

Edgar Filing: TS ELECTRONICS INC - Form 10KSB

TS ELECTRONICS INC  
Form 10KSB  
October 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB  
 ANNUAL REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2003

OR

TRANSITION UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

TS Electronics, Inc.  
(formerly named Softstone Inc.)  
(Exact name of registrant as specified in its charter)

Delaware	000-29523	73-1564807
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(state of incorporation)	(Commission File Number)	(IRS Employer I.D. Number)

111 Hilltop Lane, Pottsboro, TX 75076,  
903-786-9618

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(Address and telephone number of registrant's principal  
executive offices and principal place of business)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock, \$0.001 par value

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(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$37,490

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of October 8, 2003: \$1,451,817.

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As of October 9, 2003, there were 600,000 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990). None

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

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### Item 1. Description of Business.

#### Business Development.

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Our company TS Electronics, (formerly, Softstone, Inc.) was incorporated on January 28, 1999, pursuant to the provisions of the General Corporation Act of the State of Delaware. On May 31, 1999, we merged with Soft Stone Building Products, Inc., an Oklahoma corporation that was a predecessor to our company's business. Our initial business operations were conducted at 620 Dallas Drive, Denton, Texas 76205. On February 1, 2000, we moved our offices and facilities to Ardmore, Oklahoma. In June 2002 we moved our production facilities to a building in Ardmore, OK at an industrial air park and we moved our office facilities to 111 Hilltop Lane, Pottsboro, Texas 75076, which is our present address. Our principal operations began in the quarter ended September 30, 2002. On August 13, 2003 we changed our name to TS Electronics, Inc.

#### Description of Business

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Our focus initially was solely on realizing the commercial benefits of a process developed for this purpose and patented by our first president, Frederick Parker. Because we have this process, we have a contract with Michelin North America's Ardmore tire manufacturing facility that pays us to take its waste tires.

More recently our primary focus has shifted to the commercial possibilities of a superior, newly discovered devulcanization process to which we recently acquired a 5.5-year exclusive license for the Western Hemisphere. In addition we have begun an importation business dealing in hard-to-find and specialty crumb rubber.

#### Devulcanization - The Levgun Process

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This process - called the Levgun Process after the name of the company of scientists and engineers in Israel that developed and patented the process - breaks down the sulfur links across polymer chains in vulcanized rubber. It allows the rubber to be used again.

There are other devulcanization techniques. But, ours is better, cheaper

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and eco-friendlier than all others.

Before we agreed to pay \$250,000 for our exclusive license, we took the Lev gum devulcanized rubber product to the Akron Rubber Development Laboratory in Akron, Ohio for testing and for comparison with virgin rubber and with the best devulcanized rubber produced by other techniques. The laboratory results:

- Lev gum devulcanized rubber retains 80 percent of virgin rubber's properties, making it most useful. Other techniques retain 40 percent at best.

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- Lev gum's devulcanized rubber can be produced at significantly less cost than can other devulcanization technologies or than the cost of virgin rubber.

- We use conventional machines operating at room temperatures. Competing technologies employ lengthy operations involving grinding, chemical, heating and mechanical processes.

- The Lev gum devulcanization process is non-toxic and eco-friendly. Other technologies are not.

We took a sample of the Lev gum devulcanized rubber and the Akron Rubber Development Laboratory test results to the chief chemist at Michelin's Ardmore tire factory. The chemist advised us that our product is superior to all other devulcanized rubber products.

We have attempted to exploit our licensed technology through sub-licenses throughout the Western Hemisphere. In addition to our Michelin contract, we are engaged in discussions with Rubbermaid's principal plant in Mexico. It has to dispose of 150 tons of waste rubber a month. By substituting our Lev gum technology and making use of its own waste rubber, this Rubbermaid facility should effect savings of \$99,000 a month - savings that drop to its bottom line.

We do not propose to build devulcanization plants. Instead, we propose to sub-contract the initial manufacturing of the devulcanized rubber and then sell sub-licenses to other companies. We will also offer our assistance with the marketing of the devulcanized rubber for a commission. Prospective licensees can send representatives to us to learn the nuances of the Lev gum process, and we will offer through our contacts a turnkey system for their own devulcanization facilities. Our license obligations to Lev gum and our anticipated charges to our sub-licensees are as follows:

	Charges		
	Our outgo to Lev gum	Income from sub-licensees	Net to Softstone
Lev gum-supplied "modifier"			
to mix with used rubber	\$3,000 a ton	\$3,500 a ton	\$500 a ton
Royalty on a ton of Lev gum-processed rubber	\$30 a ton	\$60 a ton	\$30 a ton
Sub-license fee	\$0	Will vary	Will vary

We need \$50,000 in capital to fund our manufacture of a fully automated

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tire de-beader, which we propose to then manufacture for sale to the industry, to pursue opportunities to sublicense the Lev gum devulcanization technology, and to market crumb rubber produced by us or other manufacturers. We have not identified the source of these funds.

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### Devulcanization

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Technology exists today to "fine grind" rubber from 80 to 200 mesh (holes per square inch). This technology has long been the best source for injecting recycled rubber into virgin rubber mixes. The cost to do so is extremely high; often costing 20 to 30 percent more than the cost of virgin rubber itself. Rubber manufacturing companies do this to meet government regulations and to have a way to recycle their own waste. Rubber disposal is extremely expensive; companies that can "fine grind" have the ability to sell back to a company 100% of its scrap in a usable form.

For years, manufacturers tried to establish a process that breaks the sulfur links across polymer chains (devulcanize) without hurting the original chemical properties, allowing the resulting material to be re-deployed in new and existing products. Although some have been successful, they were plagued with economic or environmental problems. We have a 5.5-year exclusive license to the Western Hemisphere for a process that (i) breaks the sulfur lattice under normal room temperature conditions using conventional machines and (ii) does away with the expensive and lengthy operations involving grinding, chemical, heating and mechanical processes. It is the only process known to us where relatively large pieces of rubber waste can be used, a feature that saves substantial amounts of investment in terms of plant and machinery, labor, power, space, storage and transportation. The process itself is 100% non-toxic and eco friendly. The final product produced is in granular form and, when mixed with virgin rubber or master compounds, results in better homogeneity than any other process we know of. The test results we obtained from a test facility in Akron, Ohio proved that the devulcanized rubber, itself, maintains 80% of the original properties of the uncured compound. This results in a product that can be produced and sold at a cheaper price than the "fine grind" powders while maintaining much higher physical properties.

Our devulcanized rubber development plan is as follows:

1. Develop a turnkey devulcanization system.
2. Develop the market.
3. Sub-license the technology to large recyclers, the largest of which has contacted Softstone and is very interested in using the technology.

We envision utilizing our contacts in the recycled rubber and virgin rubber industry to establish market presence. We see no need at this time to establish a raw material supply beyond the needs of the development location to implement the devulcanized technology into the market. Instead, we plan to expand on our relationships with crumb rubber manufacturers by sublicensing the technology and jointly developing the market.

Our compensation for these efforts will come from the following sources.

1. Sales of devulcanized rubber from the pilot plant in Ardmore.
2. Sales of sub-licenses.
3. Sales of specialty crumb rubber.
4. Royalties for the amount of rubber devulcanized with our process and commissions on sales.

Conversion of Waste Tires Into Useful Products  
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There is a worldwide need for a method to convert whole waste tires into useful products with no waste as a byproduct and with favorable economic results. New tire manufacturers in the U.S. are required to dispose of their manufacturing rejects without creating an unsightly mess or adding to ecological problems. Government agencies at all levels tend to cooperate with any company having a reasonable means of disposing of the approximately seven million tires each year that are discarded as rejects or as worn-out tires. Virtually every state has a program whereby it pays a fee per tire to qualified companies that dispose of used tires.

Softstone's past president, Frederick Parker, is a co-inventor of a patented process Softstone uses to convert waste tires into useful products. The Parker I System machine was constructed in Ardmore, Oklahoma as a proof-of-concept prototype. With subtle adjustments recently made, this machine became a production model that ingests whole tires at one end of the machine and ejects rubber modules at the other end with virtually no waste or contaminants. The rubber modules are virtually indestructible and have been tested for use as a playground covering, pathways, walking trails, horse barn stalls and other uses.

The Parker I System machine can make a variety of products by using different molds. Our most popular product is a two-foot by four-foot module approximately two inches thick that interlocks with adjacent modules for walk ways and driveways. However, the size and thickness of the modules can be adjusted for use as highway cone holders, crash barriers, guardrails, bridge and road impact pads and as a substitute for asphalt in several key applications.

Approximately 80 to 85 percent of the modules' composition is comprised of wire-free tire chips. The balance is comprised of readily available polyurethane binders and other substances.

We have raised and spent approximately \$1.5 million since inception on developing our patented process and on designing and constructing our Parker System I proof-of-concept machine in Joshua, Texas. The Parker System I is highly automated. Whole tires are inserted into a shredder, reduced to chip rubber, blended with a specially prepared binder element, placed into a custom mold and then pressed into place and locked. These molds are then moved on a conveyor belt through a heated oven where the product cures and comes out the other end as a rubber-molded product ready for sale. We believe there is no more efficient or economical method of processing tires into finished products than our process.

We need to refurbish our tire shredder and to purchase equipment that produces wire-free chips from the shredded tires. However, once this equipment is added to our existing machinery, our plant should become profitable and will have several cash flow streams -

- tire revenue from Michelin,
- sale of modules,

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- sale of extra crumb rubber,
- sale of excess chip rubber for use as tire-derived fuel in cement plants in the southwestern U.S., and
- additional rubber-molded product lines (still to be developed).

Our modules have withstood a 300,000-pound deformation test and immediately rebounded; yet, the product has qualified for installation on children's playgrounds. The product is ready to be installed immediately after it is made. There is no curing time necessary. The product is relatively light but does not break, crack or tear.

We have attended U.S. Army Corps of Engineers presentations at which our product was discussed by the Corps as a suitable substitute for concrete in uses such as erosion control along the Mississippi River. Our articulated mattress configurations have multiple applications for the Corps -

- in soil conservation,
- along highways,
- at beaches as storm surge protection,
- for wetlands protection,
- as temporary roads over delicate marshlands,
- to prevent riverbank erosion, and
- underwater, to cover transoceanic pipelines and protect them from being snagged by fishnets.

We believe, however, that the primary markets for our products are paving applications where concrete and asphalt now dominate, such as sidewalks, driveways and trails. Concrete and asphalt have significant drawbacks compared to Softstone-based products. Concrete and asphalt crack and heave due to soil and weather conditions. They often must be replaced after a few years of use. Softstone's rubber modules, however, will not crack because of weather's cold or melt because of its heat. If there is a soil heaving condition, our product can be lifted and relaid when the ground condition is corrected.

### Crumb Rubber Importation

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In the United States today there exists a demand for several specific grades of crumb rubber. Until recently these grades had been considered waste and commonly were landfilled or incorporated in various molded products. Hence, the lack of value of these materials had limited their production. In the last three years, however, the crumb rubber industry has seen some significant changes, predominantly in the areas of playground and landscape. The demand for

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such material has entered into the hundred million pounds per year sector, and U.S. production only manufactures approximately 24,000,000 pounds per year of this specified material. We have gained a presence in the international market and has located various suppliers world wide to assist us in brokering this material.

### Distribution Methods

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We have several interested parties for the distribution of our paving material; however, since we have temporarily shut down this operation, we do not have the product available for distribution.

### Competitive Business Conditions

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Many firms make molded rubber products, including some for patio, horse trailer and barn applications as well as sell specified crumb rubber. It is our observation and belief that our products are superior to all others in economics and durability and we are much more price competitive than our U.S. competition in regards to sales of crumb rubber.

### Sources and Availability of Raw Materials; Names of Principal Suppliers

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There is virtually an endless supply of waste tires. Many sources will pay us to take the tires off their hands. Our earlier operation of the Parker System was based on Michelin's paying us \$0.77 to \$0.85 a tire for recycling purposes. However, in some sectors of the market, specifically the playground and landscape industries, there is only a limited amount of the needed material produced in the United States on an annual basis. This has led us to import crumb rubber from overseas suppliers in India, Sri Lanka and China. We are currently working on increasing our monthly supply by signing up new manufacturers from these three areas. This would alleviate a dependence on any one supplier and level out our monthly revenues.

### Dependence on Major Customers or Suppliers

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We are dependent on our international suppliers for our sources of specified crumb rubber. The supply in the United States of the material we import is 100% consumed on an annual basis.

We are still in the development stage as far as sales are concerned and are dependent upon one major customer in St. Louis. There are many other buyers of the same material in the United States; however, we are currently only supplying a small percentage of their estimated monthly capacity.

### Patents, Trademarks and Licenses

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The inventors of our patented Parker One System, one of whom is Frederick Parker, our past president, have assigned the patent to Softstone with no retained royalty.

We have a 5.5-year exclusive license to the Lev gum devulcanization technology for the Western Hemisphere.

### Government Approval of Principal Products or Services

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We are not required to obtain the approval of our products by any governmental agency. Our operations, however, are subject to a number of governmental regulations.

### Government Regulations



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Our operations are subject to regulation by various federal, state and local governmental entities and enactments, which include environmental laws and workplace regulations, including the Occupational Safety and Health Act, the Fair Labor Standards Act, the Clean Air Act, the Clean Water Act and other laws and regulations regarding health, safety, sanitation, environmental issues, building codes and fire codes. We believe that our current compliance programs adequately address such concerns and that we will be in substantial compliance with such laws and regulations. Our failure to comply with such laws and regulations could result in serious sanctions and penalties that could materially and adversely affect our business.

### Research and Development

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We have spent approximately \$650,000 over the last two years in research and development activities with regard to the development of our products. None of the cost of these activities was borne directly by our customers.

### Environmental Laws

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We must comply with the environmental regulations of the Environmental Protection Agency and the equivalent Oklahoma and Texas agencies charged with environmental protection. This consists, primarily, in complying with regulations regarding the disposal of waste products. Such compliance requires no significant outlay of capital by us and only minimum costs. We produce no hazardous waste as most of our competitors do.

### Seasonality

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There is no seasonal aspect to our business.

### Employees

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At present we have one full-time employee and no part-time employees.

### Exclusive License With Lev gum, Ltd.

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On March 15, 2002 we executed an agreement with Lev gum, Ltd. of Tel Aviv, Israel. Lev gum owns patents pertaining to certain technology for the devulcanization of rubber tires. We are convinced that this is the best devulcanization technology in the world and that it is commercially viable, as compared to other devulcanization technologies that work but cost more to apply per pound of rubber produced than the cost of virgin rubber.

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Lev gum shipped to us ten kilograms of its devulcanized rubber for us to perform laboratory trials on. The trials were most satisfactory. We then acquired the exclusive rights to Lev gum's technology for the Western Hemisphere, including the right to sublicense the technology in this geographic area.

We paid \$250,000 to Lev gum for these exclusive rights for a 5.5 year period and for a ten percent equity interest in Lev gum. To retain the exclusive rights, we will have to remit royalties to Lev gum as follows:

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First 18 months:	\$ 200,000
Next 12 months:	1,000,000
Next 12 months:	2,000,000
Next 12 months:	3,000,000
Next 12 months:	5,000,000

The royalties will consist of \$30 for each ton of devulcanized rubber produced in the Western Hemisphere using Lev gum's devulcanization technology.

### Reports to Security Holders

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We file reports with the Securities and Exchange Commission. These reports are annual 10-KSB, quarterly 10-QSB, and periodic 8-K reports. We also intend to furnish stockholders with annual reports containing financial statements audited by independent public or certified accountants and such other periodic reports as we may deem appropriate or as required by law. The public may read and copy any materials we file with the SEC at the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet Web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of such site is <http://www.sec.gov>.

### Item 2. Description of Property.

We neither own nor lease any office or manufacturing space. Our office space is provided rent free in Pottsboro, Texas by our president, and our manufacturing space, in which all our tire processing equipment has been placed, has been provided rent free in Ardmore, Oklahoma by the Ardmore Development Authority.

### Item 3. Legal Proceedings.

Neither our company nor any of our property is a party to, or the subject of, any material pending legal proceedings other than ordinary, routine litigation incidental to our business.

### Item 4. Submission of Matters to a Vote of Security Holders.

There have been no matters submitted to a vote of our stockholders during the last fiscal year or during the subsequent period to the filing of this

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report. However, we took the following action on August 13, 2003 pursuant to the written consent of the record holders of a majority of the outstanding shares of our common stock:

- We changed our name from Softstone Inc. to TS Electronics, Inc.
- We consolidated to 600,000 shares all outstanding shares of our common stock, effective August 14, 2003.

By written consent of the record holders of a majority of the outstanding shares, we approved - but have not yet effected - the following actions, subject

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to our mailing an Information Statement to the non-consenting shareholders:

- We will issue 5,350,000 shares of our Common Stock to TS Electronics (China) Corp. in exchange for all its capital stock.
- We will sell to an entity owned by Gene F. Boyd, Betty Sue Boyd and Keith P. Boyd ("the Boyds"), who are our present controlling shareholders, in exchange for their paying or obtaining the written release of approximately \$1,032,588 of company debt owed to the Boyds and other creditors -
  - our rubber business and related assets,
  - 50,000 shares of post-consolidation stock, and
  - 100,000 Common Stock Purchase Warrants exercisable for one year at \$1.25 a warrant.

Item 5. Market for Common Equity and Related Stockholder Matters.

Our common stock was admitted to trading on the OTC Bulletin Board on April 17, 2002. Its stock symbol initially was "SOFS." On August 15, 2003 the symbol was changed to "TSET". The following table shows the quarterly high and low prices of the stock since it was admitted to trading through June 30, 2003, which was before the stock symbol change. The prices reflect inter-dealer quotations without mark-up, mark-down or commissions and may not represent actual transactions.

	High	Low
	----	---
Calendar 2002:		
2nd Qtr	0.51	0.11
3rd Qtr	0.25	0.06
4th Qtr	0.17	0.05
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Calendar 2003:		
1st Qtr	0.1	0.1
2nd Qtr	0.1	0.05
3rd Qtr	5.4	0.08

There are approximately 173 holders of record of our company's common stock.

Our company has declared no dividends on our common stock. There are no restrictions that would or are likely to limit the ability of our company to pay dividends on its common stock, but we have no plans to pay dividends in the foreseeable future and intend to use earnings for the expansion of our business.

Recent Sales of Unregistered Securities

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During the past three years Softstone sold shares of its Common Stock without registering them as follows:

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Date	Amount	Purchasers	Amount of Consideration	Type of Co
---	-----	-----	-----	-----
07/99 to 07/00	250,000	Employees and consultants(1)	\$212,500	Services
	22,500	Employee(1)	22,490	Services an
	400,000	Officers(1)	383,097	Cash and can
	210,000	Employees(1)	210,000	Services
	423,190	Rule 405 Offering	503,782	Cash
07/00 to 07/01	42,500	Rule 405 Offering	53,125	Cash
	675,000	Warrant Holders(2)	675	Cash
	300,000	Officer(2)	21,922	Assignment
	18,000	Officer(2)	18,525	Office equi
	522,961	Consultants(2)	52,296	Services
	277,100	Rule 506 Offering	47,944	Cash
07/01 to 07/02	545,200	Rule 506 Offering	254,520	Cash
	825,075	Rule 506 Offering	322,247	Services
	52,250	Rule 506 Offering	24,290	Cancellation
	1,158,387	Rule 506 Merger	1,158	Corporate s
07/02 to 07/03	293,000	Rule 506 Offering	37,234	Cash
	300,000	Settle notes payable	18,000	Extinguish
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(1) Sold in an offering exempt from registration pursuant to the provisions of Regulation D, Rule 504. The 504 offering was registered with the securities regulatory authorities in each state where securities were sold.

(2) Sold in an offering exempt from registration pursuant to the provisions of Regulation D, Rule 506. All purchasers were either "accredited investors" or, if not, were provided with offering materials that met the requirements of a Form SB-2 offering circular. All purchasers were provided with an opportunity to ask questions of management before making their investment decisions.

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Item 6. Management's Discussion and Analysis.

The following discussion and analysis should be read in conjunction with the financial statements and the accompanying notes thereto and is qualified in its entirety by the foregoing and by more detailed financial information appearing elsewhere. See "Financial Statements."

Results of operations.

The following table presents, as a percentage of sales, certain selected financial data for each of fiscal years ended June 30, 2002 and June 30, 2003:

	Fiscal Year Ended	
	06-30-2002	06-30-2003
	-----	-----
Sales	100%	100%
Operating expenses	2,007%	241%

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Income from operations	(1,907)%	(141)%
Other expenses	(1,038)%	64%
	-----	-----
Net income (loss)	(2,945)%	(206)%
Net loss per share(1)	\$ (3.90)	\$ (0.69)
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(1) Based on each 21.8045 shares outstanding on August 14, 2003 being consolidated to one share.

### Sales

Sales of \$37,490 for fiscal year 2002 increased by \$72,589, or 194 percent, to sales of \$110,079 in fiscal 2003. The increase is due to our importing and reselling in the U.S. crumb rubber from India.

### Operating expenses

Operating expenses decreased to \$265,721 in fiscal 2003 from \$752,324 in fiscal 2002. This 65 percent decrease is attributed primarily to fiscal 2002's purchase of, and research conducted prior to, the purchase of the Lev gum Devulcanization Technology as well as our decision to discontinue our module manufacturing operations in Ardmore, storing the Parker System at a rent free facility and our President providing our office rent free at our current address, 111 Hilltop Lane, Pottsboro, TX.

### Net income (loss)

Our net loss of \$226,365 in fiscal 2003 is a marked improvement from our net loss of \$1,104,133 in fiscal 2002. This improvement is attributed to the company's purchasing the rights to a foreign patent for \$250,000, which purchase had to be expensed as the patent has not been appraised, and our discontinuing our pilot plant operations in Ardmore, Oklahoma and storing our manufacturing equipment, thus further lowering our operating expenses.

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### Balance sheet items

Current assets of \$3,554 on June 30, 2003, compares unfavorably with current liabilities of \$905,815 at that time, an unfavorable current ratio of ..004.

### Liquidity and Capital Resources

During the fiscal year ended June 30, 2003, we financed our net loss of \$226,365 primarily through -

- sales of common stock for \$36,235 in cash,
- loans of \$22,336,
- the sale of assets totaling \$32,576,
- the receipt of \$2,515 for stock to be issued,
- depreciation and amortization of \$67,271,
- a \$17,741 loss on settlement of debt, and
- an increase in accrued expenses of \$48,514.

During the fiscal year ended June 30, 2002, we financed our net loss of \$1,104,133 primarily through -

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- sales of common stock for \$254,520 in cash,
- loans of \$287,263,
- the issuance of \$346,537 worth of common stock for services and interest,
- depreciation and amortization of \$83,307,
- \$125,000 loss on an investment, and
- a \$214,444 loss on the impairment of assets.

### OUTLOOK

We have been unable to raise funds for the renovation of our tire shredder and the purchase of equipment that produces wire-free chips from shredded tires. We were able, however, to raise \$250,000 from the Boyds to acquire the exclusive license from Lev gum for the Western Hemisphere rights to its devulcanization technology. We shifted our business emphasis to exploiting such license and to brokering the sale of crumb rubber manufactured by other manufacturers. We have not been able to achieve any significant success and have determined that it is in the best interests of our shareholders to reorganize our company in accordance with the reorganization agreement with TS Electronics (China) described herein.

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### Item 7. Financial Statements.

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## INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors  
TS Electronics, Inc. (formerly, Softstone, Inc.)

We have audited the accompanying balance sheet of TS Electronics, Inc. (formerly, Softstone, Inc.) as of June 30, 2003 and the related statements of operations, stockholders' deficit and cash flows for the years ended June 30, 2003 and 2002. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TS Electronics, Inc. as of June 30, 2003 and the results of its operations and its cash flows for the years ended June 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company had accumulated deficit of \$3,034,913 through June 03, 2003 and negative working capital of \$902,261 at June 30, 2003. These factors, as discussed in Note 10 to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kabani & Company, Inc.

KABANI & COMPANY, INC.  
CERTIFIED PUBLIC ACCOUNTANTS

Fountain Valley, California  
September 17, 2003

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We have audited the accompanying statements of operations, stockholders' equity (deficit), and cash flows for the year ended June 30, 2001 of Softstone, Inc. (a development stage company). 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of Softstone, Inc. referred to above present fairly, in all material respects, the results of its operations, cash flows and changes in stockholders' equity (deficit) for the year ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company has been in the development stage since its inception on October 7, 1998, and the primary activities include establishing its operations and raising capital to fund its activities. The Company incurred losses since inception to June 30, 2001, of \$1,704,415. Realization of a major portion of its assets and satisfaction of its liabilities is dependent upon the Company's ability to meet its future financing requirements and the success of future operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might arise as a result of this uncertainty.

Hogan and Slovacek

/s/ Hogan and Slovacek

Oklahoma City, Oklahoma  
October 15, 2001

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TS Electronics, Inc.  
(Formerly, Softstone, Inc.)  
BALANCE SHEET  
June 30, 2003

### ASSETS

#### CURRENT ASSETS:

Cash & cash equivalents	\$	1,789
Accounts receivable		1,765
		-----
Total current assets		3,554



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PROPERTY AND EQUIPMENT, net	295,074
	-----
	\$ 298,628
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts payable	\$ 29,311
Accounts payable-related party	160,879
Accrued expenses	76,879
Notes payable - current	638,746
	-----
Total current liabilities	905,815
LONG TERM LIABILITIES	
Notes payable - long term	126,773
	-----
Total liabilities	1,032,588
CONTINGENCY	
STOCKHOLDERS' DEFICIT	
Common stock, \$0.001 par value; 30,000,000 shares authorized; 350,155 shares issued and outstanding	350
Additional paid-in capital	2,294,088
Shares to be issued	6,515
Accumulated deficit	(3,034,913)
	-----
Total stockholders' deficit	(733,960)
	-----
	\$ 298,628
	=====

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

TS Electronics, Inc.  
(Formerly, Softstone, Inc.)  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	Year Ended June 30,
	2003                      2002
	-----                      -----

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Net revenues	\$ 110,079	\$ 37,490
Operating expenses		
General and administrative	265,721	752,324
	-----	-----
Operating loss	(155,642)	(714,834)
Other income (expense):		
Miscellaneous Income	159	-
Interest expense	(46,191)	(49,855)
Loss on sale of assets	(17,741)	-
Loss on settlement of debt	(6,950)	-
Loss on investment	-	(125,000)
Loss on impairment of intangibles	-	(214,444)
	-----	-----
Total other income (expense)	(70,723)	(389,299)
	-----	-----
Net loss	\$ (226,365)	\$ (1,104,133)
	=====	=====
Basic and diluted weighted average number of common stock outstanding	326,941	283,176
	=====	=====
Basic and diluted net loss per share	\$ (0.69)	\$ (3.90)
	=====	=====

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

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TS Electronics, Inc.  
(Formerly, Softstone, Inc.)  
STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	Common Stock		Additional	Stock			
	Number of	Amount	Paid-In	to be	Unearned	Accumulate	
	shares		Capital	issued	Compensation	Deficit	
	-----	-----	-----	-----	-----	-----	-----
Balance July 1, 2001	205,740	\$ 4,486	\$1,632,528	\$ -	\$ -	\$ (1,704,411)	
Share issued for cash (\$8.72/shr)	11,158	243	97,077	-	-		
Shares issued for cash (\$10.90/shr)	13,272	290	144,410	-	-		
Shares issued for cash (\$21.80/shr)	573	13	12,487	-	-		
Share issued for service							

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(\$7.85/shr)	11,790	257	92,290	-	-	
Share issued for service						
(\$8.72/shr)	24,903	543	216,657	-	-	
Share issued for service						
(\$10.90/shr)	1,147	25	12,475	-	-	
Share issued for interest						
(\$9.81/shr)	2,396	52	24,238	-	-	
Shares issued for merger	53,126	1,158	-	-	-	
Shares to be issued						
for cash (\$7.20/shr)	-	-	-	999	-	
Shares to be issued						
for loan incentive						
(\$8.72/shr)	-	-	-	2,000	-	
Cancellation of shares	(1,147)	(25)	-	-	-	
Net loss	-	-	-	-	-	(1,104,13)
	-----	-----	-----	-----	-----	-----
Balance June 30, 2002	322,959	7,042	2,232,162	2,999	-	(2,808,54)
Reverse stock split						
21.8045:1 on						
August 14, 2003	-	(7,288)	7,288	-	-	
Shares issued for cash	12,841	280	35,955	-	-	
Stock issued for						
settlement of notes						
payable	13,759	300	17,700	-	-	
344 Shares of common						
stock to be issued						
for cash	-	-	-	2,515	-	
Shares issued for						
cash included in						
the prior period	138	3	996	(999)	-	
Adjustment to						
share price	459	13	(13)	-	-	
1147 Shares of						
common stock to						
be issued for						
loan incentive	-	-	-	2,000	-	
Net loss	-	-	-	-	-	(226,36)
	-----	-----	-----	-----	-----	-----
Balance June 30, 2003	350,155	\$ 350	\$2,294,088	\$ 6,515	\$ -	\$ (3,034,91)
	=====	=====	=====	=====	=====	=====

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

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### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (226,365)	\$ (1,104,133)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale of assets	17,741	-
Loss on settlement of debt	6,950	-
Depreciation and amortization	67,271	83,307
Issuance of common stock for compensation	-	-
Issuance of common stock for services and interest	-	346,537
Issuance of common stock for merger	-	1,133
Shares to be issued for loan incentive	2,000	2,000
Loss on investment	-	125,000
Loss on impairment of assets	-	214,444
Write-off of samples	-	-
Decrease of other current assets	-	4,473
(Increase) decrease of accounts receivable	818	(2,583)
Increase (decrease) of accounts payable	(10,055)	22,368
Increase in accrued expense	48,514	8,252
	-----	-----
Total adjustments	133,239	804,931
	-----	-----
Net cash used in operating activities	(93,126)	(299,202)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of patents/investment	-	(250,000)
Other	-	-
Receipt of cash on disposal of property and equipment	32,576	-
	-----	-----
Net cash provided (used) in investing activities	32,576	(250,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	22,336	287,263
Payments on borrowings	-	(5,000)
Issuance of common stock for cash	36,235	254,520
Receipt of cash for stock to be issued	2,515	999
	-----	-----
Net cash provided by financing activities	61,086	537,782
	-----	-----
Net increase (decrease) in cash & cash equivalents	536	(11,420)
CASH & CASH EQUIVALENTS, BEGINNING	1,253	12,673
	-----	-----
CASH & CASH EQUIVALENTS, ENDING	\$ 1,789	\$ 1,253
	=====	=====

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

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATIONS AND DESCRIPTION OF BUSINESS

TS Electronics, Inc. (formerly, Softstone, Inc.) (the "Company"), a Delaware corporation, was incorporated on October 7, 1998. The Company was formed to manufacture a patented rubber product used in the road and building construction industries. Its principal activities have consisted of financial planning, establishing sources of production and supply, developing markets, and raising capital. Prior to July 2002, the Company was in the development stage as defined Statement of Financial Accounting Standards No. 7 "Accounting and Reporting by Development Stage Enterprises". Its principal operations began in the quarter ended September 30, 2002. On August 13, 2003, the Company changed its name to TS Electronics, Inc.

On October 7, 1998, SoftStone Building Products, Inc. ("SSBI" - an Oklahoma corporation and predecessor to the Company) was incorporated. Effective May 31, 1999, SSBI was merged into Softstone, Inc. (incorporated January 28, 1999 under the laws of the State of Delaware) and SSBI was subsequently dissolved. Each share of previously outstanding common stock was converted into 2,500 shares of common stock of the new entity.

On July 24, 2001, the Company entered into a plan of reorganization involving Kilkenny Acquisition Corp. (Kilkenny) whereby the Company is the survivor and in control of the board of directors. The merger agreement provided for the exchange of 1,158,387 shares of the Company's common stock for all the common stock of Kilkenny. In connection with this merger, on April 4, 2001, certain insider shareholders of the Company contributed 3,947,698 shares of their common stock to the Company effectively reducing the then outstanding shares of stock to 3,685,992. Subsequent issues of common stock for cash and services increased the outstanding stock of the Company to 4,590,646. The issuance of the above mentioned shares of the Company's common stock on the merger date increased the common stock of the Company to 5,669,033 with the Company shareholders, prior to the merger, owning approximately 81% of the outstanding shares of the Company. For accounting purposes, the transaction between the Company and Kilkenny has been treated as a re-capitalization of the Company, with the Company as the accounting acquirer (reverse acquisition), and has been accounted for in a manner similar to a pooling of interests. Since Kilkenny is a dormant entity with insignificant assets or liabilities, no pro forma information is presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### Cash and cash equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

### Property and equipment

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Upon sale, retirement, or

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

other disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations for the period. The Company depreciates property and equipment using the straight-line method over their estimated useful lives ranging from five to seven years.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses are recognized based upon the estimated fair value of the asset. Being a development stage company, the Company does not believe any of its property and equipment is impaired.

### Patent and patent license agreement

In August 2000, patent rights amounting to \$100,000 were acquired, in exchange for 300,000 shares of common stock, forgiveness of debt and assumption of additional debt. Patent rights were acquired for the manufacturing process and had been amortized using the straight-line method over fifteen years. In March 2002, additional patent rights were purchased for \$125,000. The net book value of \$89,444 for the patent purchased in 2000 and the newly purchased patent of \$125,000 were written off as impairment of intangible assets in the year ended June 30,, 2002 as the Company decided against selling the items under patent rights.

### Revenue recognition

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) 101. Revenue is recognized when merchandise is shipped to a customer.

### Income taxes

Deferred income taxes are provided on temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years. Deferred income tax assets or liability are determined by applying the presently enacted tax rates and laws.

### Fair value of financial instruments

The carrying amount of all financial instruments at June 30, 2003 and 2002, which consist of various notes and loans payable, approximate their fair

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values.

Accounts payable - related party

The Company has an amount payable to a shareholder amounting \$160,879 for certain equipment purchased in prior years. The amounts are due on demand, unsecured and interest free.

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

Earnings per share

Net loss per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share". Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-based compensation

SFAS No. 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. SFAS No. 123 requires compensation expense to be recorded (i) using the new fair value method or (ii) using the existing accounting rules prescribed by Accounting Principles Board Opinion No. 25, "Accounting for stock issued to employees" (APB 25) and related interpretations with proforma disclosure of what net income and earnings per share would have been had the Company adopted the new fair value method. The Company has chosen to account for stock-based compensation using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and has adopted the disclosure only provisions of SFAS 123. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock.

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of SFAS 123 and the Emerging Issues Task Force consensus in Issue No. 96-18, "Accounting for

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Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services". Valuation of shares for services is based on the estimated fair market value of the shares issued.

As of June 30, 2003, the Company does not have any option for share purchase or warrant outstanding.

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

### Segment Reporting

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure About Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. Currently, SFAS 131 has no effect on the Company's consolidated financial statements as substantially all of the Company's operations are conducted in one industry segment.

### Accounting developments

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used, on reported results. The Statement is effective for the Companies' interim reporting period ending January 31, 2003. The adoption of SFAS 148 does not have a material effect on the earnings or financial position of the Company.

On April 30, the FASB issued FASB Statement No. 149 (FAS 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities. FAS 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of FASB Statement No. 133 (FAS 133), Accounting for Derivative Instruments and Hedging Activities. FAS 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. FAS 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its financial position or results of operations or cash flows.

On May 15, 2003, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 150 (FAS 150), Accounting for Certain Financial



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Instruments with Characteristics of both Liabilities and Equity. FAS 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or "mezzanine" equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, FAS 150 requires disclosure regarding the terms of those instruments and settlement alternatives. FAS 150 affects an entity's classification of the following freestanding instruments: a) Mandatorily redeemable instruments b) Financial instruments to repurchase an entity's own equity instruments c) Financial instruments embodying obligations that the issuer must or could choose to settle by issuing a variable number of its shares or other equity instruments based solely on (i) a fixed monetary amount known at inception or (ii) something other than changes in its own equity instruments d) FAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The guidance in FAS 150 is generally effective for all financial instruments entered into or

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. For private companies, mandatorily redeemable financial instruments are subject to the provisions of FAS 150 for the fiscal period beginning after December 15, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material impact on its financial position or results of operations or cash flows.

### Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 presentation.

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2003:

Furniture and computer equipment	\$ 42,198
Production and other equipment	450,063
Vehicles	29,381
	-----
	521,642
Less: Accumulated depreciation and amortization	(226,568)
	-----
	\$ 295,074
	=====

### 4. NOTES PAYABLE

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Notes payable consist of the following at June 30, 2003:

Revolving note payable to bank;	
interest rate 7.5%, due on December 05, 2005	\$ 88,468
Notes payable to stockholder, 8% & 12% interest rates and due on demand	600,889
Bank term loan; 6.78% interest rate; Maturing September 13, 2003	37,857
Note payable to finance vehicle, 9.5% interest rate, maturing September 23, 2005, collateralized by vehicle	12,974
Bank term loan; interest at 6.25% (variable); collateralized by equipment, accounts receivable and intangibles and guaranteed by the principal stockholder of the Company, due July 15, 2005	25,331

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

Note payable to stockholder; interest free; due on demand	160,879 -----
	926,398
Less: current portion	799,625 -----
Long-term debt	\$ 126,773 =====

The following is a summary of maturities of principal under long-term debt for years ending June 30:

2006	\$ 126,773 =====
------	---------------------

The notes payable has been classified in the balance sheet at June 30, 2003 as per follows:

Accounts payable - related parties	\$ 160,879
Notes payable- current	638,746
	-----
Current liabilities	799,625

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Notes Payable - long term	126,773
	-----
	\$ 926,398
	=====

### 5. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

The Company prepares its statements of cash flows using the indirect method as defined under the Financial Accounting Standard No. 95.

The Company paid \$0 for income tax during the year ended June 30, 2003 and 2002. The Company paid \$13,898 and \$31,318 interest during the year ended June 30, 2003 and 2002, respectively.

Supplemental disclosure of non-cash investing and financing activities:

The cash flow statements do not include following non-cash investing and financing activities:

During the year ended June 30, 2003, the Company issued 13,759 shares of common stock valued at \$18,000 for settlement of short-term notes payable amounting \$11,050 resulting in a loss of \$6,950 on settlement of debt.

### 6. STOCKHOLDERS' EQUITY

Common stock

During the year ended June 30, 2003, the Company issued common stocks in exchange of various services to following parties:

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

During the year ended June 30, 2003, the Company issued 12,841 shares of common stock for cash of \$36,235 received during this period and issued 138 shares for cash amounting \$999 received in the prior year.

During the year ended June 30, 2003, the Company issued 13,759 shares of common stock valued at \$18,000 for settlement of short-term notes payable amounting \$11,050 resulting in a loss of \$6,950 on settlement of debt.

During the year ended June 30, 2003, the Company received cash of \$2,515 for 344 shares to be issued.

During the year ended June 30, 2003, the Company issued 459 shares of common stock for the adjustment to share price in the prior year.

At June 30, 2003, the Company has 1,147 shares of common stock amounting \$2,000 to be issued for the extension of the due date for the loan.

### 7. INCOME TAXES

The Company's effective income tax benefit differed from the benefit computed using the federal statutory tax rate as follows:

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	Year Ended 2003	Period from June 30, 2002
	-----	-----
Income tax benefit at		
federal statutory rate	\$ 90,546	\$ 375,405
Nondeductible expenses	(443)	(2,100)
Other, including graduated rates	-	-
Change in valuation allowance	(90,103)	(373,305)
	-----	-----
	\$ -	\$ -
	=====	=====

Components of deferred tax assets at June 30, 2003, are as follows:

Assets

Net operating loss carryforward	\$ 1,072,101
Valuation allowance	(1,072,101)
	-----
	\$ -
	=====

The valuation allowance increased \$90,103 for the year ended June 30, 2003, and \$373,305 for the year ended June 30, 2002.

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

not be realized. At June 30, 2003 and 2002, the Company had a net deferred tax asset mainly related to a net operating loss carryforward from operating losses incurred. As such carryforward can only be used to offset future taxable income, management has fully reserved this net deferred tax asset with a valuation allowance until it is more likely than not that taxable income will be generated. Net operating loss carryforwards can be carried forward for fifteen years for federal tax purpose subject to certain limitations and they will expire in the year 2018.

8. IMPAIRMENT OF INVESTMENT

In March 2002, the Company entered into a purchase agreement with Lev gum, Ltd. (Levgum) of Tel Aviv, Israel, where the Company received 83 shares with 1.00 par value representing 10% of outstanding capital, for \$250,000. The Company also received the right to use their technology for rubber devulcanization and right to sublicense as part of this purchase agreement. The Company recorded its investment in Lev gum for \$125,000 and license

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agreement acquired through acquisition at \$125,000. On June 30, 2002, the Company evaluated its investment and patents rights according to FASB 121 and recognized an impairment loss equal to the book value of these intangible assets amounting \$125,000.

### 9. BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share for the six-month period ended June 30, 2003 and 2002 were determined by dividing net loss for the periods by the weighted average number of basic and diluted shares of common stock outstanding. Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

### 10. GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the company as a going concern. However, the Company has an accumulated deficit of \$3,034,913 at June 30, 2003 and a negative working capital of \$902,261 at June 30, 2003. In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management's plan of operations anticipates that the cash requirements for the next twelve months will be met by obtaining capital contributions through the sale of common stock and cash flow from operations. However, there is no assurance that the Company will be able to implement its plan.

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TS ELECTRONICS, INC.  
(Formerly, Softstone, Inc.)  
NOTES TO THE FINANCIAL STATEMENTS

### 11. SUBSEQUENT EVENT & CONTINGENT LIABILITY

On July 31, 2003, the Company entered in to a reorganization agreement with TS Electronics Corporation (TSEC), a Delaware corporation. Under the reorganization agreement, TSEC shareholders shall purchase from the Company, 5,350,000 shares of its common stock in a private placement under rule 506 of the Regulation D of the Securities Act of 1933, in exchange of for the transfer to the Company of all the capital stock of TSEC. Under the agreement, all of the directors of the Company will be replaced by present designee of TSEC to fill this vacancy and become the director of the Company.

Per the agreement, TSEC and its shareholders shall be indemnified by the Company against any liabilities arising either from a failure of the Company or its current president to discharge all liabilities of the Company. The closing of the agreement will be effective subject to compliance of Securities and Exchange filing rules and regulations.

Pursuant to the reorganization agreement, on August 13, 2003, the Company

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filed its Certificate of Amendment to Certificate of Incorporation with the Secretary of State of the State of Delaware changing its name to "TS Electronics, Inc." and consolidating the common stock of the corporation. The stock consolidation to 600,000 shares, \$0.001 par value, effective August 14, 2003, consolidates each 21.8045 outstanding shares to one share, with fractional shares being rounded up or down to the nearest whole number.

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Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

On September 5, 2002 Hogan & Slovacek of Oklahoma City and Tulsa, our principal independent accountants, resigned. Hogan & Slovacek had been engaged as our principal independent accountants since August 22, 2001, when it replaced Grant Thornton LLP as our principal independent accountants. See Softstone's Form 8-K filed with the Commission on August 27, 2001 (Commission File No. 000-29523).

The report of Hogan & Slovacek on the financial statements of Softstone (our earlier name) for its fiscal year ended June 30, 2001 contained no adverse opinions or disclaimers of opinion, and, other than raising substantial doubt about Softstone's ability to continue as a going concern for the fiscal year ended June 30, 2001, were not otherwise modified as to uncertainty, audit scope, or accounting principles during the period of its engagement (August 22, 2001 to September 5, 2002) or the interim period to September 5, 2002, the date of resignation. Similarly, the reports of Grant Thornton on the financial statements of Softstone contained no adverse opinions or disclaimers of opinion, and, other than raising substantial doubt about Softstone's ability to continue as a going concern for each of the fiscal years ended June 30, 2000 and 1999, were not modified as to uncertainty, audit scope, or accounting principles during such past two years or the interim period to August 21, 2001, the date of resignation.

During the past two years or interim periods prior to September 5, 2002, there were no disagreements between Softstone and either Grant Thornton or Hogan & Slovacek, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Grant Thornton's or Hogan & Slovacek's satisfaction, would have caused it to make reference to the subject matter of the disagreements in connection with its reports.

On September 5, 2002, we engaged Kabani & Company, Inc. of Fountain Valley, California as our new principal accountant to audit our consolidated financial statements.

The decision to change accountants was recommended and approved by the

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board of directors.

### Item 9. Directors, Executive Officers, Promoters and Control Persons.

A list of our current officers, directors and significant employees appears below. The directors are elected annually by the shareholders. The officers serve at the pleasure of the board of directors. The directors do not presently receive fees or other remuneration for their services.

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Person -----	Office -----	Office Held Since -----	Term of Office -----
Keith P. Boyd, 30	President	2001	October 2003
	Director	2001	October 2003
Frederick W. Parker, 68	Director	1999	October 2003
Gene F. Boyd, 65	Secretary	1999	October 2003
	Chairman of the Board of Directors	1999	October 2003

Keith P. Boyd. Mr. Boyd has spent most of his adult life assisting his father, Gene Boyd, with the family interests, Meinecke-Boyd, Inc., located near Ardmore, Oklahoma. After a year in college, he joined the U.S. Navy and ended his naval career as a petty officer - machinist mate 3rd class - aboard the USS Chicago, SSN 721, a nuclear-powered, fast-attack submarine. In late 1998, Mr. Boyd raised the first investor capital for Softstone. He has considerable mechanical skills and abilities and assisted with the design and fabrication of Softstone's Parker System machine. He formulated Softstone's sales and marketing effort and has been responsible to date for all of its sales. In June 2001 he was elected president and CEO of Softstone, Inc. (the company's third) and then merged the company with a 12G reporting shell, making Softstone an SEC-reporting public corporation. Mr. Boyd negotiated our contract with Lev gum, Ltd., of Israel and restructured the company to incorporate the devulcanization technology. Keith Boyd has initiated the beginnings of a global market strategy through his research of product applications as well as market entries. He devotes 100 percent of his time to the affairs of our company.

Frederick W. Parker. Mr. Parker attended the University of Southern California and the University of Wyoming. From December 1969 to May 1980 he was employed as an executive and wholesaler of drilling fund securities of Canadian American Securities, a subsidiary of American Quasar Petroleum. From May 1980 to June 1982 he founded and operated ENEX Securities and the ENEX Income Funds. From 1982 to November 1984 he owned and operated Parker Energy Funding, a coal methane gas company. From 1986 to 1987 he was a consultant to several oil and gas production companies regarding deep well injection of hazardous oil field waste. From June 1987 to October 1990 he was the executive vice president of Princeton Clearwater Corporation. From 1990 to 1999 he operated the consulting firm of Donner-Gray, primarily regarding oil and gas and real estate activities. From May 1996 to September 1998 he was the director of marketing of VE Enterprises, a manufacturing concern. From October 1998 until June 1999 when it was merged with Softstone, Inc., he was the president and owner of Softstone International LLC, which owned the patented technology for the manufacture of rubber modules, which patent was assigned to Softstone, Inc. Upon the incorporation of Softstone, Inc. on January 28, 1999, he became its president

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and a director. He is still a director but resigned his position as president in May 2001.

Gene F. Boyd. Mr. Boyd, a 1960 graduate of Texas Tech, has been the president of Meinecke-Boyd, Inc., an Oklahoma ranching and investment corporation, since January 1979. As the operator of a 3600-acre Simmental cattle ranch at Tishomingo, Oklahoma, Mr. Boyd practiced (and preached) holistic resource management, which included rotational grazing to enhance the natural

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recycling of soil and grasses. He also served as vice-president of the Oklahoma Simmental Association and as a board member of soil and water conservation districts. Intrigued by the potential and the need for recycled rubber products, Mr. Boyd and his wife moved to Ardmore, Oklahoma after 26 years on the ranch, so that he could be a full-time participant in the start-up and development of Softstone, Inc. Upon the incorporation of Softstone, Inc., on January 28, 1999, Mr. Boyd became its secretary and its chairman of the board of directors, positions he still holds.

### Item 10. Executive Compensation.

No executive officer of the company has received total compensation in any of the last three years that exceeds \$100,000. The table below sets forth all compensation awarded to, earned by, or paid to the presidents of the company during the last three fiscal years:

Name	Fiscal Year	Annual		Other Restricted Compensation	Options/ Stock Awards	Securities Underlying
		Salary	Bonus			LTIP SARS
Keith Boyd	2003	\$36,000	0	0	0	0
Keith Boyd	2002	\$36,000	0	0	\$50,000	0
Keith Boyd	2001	\$36,000	0	0	\$20,000	0
Frederick Parker	2001	0	0	0	0	0

### Employment Contracts

We have no long-term compensation plans or employment agreements with any of our officers or directors.

There are no employment contracts, compensatory plans or arrangements, including payments to be received from our company, with respect to any director or executive officer which would in any way result in payments to any such person because of his or her resignation, retirement or other termination of employment, any change in control, or a change in the person's responsibilities following a change in control of our company.

### Stock Options

There have been no stock options granted to the officers and directors of our company, nor have there been any other forms of compensation paid to the officers and directors of the company.

### Item 11. Security Ownership of Certain Beneficial Owners and Management.



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The following table sets forth certain information regarding beneficial ownership of the common stock of Softstone as of September 30, 2003 (giving effect to the one-for-each-21.8045 shares of stock consolidation), by each officer and director of our company, by each individual who is known, as of the date of this filing, to be the beneficial owner of more than five percent of our common stock, its only voting security, and by the officers and directors as a group:

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Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class -----	Office -----
Keith P. Boyd 111 Hilltop Lane Pottsboro, TX 75076	74,129	12.4	President Director
Frederick W. Parker 811 N. Rockford Place Ardmore, OK 73401	35,562	5.9	Director
Gene F. Boyd 712 Franklin Court Ardmore, OK 73401	200,122	33.4	Secretary Director
Betty Sue Boyd 612 Franklin Court Ardmore, OK 73401	25,015	4.2	
Officers and Directors as a Group (3 persons)	334,828	55.9	

- (1) Mr. Parker's shares are held of record by the Frederick W. Parker Family Limited Partnership.
- (2) Of these shares, 712,745 are held of record by the Gene F. Boyd Revocable Living Trust, 10,000 shares are held of record by Meinecke/Boyd, Inc., a company under the control of Mr. Boyd, and 27,551 are held of record by the Betty Sue Boyd Revocable Living Trust.

### Item 12. Certain Relationships and Related Transactions.

During fiscal years 2002 and 2003, the following outstanding notes payable were either issued or renewed from earlier years. In each instance, the notes were either guaranteed by Gene Boyd, who is a director and the secretary of our company, or were issued to him and his spouse, Betty Sue Boyd, in exchange for loans of money to the company by them:

Revolving note payable to bank; interest

rate 7.5%, due on December 05, 2005

\$ 88,468

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Notes payable to stockholder, 8% & 12% interest rates and due on demand	600,889
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Bank term loan; 6.78% interest rate; Maturing September 13, 2003	37,857
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Bank term loan; interest at 6.25% (variable); collateralized by equipment, accounts receivable and intangibles and guaranteed by the principal stockholder of the Company, due July 15, 2005	25,331
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Note payable to stockholder; interest free; due on demand	160,879
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All of the liabilities represented by the above notes shall be released as a condition of the reorganization.

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibits

The following exhibits are filed, by incorporation by reference, as part of this Form 10-KSB:

Exhibit -----	Item -----
2	Agreement and Plan of Reorganization of July 24, 2001 between Softstone, Inc. and Kilkenny Acquisition Corp.*
3	Certificate of Incorporation of Softstone Inc.*
3.1	Bylaws of Softstone, Inc.*
10	Lease Agreement of February 1, 2000, between Ardmore Development Authority, as lessor, and Softstone, Inc., as lessee.*
10.1	Scrap Tire Disposal Agreement of January 11, 2000, between Michelin North America, Inc., and Softstone, Inc.*
10.2	Letter of intent of May 1, 2001, of Little Elm Independent School District regarding the Little Elm Walking Trail.*
10.3	Agreement of March 15, 2002 with Lev gum, Inc. concerning exclusive license to Western Hemisphere for Lev gum's devulcanization technology.**
16.1	Letter of September 9, 2002 of Hogan & Slovacek agreeing with the statements made in Form 8-K by Softstone Inc., concerning Softstone's change of principal independent accountants.***

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- 31 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.1 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99 United States Patent No. 5,714,219.\*

\* Previously filed with Form 8-K August 8, 2001 Commission File No. 000-29523; incorporated by reference.

\*\* Previously filed with Form 10-QSB May 20, 2002 Commission File No. 000-29523; incorporated by reference.

\*\*\* Previously filed with Form 8-K September 11, 2002 Commission File No. 000-29523; incorporated by reference.

### (b) Forms 8-K

Form 8-K dated August 13, 2003, reporting Item 5 - Other Events, and Item 7(b) - Exhibits (Commission File #000-29523, EDGAR Accession #0001060830-03-000169 filed August 18, 2003).

### Item 14. Controls and Procedures

Evaluation of disclosure controls and procedures. We maintain controls and procedures designed to ensure that information required to be disclosed in this report is recorded, processed, accumulated and communicated to our management, including our chief executive officer and our chief financial officer, to allow timely decisions regarding the required disclosure. Within the 90 days prior to the filing date of this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of the design and operation of these disclosure controls and procedures. Our chief executive officer and chief financial officer concluded, as of fifteen days prior to the filing date of this report, that these disclosure controls and procedures are effective.

Changes in internal controls. Subsequent to the date of the above evaluation, we made no significant changes in our internal controls or in other factors that could significantly affect these controls, nor did we take any corrective action, as the evaluation revealed no significant deficiencies or material weaknesses.

### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant

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caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 10, 2003

TS Electronics, Inc. (formerly named  
Softstone Inc.)

By/s/Keith Boyd

-----  
Keith Boyd, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: October 10, 2003

/s/ Keith Boyd

-----  
Keith Boyd, President, Chief Executive  
Officer and Director

Date: October 10, 2003

/s/ Gene Boyd

-----  
Gene Boyd, Secretary and Director

Date: October 10, 2003

/s/ Keith Boyd

-----  
Keith Boyd, Chief Financial Officer

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TS ELECTRONICS, INC.  
Commission File Number 0-29523

Index to Exhibits to  
Form 10-KSB 06-30-03

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