became issuable in a private placement in February 2011. On February 22, 2011, we entered into a Securities Purchase Agreement with selected institutional investors and entities affiliated with two of our officers, pursuant to which we issued and sold for cash 2,000,000 shares of our common stock at a purchase price of \$0.50 per share. In connection with the financing, we also issued warrants to the investors exercisable for an aggregate of 2,000,000 shares of common stock at an exercise price of \$0.75 per share. The warrants are exercisable until February 22, 2016.

In connection with the financing, we entered into a Registration Rights Agreement with the investors, pursuant to which we agreed to prepare and file, within 30 days following the issuance of the securities, a registration statement, of which this prospectus is a part, covering the resale or other disposition of the shares of common stock as well as the shares of common stock issuable upon the exercise of the warrants sold in the private placement. Under the terms of the Registration Rights Agreement, if (a) this registration statement is not filed with the SEC on or prior to March 24, 2011, (b) the registration statement is not declared effective by the SEC on or prior to May 23, 2011 (June 22, 2011 if the registration statement is reviewed by the SEC), or (c) after effectiveness the registration statement is not available other than for certain allowable periods, then we will be obligated to pay liquidated damages to the purchasers in the amount of 1.5% of the invested amount per each 30-day period no registration statement is filed or thereafter effective.

We will not receive any proceeds from the sale of securities by the selling stockholders. We will, however, receive the proceeds of any warrants exercised for cash. See "Use of Proceeds" on page 11 of this prospectus.

RISK FACTORS

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks, cautionary statements and other information contained in this prospectus. The risks and uncertainties described in this document are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on our company, our business, financial condition, results of operation and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline, and you may lose all or part of your investment.

Risk Factors Relating to Our Business

We have a history of operating losses, expect additional losses and may not achieve or sustain profitability.

We have a history of operating losses and expect additional losses as we introduce our new product line and until we achieve revenues and resulting margins to offset our operating costs. Our net losses for the fiscal years ended September 30, 2010 and 2009 were \$923,197 and \$986,426, respectively. Our net losses for the fiscal quarters ended December 31, 2010 and 2009 were \$325,940 and \$58,178, respectively. Our ability to achieve future profitability is dependent on a variety of factors, many outside our control. Failure to achieve profitability or sustain profitability, if achieved, may require us to continue to obtain additional funding which could have a material negative impact on the market value of our common stock or be dilutive.

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern.

In their audit opinion issued in connection with our financial statements as of September 30, 2010 and 2009 and for the years then ended, our independent registered public accounting firm included a going concern explanatory paragraph which stated there was substantial doubt about our ability to continue as a going concern. We have prepared our financial statements on a going concern basis that contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. Our financial statements do not include any adjustments that would be necessary should we be unable to continue as a going concern and, therefore, be required to liquidate our assets and discharge our liabilities in other than the normal course of business and at amounts different from those reflected in our financial statements. If we are unable to continue as a going concern, our stockholders may lose all or a substantial portion or all of their investment.

Our historical financial information may not be indicative of our future results now that we are an independent company.

The historical financial information we have included in this prospectus may not reflect what our results of operations, financial position and cash flows would have been if we had been an independent company during the periods presented through September 30, 2010, or be indicative of what our results of operations, financial position and cash flows may be in the future. Our results could have been dramatically different as a stand-alone company, and these statements may not be a reliable indicator of what our results of operations, cash flows and financial condition will be in the future.

For additional information about the past financial performance of our business and the basis of the presentation of the historical financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 23 and the historical financial statements and the accompanying notes included elsewhere in this prospectus.

Disruption and fluctuations in financial and currency markets could have a negative effect on our business.

Financial markets in the United States, Europe and Asia have experienced extreme disruption in recent years, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. There can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies, which can then lead to challenges in the operation of our business. These economic developments affect businesses such as ours in a number of ways. Concern about the stability of the financial markets and the strength of counterparties has led many lenders and institutional investors to reduce or cease to provide credit to businesses and consumers, and illiquid credit markets have adversely affected the cost and availability of credit. The current tightening of credit in financial markets adversely affects the ability of commercial customers to finance purchases and operations and could result in an absence of any orders or spending for our planned products as well as create supplier disruptions. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions and the effects they will have on our business and financial condition.

We expect to purchase a number of key components and subassemblies from foreign suppliers. Consequently, we are subject to the impact economic conditions can have on such suppliers and subject to fluctuations in foreign currency exchange rates. Increases in our cost of purchasing these items could negatively impact our financial results if we are not able to pass these increased costs on to our customers.

We must develop a customer base in order to grow our business.

While we expect to retain some customers from LRAD Corporation's prior HSS product business, to grow our business, we must develop relationships with new customers and obtain and fulfill orders from prior and new customers. We cannot guarantee that we will be able to develop a customer base. Further, even if we do retain prior customers and obtain new customers, we cannot guarantee that those customers will purchase sufficient quantities of our new products at prices that will enable us to recover our costs in acquiring those customers and fulfilling those orders. Our ability to sell our products depends on a number of factors, including:

- our ability to manufacture reliable products that have the features required by our customers;
- our ability to develop relationships with new customers that will lead to sales of our products;
 - our ability to develop and expand new markets for directed sound products; and
- our ability to develop international product distribution directly or through strategic partners.

We plan to introduce new products based on new technology. If commercially successful products do not result or are not produced in a timely manner, we may be unprofitable or forced to cease operations.

Our proposed product line is being tooled and prepared for production and has not yet been introduced to market. We may not successfully and timely produce commercially viable sound systems due to the inherent risks of technology development, new product introduction, limitations on financing, manufacturing problems, competition, obsolescence, inability to attract key technical personnel and other factors. We have not produced any revenues from our new product line, and we cannot guarantee revenues in the future. The development and introduction of our product line may take longer than anticipated, and the introduction of our products, if any, could be subject to delays. Customers may not accept our products and may elect to purchase products from competitors. We may experience quality control problems with our products, and we may not be able to resolve any problems in a timely and cost-effective manner. Products employing our technology may not achieve market acceptance. Unanticipated technical obstacles may arise at any time and result in lengthy and costly delays or result in a determination that further exploitation of our technology is not feasible. If we do not successfully exploit our technology, our financial condition, results of operations and business prospects would be adversely affected.

Our products have not yet been produced in any production quantity, and we may incur significant and unpredictable warranty costs as these products are produced.

Our planned product line has not yet been produced. Our technology is substantially different from proven, mass-produced sound transducer designs. We may incur substantial and unpredictable warranty costs from post-production product or component failures. We generally expect to warrant our products to be free from defects in materials and workmanship for a period of up to one year from the date of purchase. Future warranty costs could further adversely affect our financial position, results of operations and business prospects.

Our ability to develop, manufacture and market new products will be dependant upon our ability to use the technology that is subject to the license from Syzygy.

We license from Syzygy new patent pending technology that we are using to complement HSS emitters to produce our new product line at a lower expected cost. The license may terminate if we do not use commercially reasonable efforts to pursue the parametric sound business. Although we expect to avoid a termination for non-use, if we are unable to retain the benefits of the technology owned by Syzygy, we may be unable to sell our new products and grow our business, which would have a material adverse effect on our business, liquidity, results of operation and financial position.

Conflicts of interest may arise relating to our license with Syzygy and otherwise.

Certain conflicts of interest now exist and will continue to exist between us and our executive officers and directors due to the fact that they have other employment, business and investment interests to which they devote some attention and they are expected to continue to do so. Our executive officers also manage and control Syzygy a licensing company that owns and is licensing to us certain technology for producing parametric sound and certain conflicts could arise in future dealings between Syzygy and us. For example, we may not sublicense without the permission of Syzygy and sublicense royalty rates are subject to future negotiation in good faith. We have not established policies or procedures for the resolution of current or potential conflicts of interest between us and management or management-affiliated entities including Syzygy. There can be no assurance that members of management will resolve all conflicts of interest in our favor. Officers and directors are accountable to our company as fiduciaries, which means that they are legally obligated to exercise good faith and integrity in handling our affairs. Failure by them to conduct our business in our best interests may result in liability to them. While our directors and officers may be excluded from liability for certain actions pursuant to indemnification agreements, there is no assurance that our officers and directors would be excluded from liability or indemnified if they breach their loyalty to our company.

Our initial planned revenues will be derived from a single product category and two initial products.

If we are successful in producing initial commercial products, we will be dependent on one core product category and two initial products to generate revenues. We cannot assure you that these or other products will achieve consumer acceptance, nor can we provide assurance of the levels of sales they can achieve, if any. The loss of this product category would have a material adverse effect on our business, results of operations, financial condition and liquidity.

We cannot predict our future operating results. Our quarterly and annual results will likely be subject to fluctuations caused by many factors, any of which could result in our failure to achieve our expectations.

We expect our proprietary sound reproduction products and technologies will be the source of substantially all of our future revenues. Revenues, if any, from our proprietary sound reproduction products and technologies are expected to vary significantly due to a number of factors. Many of these factors are beyond our control. Any one or more of these factors, including those listed below, could cause us to fail to achieve our revenue expectations. These factors include:

- our ability to develop and supply sound reproduction components to customers, distributors, VARs or OEMs or in the future to license our technologies;
 - market acceptance of, and changes in demand for, our products or our customers' products;
 - gains or losses of significant customers, distributors or strategic relationships;
 - unpredictable volume and timing of customer orders;
 - the availability, pricing and timeliness of delivery of components for our products;
- fluctuations in the availability of manufacturing capacity or manufacturing yields and related manufacturing costs;
- timing of new technological advances, product announcements or introductions by us, by OEMs or licensees and by our competitors;
 - product obsolescence and the management of product transitions and inventory;

- unpredictable warranty costs associated with our products;
- installation or order delays by customers, distributors, OEMs or production delays by us or our suppliers;
- general consumer electronics industry conditions, including changes in demand and associated effects on inventory and inventory practices;
- general economic conditions that could affect the timing of customer orders and capital spending and result in order cancellations or rescheduling; and
- general political conditions in this country and in various other parts of the world that could affect spending for the products that we intend to offer.

Some or all of these factors could adversely affect demand for our products or technologies and, therefore, adversely affect our future operating results.

Our expenses may vary from period to period, which could affect quarterly results and our stock price.

If our product launch is delayed, or if we incur additional expenses in a quarter in which we do not experience increased revenue, our results of operations will be adversely affected and we may incur larger losses than anticipated for that quarter. Factors that could cause our expenses to fluctuate from period to period include:

- the timing and extent of our research and development efforts;
- tooling, manufacturing start-up and production working capital costs;
- investments and costs of maintaining or protecting our intellectual property;
- the extent of marketing and sales efforts to promote our products and technologies; and
 - the timing of personnel and consultant hiring.

Many potential competitors who have greater resources and experience than we do may develop products and technologies that make ours obsolete.

Technological competition from other and more established electronic and sound system manufacturers is significant and expected to increase. Most of the companies with which we expect to compete have substantially greater capital resources, research and development staffs, marketing and distribution programs and larger facilities than us, and many of them have substantially greater experience in the production and marketing of products. In addition, one or more of our competitors may have developed or may succeed in developing technologies and products that are more effective than ours, rendering our technology and products obsolete or noncompetitive.

Sound reproduction markets are subject to rapid technological change. Our success will depend on our ability to continually develop and introduce new technologies.

Technology and standards in the sound reproduction market evolve rapidly, making timely and cost-effective product innovation essential to success in the marketplace. The introduction of products with improved technologies or features may render our technologies obsolete and unmarketable. If we cannot develop products in a timely manner in response to industry changes, or if our technologies do not perform well, our business and financial condition will be adversely affected. The life cycles of our technologies are difficult to estimate. As a result, our technology, even if successful, may become obsolete before we recoup our investment.

Our competitive position will be seriously damaged if we cannot maintain and obtain patent protection for important differentiating aspects of our products or otherwise protect intellectual property rights in our technology.

We rely on a combination of contracts and trademark, patent and trade secret laws to establish and protect our proprietary rights in our technology. However, we may not be able to prevent misappropriation of our intellectual property, our competitors may be able to independently develop similar technology and the agreements we enter into to protect our proprietary rights may not be enforceable.

Our success, in part, depends on our ability to obtain and enforce intellectual property protection of our technology, particularly our patents. There is no guarantee any patent will issue on any patent application that we have filed or may file. Claims allowed from existing or pending patents may not be of sufficient scope or strength to protect the economic value of our technologies. Further, any patent that we may obtain will expire, and it is possible that it may be challenged, invalidated or circumvented. If we do not secure and maintain patent protection for our technology and

products, our competitive position could be significantly harmed. A competitor may independently develop or patent technologies that are substantially equivalent or superior to our technology.

As we expand our product line or develop new uses for our products, these products or uses may be outside the protection provided by our current patent applications and other intellectual property rights. In addition, if we develop new products or enhancements to existing products we cannot assure you that we will be able to obtain patents to protect them. Even if we do receive patents for our existing or new products, these patents may not provide meaningful protection, or may be too costly to enforce protection. In some countries outside of the United States where our products may be sold or licensed, patent protection is not available. Moreover, some countries that do allow registration of patents do not provide meaningful redress for violations of patents. As a result, protecting intellectual property in these countries is difficult and our competitors may successfully sell products in these countries that have functions and features that infringe on our intellectual property.

We may initiate claims or litigation against third parties in the future for infringement of our proprietary rights or to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors. These claims could result in costly litigation and divert the efforts of our technical and management personnel. As a result, our operating results could suffer and our financial condition could be harmed.

Our competitive position will be seriously damaged if our products are found to infringe on the intellectual property rights of others.

Other companies and our competitors may currently own or obtain patents or other proprietary rights that might prevent, limit or interfere with our ability to make, use or sell our products. As a result, we may be found to infringe the intellectual property rights of others. The electronics industry is characterized by vigorous protection and pursuit of intellectual property rights or positions, resulting in significant and often protracted and expensive litigation. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology, our business and operating results could be adversely affected. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of our resources. An adverse result from intellectual property litigation could force us to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms, if at all; and
- redesign products or services that incorporate the disputed technology.

If we are forced to take any of the foregoing actions, we could face substantial costs and shipment delays and our business could be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate to indemnify us for all liability that may be imposed.

In addition, it is possible that our customers or end users may seek indemnity from us in the event that our products are found or alleged to infringe the intellectual property rights of others. Any such claim for indemnity could result in substantial expenses to us that could harm our operating results.

Our technology is subject to government regulation, which could lead to unanticipated expense or litigation.

Our sound technology emits ultrasonic vibrations and is regulated by the Food and Drug Administration. In the event of certain unanticipated defects in our products, a customer or we may be required to comply with FDA requirements to remedy the defect and/or notify consumers of the problem. This could lead to unanticipated expense, and possible product liability litigation against a customer or us. Any regulatory impediment to full commercialization of our parametric sound technology, or any of our other technologies, could adversely affect our results of operations.

We may face personal injury and other liability claims that harm our reputation and adversely affect our sales and financial condition.

Since our planned products include ultrasonic emissions along with the acoustic output, customers or others could claim damage to human hearing or human health irrespective if the product is used properly or improperly, such as when the product is used at extreme close ranges for long periods of exposure. A person claiming injury in connection with the use of our products may bring legal action against us to recover damages on the basis of theories including personal injury, negligent design, dangerous product or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our products. There is no assurance we can continue to retain our product liability insurance coverage in the future and any such coverage may be insufficient to pay all such claims. We may not have sufficient resources to satisfy any product liability claims not covered by insurance which would materially and adversely affect our financial position. Significant litigation could also result in a diversion of management's attention and resources and negative publicity.

We expect to rely on outside manufacturers and suppliers to provide a large number of components and sub-assemblies incorporated in our products and may rely on third-party turnkey production in the future.

Our products have a number of components and subassemblies we expect to be produced by outside suppliers. In addition, for certain of these items, we qualify only a single source, which can magnify the risk of shortages and decrease our ability to negotiate with our suppliers on the basis of price. In particular, we depend on one piezo-film supplier to provide expertise and materials used in our proprietary emitters. If shortages occur, or if we experience quality problems with suppliers, then our production schedules could be significantly delayed or costs significantly increased, which would have a material adverse effect on our business, liquidity, results of operation and financial position.

We plan to have sub-assemblies produced by third-party manufacturers and may contract for complete production on a turnkey basis. We have no manufacturer relationship contracted at this time. We may not be able to obtain acceptable manufacturing sources on a timely basis. In addition, from time to time we may change manufacturers. Any new manufacturer engaged by us may not perform as expected. An extended interruption in the supply of our products could result in a substantial loss of sales. In addition, any actual or perceived degradation of product quality as a result of our reliance on third-party manufacturers may have an adverse effect on sales or result in increased warranty costs, product returns and buybacks. Failure to maintain quality manufacturing could reduce future revenues, adversely affecting financial condition and results of operations.

Current environmental laws, or laws enacted in the future, may harm our business.

Our operations are subject to environmental regulation in areas in which we c