TS ELECTRONICS INC
Form 10QSB
November 19, 2003

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

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2003
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission File Number 0-29523

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

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

111 Hilltop Lane, Pottsboro, TX 75076,
903-786-9618
(Address and telephone number of registrant's principal executive offices and principal place of business)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 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 [X] No [ ]

As of November 10, 2003, the Company had 600,015 shares of its $.001 par value common stock issued and outstanding.

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

CURRENT ASSETS:	
Cash & cash equivalents	$ 353

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts payable	$ 43,679
COMMITMENTS & CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Common stock, $0.001 par value; 30,000,000 shares authorized; 600,015 shares issued and outstanding	600
Additional paid-in capital	3,693,121
Shares to be issued	2,000
Deficit accumulated from inception	(3,739,047)
Total stockholders' deficit	(43,326)

	$ 353

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

TS Electronics, Inc.
(Formerly, Softstone, Inc.)
STATEMENTS OF OPERATIONS
FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

	2003	2002
Net revenues	$ 4,817	$ 86,425
Operating expenses		
General and administrative	91,645	56,327
Operating income (loss)	(86,828)	30,098
Other income (expense)		
Interest expense	(5,595)	(8,968)
Loss on sale of assets	-	(20,875)
Miscellaneous income	2,500	-
Gain on settlement of debt	135,083	-
Loss on disposal of assets and liabilities	(454,220)	-
Total other income (expense)	(322,232)	(29,843)
Net income (loss)	$ (409,060)	$ 256
Basic & diluted weighted average number of common stock outstanding	461,756	322,959
Basic & diluted net income (loss) per share	$ (0.89)	$ 0.00

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

TS Electronics, Inc.
(Formerly, Softstone, Inc.)
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (409,060)	$ 256
Adjustments to reconcile net (income) loss to net cash provided by (used in) operating activities:		
Loss on disposal of assets and liabilities	454,220	-
Depreciation and amortization	-	17,163
Issuance of common stock for services	8,599	-
Gain on settlement of debt	(135,083)	-
Loss on sale of assets	-	20,875
Decrease of accounts receivable	-	818
Increase (decrease) in accounts payable	43,679	(14)
Increase of accrued expense	2,102	1,192
Total adjustments	373,517	40,034
Net cash provided by (used in) operating activities	(35,543)	40,290
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets	2,500	19,676
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debts	(3,804)	(1,976)
Proceeds from borrowing	40,411	-
Net cash provided by (used in) financing activities	36,607	(1,976)
Net inrease in cash & cash equivalents	3,564	57,990
CASH & CASH EQUIVALENTS, BEGINNING	1,789	1,253
CASH & CASH EQUIVALENTS, ENDING	$ 5,353	$ 59,243
CASH PAID FOR:		
Interest	$ 1,789	$ 4,712
Income taxes	$ 0	$ 0

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

TS ELECGRONICS,INC.
(Formerly, Softstone, Inc.)
NOTES TO UNAUDITED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

TS Electronics, 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. The Company plans to create rubber modules entirely from recycled tires, which can be used in the construction of roads, driveways, decks, and other types of walkways. 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 in accordance with Statement of Financial Accounting Standards No. 7. 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 and the new capitalization was reflected in the financial statements as if it had occurred at the beginning of the period presented.

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).

Basis of presentation

The accompanying unaudited condensed interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for the presentation of interim financial information, but do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited consolidated financial statements for the year ended June 30, 2003 were filed on October 14, 2003 with the Securities and Exchange Commission and are hereby referenced. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended June 30, 2004.

Segment Reporting

During the periods ended September 30, 2003 and 2002, the Company only operated in one segment. Therefore, segment disclosure has not been presented.

TS ELECGRONICS,INC.
(Formerly, Softstone, Inc.)
NOTES TO UNAUDITED FINANCIAL STATEMENTS

Reclassifications

Certain comparative amounts have been reclassified to conform to the current year's presentation.

2. RECENT PRONOUNCEMENTS

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 adoption of SFAS 149 does not have a material effect on the earnings or financial position of the Company.

On May 15, 2003, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 150 (FAS 150), Accounting for Certain Financial 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 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 adoption of SFAS 150 does not have a material effect on the earnings or financial position of the Company.

3. PROPERTY AND EQUIPMENT - IMPAIREMENT

At June 30, 2003, the Company evaluated value of the property and equipment and determined all the assets have been impaired and were of no value. Therefore, the Company recorded an impairment expense equal to the book value of property and equipment amounting $295,074 in the financial statements for the year ended June 30, 2003.

4. STOCKHOLDERS' EQUITY

Common Stock:

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

During the period ended September 30, 2003, the Company issued 344 shares for cash included in the prior period.

During the period ended September 30, 2003, the Company issued 6,879 shares of common stock valued at $25,796 for settlement of accounts payable - related parties amounting $160,879, resulting in a gain of $135,083 on settlement of debt.

During the period ended September 30, 2003, the Company issued 2,293 shares for services valued at $8,599.

During the period ended September 30, 2003, the Company issued 229 shares for interests valued at $1,301.

During the period ended September 30, 2003, the Company agreed to issue 1,147 shares for loan incentive included in the prior period valued at $2,000. The shares were not issued through September 30, 2003 and have been classified as to be issued in the accompanying financial statements.

During the period ended September 30, 2003, the Company issued 239,273 shares for disposal of assets and liabilities (see note 7) valued at $1,359,071 resulting in a loss of $454,220.

Pursuant to the reorganization agreement (note 7) on August 13, 2003, consolidated each 21.8045 outstanding shares of its common stock to one share, with fractional shares being rounded up or down to the nearest whole number.

5. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business. Through September 30, 2003, the Company had incurred cumulative losses of $3,739,047 and negative working capital of $43,326. The Company's goal to attain profitable operations is dependent upon obtaining financing and achieving a level of revenues adequate to support the Company's cost structure. 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. In that regard, the Company is in a process of reorganization (note 7).

6. REORGANIZATION

On July 31, 2003, the Company entered in to a reorganization agreement with TS Electronics (China) a Delaware corporation that conducts all of its business in China. Under the reorganization agreement, TS Electronics (China) 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 TS Electronics (China). Under the

agreement, all of the directors of the Company will be replaced by present designee of TS Electronics (China) to fill this vacancy and become the director of the Company.

Per the agreement, TS Electronics (China) 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 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.

Per the agreement, in contemplation of the sale of the Company's assets and liabilities to Softstone, LLC, the entity owned by Gene Boyd, Keith Boyd, and Betty Sue Boyd (the "Boyds" who are related to the Company as officer and related party of the officer of the Company.), the Company issued total of 239,273 shares of its common stock to Boyds valued at $1,359,071 in exchange for assumption of debt and transfer of assets to LLC amounting $906,851 resulting in a loss of $452,220.

Per the agreement, the Company will issue to the Softstone, LLC, upon closing, 50,000 shares of post-consolidation stock and also 100,000 common stock purchase warrants exercisable for one year at $1.25 a warrant.

Per the agreement, the Company's debt owned to creditors other than to the Boyds and for the legal fees will have been released or paid by Boyds. The Company's debt to the Boyds will have been cancelled. The Company will have no liabilities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 "Item 1. Financial Statements."

Results of Operations - First Quarter of Fiscal Year 2004 Compared to First Quarter of Fiscal Year 2003

The following table presents, as a percentage of sales, certain selected financial data for each of the three-month periods ended September 30, 2002 and September 30, 2003.

	Interim Period Ended	
	09-30-2002	09-30-2003
Sales	100%	100%
Operating Expenses	65%	1,903%
Income (Loss) from Operations	35%	1,803%
Other Expenses	35%	6,689%
Net Loss	0%	8,492%
Net Loss Per Share	0	$0.89

TS Electronics had sales of $4,817 in Q1 2004 as compared with sales of $86,425 in Q1 2003 (TS Electronics' fiscal year ends on June 30). The decrease of $81,608 is attributable to a loss of production in a facility in Sri LankaThe nature of the revenue of $4,817 was brokering of crumb rubber, which had no direct cost of sales but was supported by our general, selling and administrative expenses.

Our general, selling and administrative expenses - which have been devoted to finalizing the reverse merger with TS Electronics of China, furthering our relationships with Hemant Kapur of India, and a trip to India by Keith Boyd - were $91,645 in Q1 2004, or 190 percent of sales, as compared with $56,327 or 65% of sales in Q1 2003.

We had a loss of $409,060 in Q1 2004, or $0.89 a share, as compared with income of $256 in Q1 2003, or $0.00 a share.

We had cash of only $353 at the end of Q1 2004, compared with cash of $59,243 at the end of Q1 2003. We covered our $409,060 loss in Q1 2004 by net borrowings of $36,607 and the write off of $454,220 in non-performing assets.

Liquidity

During the three-month interim period ended September 30, 2003, our net loss of $409,060 was attributed to our $454,420 write off of non-performing assets. We also borrowed $40,411 to finance our activities.

During the three-month interim period ended September 30, 2002, a period in which we had net income of $256, we recorded a loan of $20,875 on the sale of assets and depreciation and amortization of $17,163.

OUTLOOK

The statements made in this Outlook are based on current plans and expectations. These statements are forward looking, and actual results may vary considerably from those that are planned.

We have an agreement with TS Electronics (China) Corp. to sell to its two shareholders an 89% interest in our company. Pursuant to this agreement, 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 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 3. 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.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

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 Levgum, Inc. concerning exclusive license to Western Hemisphere for Levgum's devulcanization technology.**
10.4	Reorganization Agreement of August 2, 2003 between Softstone Inc., TS Electronics Corporation, and other parties.
10.5	Escrow Agreement of August 1, 2003 between Softstone Inc., TS Electronics Corporation, and other parties.

10.6	Form of August 1, 2003 Lockup Agreement between TS Electronics Corporation, certain hareholders of Softstone Inc. and the custodian.
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.***
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) Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOFTSTONE INC.

By:/s/ Keith P. Boyd

Keith P. Boyd
Chief Executive Officer

Dated: November 19, 2003

TS ELECTRONICS, INC.
Commission File Number 0-29523

Index to Exhibits to
Form 10-QSB 09-30-03

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

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 Levgum, Inc. concerning exclusive license to Western Hemisphere for Levgum's devulcanization technology.**
10.4	Reorganization Agreement of August 2, 2003 between Softstone Inc., TS Electronics Corporation, and other parties.
10.5	Escrow Agreement of August 1, 2003 between Softstone Inc., TS Electronics Corporation, and other parties.
10.6	Form of August 1, 2003 Lockup Agreement between TS Electronics Corporation, certain hareholders of Softstone Inc. and the custodian.
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.***

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.