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TS ELECTRONICS INC  
Form 10QSB  
February 18, 2004

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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  
903-786-9618

-----  
(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 requirements for the past 90 days.  
Yes  No

As of February 17, 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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Page

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Balance Sheet December 31, 2003 (Unaudited)	3
Statements of Operations for the Three-Month and Six Month Periods Ended December 31, 2003 and 2002 (Unaudited)	4
Statements of Cash Flows for the Six Month Periods Ended December 31, 2003 and 2002 (Unaudited)	5
Notes to the Financial Statements	6

2

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

	Unaudited December 31, 2003
	-----
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 90
Receivables	-
Prepaid legal costs and Other	-
	-----
Total Current Assets	90
OTHER ASSETS	
Note Receivable	-
Property, Plant & Equipment, net of accumulated depreciation	-
Mining Claims	-
Goodwill	-
	-----
Total Assets	\$ 90

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=====	
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 43,979
Notes Payable - Due Within One Year	-
Accrued compensation	-
Settlement Payable	-
Liabilities from Discontinued Operations	-
Liabilities of Business Transferred	-
	-----
Total Current Liabilities	43,979
	-----
OTHER LIABILITIES	
Notes Payable - Due After One Year	
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	(3,739,611)
	-----
Total Stockholders' Deficit	(43,889)
	-----
Total Liabilities and Stockholders' Deficit	\$ 90
	=====

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

3

TS Electronics, Inc.  
(Formerly, Softstone, Inc.)  
Statements of Operations

	Three months ended		Six months ended	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
	----	----	----	----
REVENUES	\$	\$ 3,850	\$ 7,317	\$ 90,275
COSTS OF GOODS SOLD				
Total Cost of Goods Sold	-	39,568	29,705	54,390
	-----	-----	-----	-----
Gross Profit	-	(35,718)	(22,388)	35,885
GENERAL AND				

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ADMINISTRATIVE EXPENSES				
Total General and Administrative Expenses	563	44,012	62,502	85,517
Net Loss before Other Income and Expenses	\$ (563)	\$ (79,730)	\$ (84,890)	\$ (49,632)
OTHER (INCOME) AND EXPENSES				
Loss on Disposal of Assets and Liabilities	-	239	454,220	21,114
Interest	-	23,630	5,595	32,598
Gain on Settlement of Debt	-		(135,083)	
-----				
Total Other (Income) and Expenses	-	23,869	324,732	53,712
Net Loss	\$ (563)	\$ (103,599)	\$ (409,622)	\$ (103,344)
=====				
Earnings (Loss) Per Common Share, Basic and Diluted	(0.00)	(0.01)	(0.77)	(0.01)
=====				
Weighted Average common Shares Outstanding	600,015	7,041,965	530,886	7,041,965
=====				

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

4

TS Electronics, Inc.  
(Formerly, Softstone, Inc.)  
Statement of Cash Flows  
For the Six Month Periods Ended December 31, 2003 and 2002

	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (409,622)	\$ (103,343)
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation and amortization		34,075
Loss on sale of assets	454,220	21,114
Issuance of common stock for services	8,599	
Gain on settlement of debt	(135,083)	
Decrease of accounts receivable		818
Increase (decrease) of accounts payable	43,978	(5,055)
Increase of accrued expenses	2,102	33,365
-----		
Total Adjustments	373,816	84,317
-----		
Net Cash Flows from Operating Activities	(35,806)	(19,026)
CASH FLOWS FROM INVESTING ACTIVITIES		

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Proceeds from sale of assets	(2,500)	19,826
	-----	-----
Net Cash Flows from Investing Activities	(2,500)	19,826
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loans and debts	(3,804)	(656)
Proceeds from borrowing	40,411	
Cash received for shares to be issued		24,500
	-----	-----
Net Cash Flows from Financing Activities	36,607	23,844
Net Increase (Decrease) in Cash and Cash Equivalents	(1,699)	24,644
Cash and Cash Equivalents at Beginning of Period	1,789	1,253
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 90	\$ 25,897
	=====	=====
 Supplemental Cash Flow Information:		
-----		
Cash Paid for Interest	5,595	8,261

Noncash Investing and Financing Activities:  
-----

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

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

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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 six months ended December 31, 2003 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. The audited

6

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

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-months ended December 31, 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 December 31, 2003 and 2002, 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

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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

7

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

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 - IMPAIRMENT

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

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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.

8

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

During the period ended December 31, 2003 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 December 31, 2003, the Company had incurred cumulative losses of \$3,739,611 and negative working capital of \$43,889. 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



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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 "Boyd" who are related to the Company as officer and related party of the officer of the Company.), the Company issued a total of

9

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

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 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.

### 7. SUBSEQUENT EVENTS

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.

During January, 2004 the Company completed a shipment of rubber creating revenues of \$12,450 and brokerage fee expenses of the same amount.

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 - Second Quarter (Q2) of Fiscal Year 2004 Compared to  
-----  
Second Quarter of Fiscal Year 2003  
-----

TS Electronics had no sales in Q2 2004, as compared with sales of \$3,850 in Q2 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 \$563 in Q2 2004 as compared with \$44,012 in Q2 2003.

We had a loss of \$563 in Q2 2004, or \$0.00 a share, as compared with a loss of \$103,599 in Q2 2003, or \$0.01 a share.

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

TS Electronics had sales of \$7,317 in the first half of FY 2004 (December 31, 2003) compared to sales of \$90,275 in the first half of FY 2003 (December 31, 2002). 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 \$62,502 in the first half of FY 2004 as compared with \$85,517 in the first half of FY 2003.

We had a net loss of \$409,622, or \$0.77 a share, in the first half of FY 2004 as compared with a net loss of \$103,344, or \$0.01 a share, in the first half of FY 2003. The loss was due primarily to a loss of \$454,220 on the disposed 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.

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We propose to raise additional funds for the purposes of pursuing the marketing of our devulcanized rubber technology that we purchased from Lev gum, Ltd. for the exclusive rights to the Western Hemisphere, as well as further expanding our brokering of crumb rubber business that was founded in August of 2003.

### 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 Lev gum, Inc. concerning exclusive license to Western Hemisphere for Lev gum's devulcanization technology.\*\*
- 10.4 Reorganization Agreement of August 2, 2003 between Softstone

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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.

13

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

+ Previously filed with Form 10-QSB 09-30-03 Commission File No. 000-29523, incorporated by reference.

(b) Reports on Form 8-K

Form 8-K reporting Item 4 - Changes in Registrant's Certifying Accountant; filed 02-06-04, EDGAR Accession Number 0001060830-04-000022.

### 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: February 18, 2004

TS ELECTRONICS, INC.

By:/s/ Keith P. Boyd

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Keith P. Boyd, President

14

TS ELECTRONICS, INC.  
Commission File Number 0-29523

Index to Exhibits to  
Form 10-QSB 12-31-03

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1

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2