TS ELECTRONICS INC
Form 10QSB
May 17, 2004

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 March 31, 2004
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

TS ELECTRONICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	0-29523	73-1564807
(state of incorporation)	(Commission File Number)	(IRS Employer I.D. Number)

111 Hilltop Lane, Pottsboro, TX 75076
903-337-0770
(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
(Title of Class)

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 r equirements for the past 90 days. Yes [X] No [ ]

As of May 10, 2004, 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

Page

TS Electronics, Inc.
(Formerly, Softstone, Inc.)
Balance Sheet
Unaudited

		March 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	84
Receivable From Affiliate		3,508
Total Current Assets		3,592
Total Assets	$	3,592

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	$ 43,979
Total Current Liabilities	43,979
Total Liabilities	43,979
STOCKHOLDERS' DEFICIT	
Common stock - $.001 Par Value; 30,000,000 shares authorized; 600,015 shares issued and outstanding	600
Shares To Be Issued	2,000
Additional Paid in Capital	3,693,122
Deficit Accumulated	(3,736,109)
Total Stockholders' Deficit	(40,387)
Total Liabilities and Stockholders' Deficit	$ 3,592

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

TS Electronics, Inc.
(Formerly, Softstone, Inc.)
Statements of Operations
For the Three Month and Nine Month Periods Ended March 31, 2004 and 2003
Unaudited

	Three months ended March 31,		Nine months e
	2004	2003	2004
REVENUES	$ 18,458	$ 5,079	$ 25,775
COSTS OF GOODS SOLD			
Total Cost of Goods Sold	12,430	38,329	42,135
Gross Profit	6,028	(33,250)	(16,360)
GENERAL AND ADMINISTRATIVE EXPENSES			
Total General and Administrative Expenses	2,526	26,205	65,028
Net Income (Loss) before Other Income and Expenses	$ 3,502	$ (59,455)	$ (81,388)
OTHER (INCOME) AND EXPENSES			
Loss on Disposal of Assets and Liabilities	-	5,802	454,220
Interest	-	16,322	5,595
Income Taxes	-	-	-

Gain on Settlement of Debt	-	-	(135,083)
Total Other (Income) and Expenses	0	22,124	324,732
Net Income (Loss)	$ 3,502	$ (81,579)	$(406,120)
Earnings (Loss) Per Common Share, Basic and Diluted	0.01	(0.01)	(0.73)
Weighted Average common Shares Outstanding	600,015	7,041,965	553,929

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

TS Electronics, Inc.
(Formerly, Softstone, Inc.)
Statement of Cash Flows
For the Nine Month Periods Ended March 31, 2004 and 2003
Unaudited

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (406,120)	$ (185,722)
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and amortization	-	51,466
Loss on sale of assets	454,220	26,916
Issuance of common stock for services	8,599	-
Gain on settlement of debt	(135,083)	-
Decrease (Increase) of accounts receivable	(6,008)	(27,452)
Decrease (Increase) of accounts receivable from affiliates	2,500	-
Increase (decrease) of accounts payable	43,978	(8,652)
Increase of accrued expenses	2,102	37,049

Total Adjustments	370,308	79,327
Net Cash Flows from Operating Activities	(35,812)	(106,395)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets	2,500	32,576
Net Cash Flows from Investing Activities	2,500	32,576
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loans and debts	(3,804)	(6,087)
Proceeds from borrowing	35,411	40,100
Cash received for shares to be issued		38,750
Net Cash Flows from Financing Activities	31,607	72,763
Net Increase (Decrease) in Cash and Cash Equivalents	(1,705)	(1,057)
Cash and Cash Equivalents at Beginning of Period	1,789	1,253
Cash and Cash Equivalents at End of Period	$ 84	$ 196
Supplemental Cash Flow Information:		
Cash Paid for Interest	5,595	14,057

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

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TS ELECTRONICS, 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 planned 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).

During the nine months ended March 31, 2004 the Company generated revenues from the brokering of crumb rubber transactions.

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. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ended June 30, 2004.

Receivable From Affiliates

Receivables from affiliates are non-interest bearing and are due on demand.

Segment Reporting

During the periods ended March 31, 2004 and 2003, the Company only operated in one segment. Therefore, segment disclosure has not been presented.

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 valued at $1,359,071 resulting in a loss of $454,220.

Pursuant to the reorganization agreement (note 6) 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.

During the six months ended March 31, 2004 the Company did not enter into or issue any stock transactions.

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 March 31, 2004, the Company had incurred cumulative losses of $3,736,109 and negative working capital of $40,387. 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, borrowings and cash flow from operations. However, there is no assurance that the Company will be able to implement its plan.

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 would have purchased 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 would have been replaced by present designees of TS Electronics (China) to fill this vacancy and become the director of the Company.

Per the agreement, TS Electronics (China) and its shareholders would have been 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 would have been 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 600,015 shares, $0.001 par value, effective August 14, 2003, consolidated 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 a 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.

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

Per the agreement, the Company would have issued 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 owed to creditors other than to the Boyds and for the legal fees has been released or paid by Boyds. The Company's debt to the Boyds has been cancelled.

On January 20, 2004 the Company filed a Schedule 14C Withdrawal Request with the Securities and Exchange Commission requesting withdrawal of the preliminary information statement and amendments for the reason that the proposed business combination between the two companies has been abandoned.

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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 - Third Quarter (Q3) of Fiscal Year 2004 Compared to Third Quarter of Fiscal Year 2003

TS Electronics had sales of $18,458 in Q3 2004, as compared with sales of $5,079 in Q3 2003 (TS Electronics' fiscal year ends on June 30). Until TS Electronics (i) successfully sells its devulcanized rubber technology or (ii) consistently brokers crumb rubber, it will continue to operate at a loss.

Our general, selling and administrative expenses - which have been devoted to raising capital and acquiring a public market for our common stock - were $2,526 in Q3 2004 as compared with $26,205 in Q3 2003.

We had net income of $3,502 in Q3 2004, or $0.01 a share, as compared with a loss of $81,579 in Q3 2003, or $(0.01) a share.

Results of Operations - First Nine Months of Fiscal Year 2004 Compared to First Nine Months of Fiscal Year 2003

TS Electronics had sales of $25,775 in the first nine months of FY 2004 (March 31, 2004) compared to sales of $95,354 in the first nine months of FY 2003 (March 31, 2003). Until TS Electronics (i) successfully sells its devulcanized rubber technology or (ii) consistently brokers crumb rubber, it will continue to operate at a loss.

Our general, selling and administrative expenses - which have been devoted to raising capital and acquiring a public market for our common stock - were $65,028 in the first nine months of FY 2004 as compared with $111,722 in the first nine months of FY 2003.

We had a net loss of $406,120, or $0.73 a share, in the first nine months of FY 2004 as compared with a net loss of $185,722, or $0.03 a share, in the first nine months of FY 2003. The loss was due primarily to a loss of $454,220 on the disposal of asserts, although we did gain $135,083 in the settlement of debts.

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.

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, 2002 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, 2002, 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 shareholders 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, 2002 Commission File No. 000-29523; incorporated by reference.

** Previously filed with Form 8-K August 27, 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.

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+ Previously filed with Form 10-QSB 09-30-03 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.

Dated: May 17, 2004

TS ELECTRONICS, INC.

By:/s/ Keith P. Boyd

Keith P. Boyd, President

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TS ELECTRONICS, INC.
Commission File Number 0-29523

Index to Exhibits to
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