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TS ELECTRONICS INC  
Form 10KSB/A  
August 29, 2003

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August 29, 2003

Office of Small Business  
Division of Corporation Finance  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549

Re: Softstone Inc.  
Commission File No. 000-29523  
Amendment No. 3 to Form 10-KSB  
FYE 06-30-02

Gentlemen:

The attached Amendment No. 3 to Form 10-KSB is being filed solely to correct the Statements of Stockholders' Equity (Deficit) on pages 18 and 19.

If you have any questions that might be properly handled by conversing with the undersigned, please do so at my telephone number 405-235-2575, fax number 405-232-8384, or e-mail at kenan@ftpslaw.com.

Sincerely,

/s/ Thomas J. Kenan

Thomas J. Kenan  
e-mail: kenan@ftpslaw.com

cc: Keith Boyd, President  
Hamid Kabani, C.P.A.

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

AMENDMENT NO. 3 TO 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, 2002

OR

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

Softstone Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(state of  
incorporation)

000-29523  
(Commission File Number)

73-1564807  
(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)

5 Interstate Court, Ardmore, OK 73401  
580-223-3888

-----  
(Former Address and telephone number of registrant's principal  
executive offices and principal place of business  
if changed since last report)

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 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 X  
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. [X]

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

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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 15, 2002: \$492,910.

As of September 30, 2002, there were 7,041,965 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 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.

Description of Business  
-----

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.

Devulcanization - The Levgum Process  
-----

This process - called the Levgum 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 and eco-friendlier than all others.

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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.
- 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

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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. He sent a sample of it and a copy of the laboratory test results to Michelin North America's home office. He speculated that Michelin could well decide to substitute our product for five percent of the virgin rubber used in its tires and that other tire manufacturers could well substitute our product for even higher percentages of virgin rubber. This equates to an enormous amount.

We shall 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	Income from	Net to
	to Lev gum	sub-licensees	Softstone
	-----	-----	-----
Lev gum-supplied "modifier"			
to mix with used rubber	\$3,000 a ton	\$3,500 a ton	\$500 a ton

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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 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  
-----

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 which 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. Softstone has 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 today 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 available today. 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 far cheaper 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.
4. Manufacture an automated tire de-beader.

Softstone envisions utilizing its 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.

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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 the automated tire de-beader.

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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 -

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- tire revenue from Michelin,

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- sale of modules,
- 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.

Distribution Methods

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We have one distributor of the product in Oklahoma City, Trinity Brick Sales, Inc. Softstone has several interested parties; however, we await the refurbishment of our tire shredder and the installation of the equipment that

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produces wire-free chips from the shredded tires before we increase this staff. Our strategy is to market our rubber products primarily and directly to construction companies, home builders, landscape architects, golf course



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designers, road and path construction companies and municipalities. We also intend to market directly to end-users and distributors through independent, commissioned salesmen.

### Competitive Business Conditions

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Many firms make molded rubber products, including some for patio, horse trailer and barn applications. It is our observation and belief that our products are superior to all others in economics and durability.

Once we complete the installation in our integrated plant of equipment that will reduce tires to wire-free tire chips, Softstone will commence to realize its potential from our molding operations. We estimate we can achieve gross revenue of more than \$2 million a year from our single "prototype-production" assembly line, with a gross margin of better than 60 percent. If we add a second assembly line, we estimate that our gross margin will increase to better than 70 percent. We doubt that our competition can compete with such efficiency. To the best of our knowledge and belief, no other company takes a whole tire and reduces it to a useable retail product in a single, continuous process with no waste or by-product.

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

-----

There is virtually an endless supply of waste tires. Many sources will pay us to take the tires off their hands. Michelin pays us \$0.77 to \$0.85 a tire and states that it would like to do this at every one of its eighteen U.S. tire manufacturing facilities.

We currently use pure MDI-based RoyalBond binders from Uniroyal Chemical. MDI - methylene diphenyl diisocyanate - in its pure form provides superior adhesion between rubber particles and the surrounding polymer and improves properties such as flex-life, elongation and long-term weatherability.

### Dependence on Major Customers or Suppliers

-----

While our present source of supply of tires is reject tires from the Michelin tire manufacturing facility in Ardmore, Oklahoma, and our source of binder is MDI-based RoyalBond binder from Uniroyal Chemical, we are not dependent on either of these for their products. There are ample supplies of used tires - more than we can use - within the Oklahoma City and Dallas, Texas areas, both of which are less than two hours driving distance from our offices in Pottsboro, Texas on the Texas-Oklahoma border. As for binders, MDI-based binders are readily available from other sources.

We are still in the development stage as far as sales are concerned and are not dependent on any major customers. However, our lack of significant sales is due to our need for a wire-free chip producing grinder.

### 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

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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.

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### Employees

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At present we have one full-time employee and no part-time employees. We propose to add seven full-time and five part-time employees at such time as we install equipment that converts shredded tires into wire-free tire chips.

### Exclusive License With Levgum, Ltd.

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On March 15, 2002 we executed an agreement with Levgum, Ltd. of Tel Aviv, Israel. Levgum owns patents pertaining to certain technology for the devulcanization of rubber tires. We are convinced that this is the best

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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.

Levgum 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 Levgum's technology for the Western Hemisphere, including the right to sublicense the technology in this geographic area.

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

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 Levgum'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>.

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### 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.

### 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 is "SOFS." The following table shows the quarterly high and low prices of the stock since it was admitted to trading. 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

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 Consideration -----
07/99 to 07/00	250,000	Employees and consultants(1)	\$212,500	Services
	22,500	Employee(1)	\$22,490	Services and ve
	400,000	Officers(1)	383,097	Cash and cano of notes pay
	210,000	Employees(1)	210,000	Services
07/00 to 07/01	423,190	Rule 405 Offering	503,782	Cash
	42,500	Rule 405 Offering	53,125	Cash
	675,000	Warrant Holders(2)	675	Cash
	300,000	Officer(2)	21,922	Assignment of
	18,000	Officer(2)	18,525	Office equipme
07/01 to 07/02	522,961	Consultants(2)	52,296	Services
	277,100	Rule 506 Offering	47,944	Cash
	545,200	Rule 506 Offering	254,520	Cash
	825,075	Rule 506 Offering	322,247	Services
	52,250	Rule 506 Offering	24,290	Cancellation o on Debt
	1,158,387	Rule 506 Merger	1,158	Corporate shel

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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.

### 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 June 30, 2002 and June 30, 2001:

	Fiscal Year Ended	
	06-30-2002	06-30-2001
	-----	-----
Sales	100%	100%
Operating expenses	2,007%	1,335%
Income from operations	(1,907)%	(1,235)%
Other expenses	(1,038)%	88%
Net income (loss)	(2,945)%	(1,322)%
Net loss per share	\$(0.18)	\$(0.06)

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#### Sales.

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Sales of \$37,490 for fiscal year 2002 increased by \$7,403, or 25 percent over sales of \$30,087 in fiscal 2001. The increase is due primarily to an order from the City of Ardmore for an installation at Douglas Park.

#### Operating expenses.

-----

Operating expenses increased from \$401,548 in fiscal 2001 to \$752,324 in fiscal 2002, or 87 percent. This 87 percent increase is attributed primarily to

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the purchase of, and research conducted prior to, the purchase of the Lev gum Devulcanization Technology.

Net income (loss).

-----

Our net loss of \$397,809 in fiscal 2001 plummeted to a net loss of \$1,104,133 in fiscal 2002. This increase is attributed to the company's is purchasing the rights to a foreign patent for \$250,000, which purchase had to be expensed as the patent has not been appraised, the compensation of individuals with stock and the cost associated with the reorganization of the company to alleviate overhead. We have temporarily stored our production equipment until we obtain a needed tire shredder, in order to conserve money.

Balance sheet items.

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Current assets of \$3,836 on June 30, 2002, compares unfavorably with current liabilities of \$673,467 at that time, an unfavorable current ratio of ..006.

Liquidity and Capital Resources.

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During the fiscal year ended June 30, 2001, we financed our net loss of \$397,809 primarily through -

- sales of common stock for \$164,640 in cash,
- the issuance of \$92,743 worth of common stock for services, equipment and a patent, and
- loans amounting to \$250,941 from an officer and director of the company.

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,
- a \$125,000 loss on an investment, and
- a \$214,444 loss on the impairment of assets.

### 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 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 to acquire the exclusive license from

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Levgum for the Western Hemisphere rights to its devulcanization technology. We have shifted our business emphasis to exploiting such license, to manufacturing a fully automated tire de-beader for sale to the industry and to selling crumb rubber manufactured by other manufacturers.

We have cut our overhead by laying off our tire processing crew, by moving our tire processing equipment to rent-free space in Ardmore, OK and by moving our corporate offices to Pottsboro, Texas to space provided rent free by our president. We are enthusiastic about our prospects regarding sublicensing our devulcanization technology, selling our fully automated tire de-beader machine and selling crumb rubber to our many contacts in the industry.

Our future results of operations and the other forward-looking statements contained in this Report involve a number of risks and uncertainties. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: the loss of any of several key personnel; the emergence of competition not now detected; and a general economic turndown.

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### Item 7. Financial Statements.

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INDEPENDENT AUDITORS' REPORT  
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To the Stockholders and Board of Directors  
Softstone, Inc.

We have audited the accompanying balance sheet of Softstone, Inc. (a development stage company) as of June 30, 2002 and the related statements of operations, stockholders' equity and cash flows for the period then ended and for the period from October 7, 1998 (inception), to June 30, 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 audit.

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 referred to above present fairly, in all material respects, the financial position of Softstone, Inc. as of June 30, 2002 and the results of its operations and its cash flows for the period then ended and from October 7, 1998 (inception), to June 30, 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 has not earned any revenue since its inception and through June 30, 2002, the Company had incurred cumulative losses of \$2,808,548 and negative working capital of \$667,631. These factors, as discussed in Note 9 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 9. 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 27, 2002



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Board of Directors  
Softstone, Inc.

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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SOFTSTONE, INC  
(A Development Stage Company)  
BALANCE SHEET  
June 30, 2002

ASSETS  
-----

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CURRENT ASSETS:

Cash & cash equivalents	\$ 1,253
Accounts receivable	2,583
	-----
Total current assets	3,836
	-----

PROPERTY AND EQUIPMENT, net	421,837
	-----
	\$ 425,673
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Accounts payable	\$ 39,366
Accounts payable-related party	160,879
Accrued expenses	29,618
Loans - current	443,605
	-----
Total current liabilities	673,467
	-----

LONG TERM LIABILITIES

Notes payable	56,014
Loans from related parties, net of current portion	262,537

COMMITMENTS & CONTINGENCIES

STOCKHOLDERS' DEFICIT

Common stock, \$0.001 par value; 30,000,000 shares authorized; 7,041,965 shares issued and outstanding	7,042
Additional paid-in capital	2,232,162
Shares to be issued	2,999
Deficit accumulated from inception	(2,808,548)
	-----
Total stockholders' deficit	(566,345)
	-----
	\$ 425,673
	=====

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

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	Year Ended June 30, 2002	2001	Cumulative From Inception (October 7, 1998) to June 30, 2002
	-----	-----	-----
Net revenues	\$ 37,490	\$ 30,087	\$ 71,675
Operating expenses			
General and administrative	752,324	401,548	2,440,277
	-----	-----	-----
Operating loss	(714,834)	(371,461)	(2,368,602)
Other expense:			
Interest expense	49,855	26,348	100,502
Loss on investment	125,000	-	125,000
Loss on impairment of intangibles	214,444	-	214,444
	-----	-----	-----
Total other expense	389,299	26,348	439,946
Loss before income taxes	(1,104,133)	(397,809)	(2,808,548)
Income tax	-	-	-
Net loss	\$ (1,104,133)	\$ (397,809)	\$ (2,808,548)
	=====	=====	=====
Basic weighted average number of common stock outstanding	6,174,516	6,629,351	
	=====	=====	
Basic net loss per share	\$ (0.18)	\$ (0.06)	
	=====	=====	
Diluted weighted average number of common stock outstanding	6,174,516	6,629,351	
	=====	=====	
Diluted net Loss per share	\$ (0.18)	\$ (0.06)	
	=====	=====	

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

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SOFTSTONE, INC  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
FROM OCTOBER 7, 1998 (INCEPTION) THROUGH JUNE 30, 2002

Common Stock Number of	Additional Paid-In	Stock to be	Unearned	Deficit accumulated from
---------------------------	-----------------------	----------------	----------	--------------------------------

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	shares	Amount	Capital	issued	Compensation	inception
	-----	-----	-----	-----	-----	-----
Shares issued for						
cash - Oct. 7, 1998	5,000,000	\$ 5,000	\$ 51,100	\$ -	\$ -	\$ -
Stock issued for cash and services	292,500	293	43,582	-	-	-
Net loss	-	-	-	-	-	(197,400)
Balance, June 30 1999	5,292,500	5,293	94,682	-	-	(197,400)
Stock issued for services (\$.85/shr)	250,000	250	212,250	-	-	-
Stock issued for services and vehicle (\$1.00/shr)	22,500	22	22,478	-	-	-
Warrants issued to employees	-	-	75,000	-	(75,000)	-
Stock issued for settlement of ST notes payable (\$34,250) and cash (\$1.00/shr)	400,000	400	382,697	-	-	-
Stock issued for services (\$1.00/shr)	210,000	210	209,790	-	-	-
Stock issued for cash net of offering cost of \$25,783 (\$1.25/shr)	423,190	423	502,782	-	-	-
Amortization of unearned compensation	-	-	-	-	11,250	-
Net Loss	-	-	-	-	-	(1,109,100)
Balance June 30, 2000	6,598,190	6,598	1,499,679	-	(63,750)	(1,306,600)
Stock issued for cash (\$1.25/shr)	42,500	43	53,082	-	-	-
Unearned warrants granted to employee upon termination	-	-	(63,750)	-	63,750	-
Warrants exercised	675,000	675	-	-	-	-
Stock issued in exchange for patent (\$.33/shr)	300,000	300	21,622	-	-	-

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SOFTSTONE, INC  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)  
FROM OCTOBER 7, 1998 (INCEPTION) THROUGH JUNE 30, 2002

	Common Stock Number of shares	Stock Amount	Additional Paid-In Capital	Stock to be issued	Unearned Compensation	Deficit accumulated from inception
	-----	-----	-----	-----	-----	-----
Stock issued in exchange						
for office equipment (\$1.03/shr)	18,000	18	18,507	-	-	
Stock contributed back to Company by principals	(3,947,698)	(3,948)	3,948	-	-	
Stock issued for service (\$.10/shr)	522,961	523	51,773	-	-	
Stock issued for cash (\$.40/shr) net of offering cost of \$62,896	277,100	277	47,667	-	-	
Net Loss	-	-	-	-	-	(397,8
Balance 30, 2001	4,486,053	4,486	1,632,528	-	-	(1,704,4
Share issued for cash (\$.40/shr)	243,300	243	97,077	-	-	
Shares issued for cash (\$.50/shr)	289,400	290	144,410	-	-	
Shares issued for cash (\$1.00/shr)	12,500	13	12,487	-	-	
Share issued for service (\$.36/shr)	257,075	257	92,290	-	-	
Share issued for service (\$.40/shr)	543,000	543	216,657	-	-	
Share issued for service (\$.50/shr)	25,000	25	12,475	-	-	
Shares issued for interest (\$.45/shr)	52,250	52	24,238	-	-	
Shares issued for merger (\$.001/shr)	1,158,387	1,158	-	-	-	
Shares to be issued for cash (\$.33/shr)	-	-	-	999	-	

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shares to be issued for loan incentive (\$ .40/shr)	-	-	-	2,000	-	
Cancellation of shares	(25,000)	(25)	-	-	-	
Net loss	-	-	-	-	-	(1,104,133)
Balance June 30, 2002	7,041,965	\$ 7,042	\$ 2,232,162	\$ 2,999	\$ -	\$ (2,808,548)

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

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SOFTSTONE, INC  
(A Development Stage Company)  
STATEMENTS OF CASH FLOWS  
FROM OCTOBER 7, 1998 (INCEPTION) THROUGH JUNE 30, 2002

	Year Ended June 30, 2002	June 30, 2001	Cumulative From Inception (October 7, 1998) to June 30, 2002
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (1,104,133)	\$ (397,809)	\$ (2,808,548)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	83,307	82,230	221,102
Issuance of common stock for compensation	-	-	487,332
Issuance of common stock for services and interest	346,537	-	346,537
Issuance of common stock for merger	1,133	-	1,133
Shares to be issued for loan incentive	2,000	-	2,000
Loss on investment	125,000	-	125,000
Loss on impairment of assets	214,444	-	214,444
Write-off of samples	-	11,712	11,712
(Increase) decrease of other current assets	4,473	(4,473)	(20,044)
Increase of accounts receivable	(2,583)	-	(2,583)
Increase (decrease) in accounts payable	22,368	(12,081)	32,497
Increase (decrease) in accrued expense	8,252	(2,717)	33,488

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Total adjustments	804,931	74,671	1,452,618
	-----	-----	-----
Net cash used in operating activities	(299,202)	(323,138)	(1,355,930)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of patents/investment	(250,000)	-	(250,000)
Other	-	(384)	(384)
Purchase of property and equipment	-	(31,380)	(419,859)
Net cash used in investing activities	(250,000)	(31,764)	(670,243)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Investments by stockholders	-	250,941	250,941
Proceeds from borrowings	287,263	75,360	608,015
Payments on borrowings	(5,000)	(130,937)	(160,134)
Issuance of common stock for cash	254,520	164,640	1,327,605
Receipt of cash for stock to be issued	999	-	999
	-----	-----	-----
Net cash provided by financing activities	537,782	360,004	2,027,426
	-----	-----	-----
Net increase (decrease) in cash & cash equivalents	(11,420)	5,102	1,253
CASH & CASH EQUIVALENTS, BEGINNING	12,673	7,571	-
CASH & CASH EQUIVALENTS, ENDING	\$ 1,253	\$ 12,673	\$ 1,253
	=====	=====	=====
CASH PAID FOR:			
Interest	\$ 31,318	\$ 12,953	\$ 44,770
	=====	=====	=====
Income taxes	\$ 0	\$ 0	\$ 0
	=====	=====	=====

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

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SOFTSTONE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATIONS AND DESCRIPTION OF BUSINESS

Softstone, Inc. (the "Company"), a development stage company, was formed to manufacture a patented rubber product used in the road and building construction industries and has been in the development stage since

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inception (October 7, 1998). 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. Its principal operations have not started and the Company has no present sources of significant revenues. 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 (see Note 9 for more information regarding these matters). The financial statements do not include any adjustments that might arise as a result of this uncertainty.

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 is reflected in the accompanying 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), 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.

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SOFTSTONE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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 other disposition, the cost and related accumulated depreciation are



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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 as on June 30, 2002.

### 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. The Company currently has no significant revenues as it is still in the development stage.

### 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.

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SOFTSTONE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO THE FINANCIAL STATEMENTS

### Fair value of financial instruments

The carrying amount of all financial instruments at June 30, 2002 and 2001, which consist of various notes and loans payable, approximate their fair values.

### 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

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average market price during the period.

Weighted average number of shares used to compute basic and diluted loss per share is the same in this financial statement since the effect of dilutive securities is anti-dilutive.

### 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

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SOFTSTONE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO THE FINANCIAL STATEMENTS

Emerging Issues Task Force consensus in Issue No. 96-18 ("EITF 96-18"), "Accounting for 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 services performed.

### 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

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industry segment.

### Accounting developments

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangibles." SFAS No. 142 addresses the initial recognition, measurement and amortization of intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) and addresses the amortization provisions for excess cost over fair value of net assets acquired or intangibles acquired in a business combination. The statement is effective for fiscal years beginning after December 15, 2001, and is effective July 1, 2001 for any intangibles acquired in a business combination initiated after June 30, 2001. The Company is evaluating any accounting effect, if any, arising from the recently issued SFAS No. 142, "Goodwill and Other Intangibles" on the Company's financial position or results of operations.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued in August 2001. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. The Company is evaluating any accounting effect, if any, arising from the recently issued SFAS No. 144, "Goodwill and Other Intangibles" on the Company's financial position or results of operations.

In May 2002, the Board issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS 145"). SFAS 145 rescinds the automatic treatment of

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SOFTSTONE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO THE FINANCIAL STATEMENTS

gains or losses from extinguishments of debt as extraordinary unless they meet the criteria for extraordinary items as outlined in APB Opinion No. 30, Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various technical corrections to existing pronouncements. The provisions of SFAS 145 related to the rescission of FASB Statement 4 are effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. All other provisions of SFAS 145 are effective for transactions occurring after May 15, 2002, with early adoption encouraged. The Company does not anticipate that adoption of SFAS 145 will have a material effect on its earnings or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits

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and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost, as defined, was recognized at the date of an entity's commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with earlier application encouraged. The Company does not expect adoption of SFAS No. 146 to have a material impact, if any, on its financial position or results of operations.

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2002:

Furniture and computer equipment		\$ 43,529
Production and other equipment		522,318
Vehicles		59,869
		-----
		625,716
Less: Accumulated depreciation and amortization		(203,879)
		-----
		\$ 421,837
		=====

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SOFTSTONE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO THE FINANCIAL STATEMENTS

### 4. NOTES PAYABLE

Notes payable consist of the following at June 30, 2002:

Revolving note payable to bank; interest due 7/5/02, prime + 1%,  maturing December 5, 2002		\$100,035
Notes payable to stockholder, 8% & 12% interest rates		541,537
Bank term loan; 3.9% interest rate; maturing September 24, 2002 The fair value of the loan at current market rate of 9% would be approximately \$64,000.		64,570
Note payable to finance vehicle, 9.5% interest rate, maturing July 15, 2005, collateralized by vehicle		16,202

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Refinanced bank term loan; payable on demand or in semiannual payments of \$6,485, including interest at 10.75% (variable); collateralized by equipment accounts receivable and intangibles and guaranteed by the principal stockholder of the Company, due July 15, 2004	30,839
Note payable to bank, collateralized by tractor, 9%, variable payable in 60 monthly installments beginning July 29, 2001	8,973
Note payable to stockholder; interest free; due on demand	160,879
	-----
	923,035
Less: current portion	604,484
	-----
Long-term debt	\$318,551
	=====

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

2004	\$ 262,537
2005	16,202
2006	39,812
	-----
	\$ 318,551
	=====

The notes payable has been classified in the balance sheet at June 30, 2002 as per follows:

Accounts payable - related part	\$ 160,879
Loans current	443,605
Current liabilities	604,484
Notes Payable	56,014
Loans related parties - non current	262,537
	-----
	\$ 923,035
	=====

### 5. COMMON STOCK AND WARRANTS

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On January 28, 1999, the Company issued 395,000 warrants and on July 1, 1999, issued 275,000 additional warrants to several stockholders of the Company. Each warrant gives the holder the right to purchase one share of common stock at a price of \$.50 per share at any time on or before January 28, 2004. The fair value of each warrant, estimated on the date of grant using the minimum value method, is nominal.

During October 1999, the Company issued warrants to purchase 150,000 shares of common stock at \$.50 per share to two employees. The warrants vest over a five-year period and resulted in compensation of \$75,000, of which \$63,750 was unearned at June 30, 2000, and will be recognized over the remaining vesting period. The fair value of these warrants does not exceed the compensation cost recognized for financial reporting. During the fiscal year end June 30, 2001, the one employee terminated and another exercised his warrants with paid-in capital charged for the unearned compensation. At June 30, 2001, a total of 145,000 warrants remained outstanding.

During August 2000, the Company purchased office equipment by issuing 18,000 shares of its common stock and recording the office equipment at its estimated fair value based on invoiced cost of \$1.03 for each share of stock issued. The Company also issued 300,000 shares of its common stock to acquire all the patent rights for its production process, recording as cost of the newly acquired rights the estimated predecessor cost of the patent rights acquired, and stockholders exercised their rights to acquire 675,000 shares of common stock at par value.

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SOFTSTONE, INC.  
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NOTES TO THE FINANCIAL STATEMENTS

In April 2001, pursuant to the merger agreement discussed in Note 8 certain insider stockholders contributed back to the Company 3,947,698 shares of their common stock, and this common stock was cancelled, and 522,961 shares of common stock valued at \$ .10 was issued to consultants and an attorney for services rendered in acquiring capital and facilitating the merger.

### Compensation

During August 1999, the Company entered into employment contracts with two key employees, resulting in the issuance of 250,000 shares of the Company's common stock. Such contracts are for a term of 12 months and contain a vesting provision requiring the employees, in the event of early termination of employment, to either surrender to the Company the pro rata unearned portion of the stock issued or to purchase the stock at a price of \$.85 per share. Additionally, the Company issued 22,500 shares of stock to another employee in exchange for a vehicle and services that vested immediately. Also, the Company issued 210,000 shares of stock to employees and non-employees in exchange for services that vested immediately. These agreements result in compensation expense of approximately \$432,500 recognized by the Company during fiscal 2000.

### Stock Offering

Pursuant to Rule 504 of Regulation D ("504 offering") of the Securities Act of 1933, the Company offered for sale 400,000 shares of its common stock for \$1.00 per share under an Offering Memorandum dated August 24, 1999. The Company offered 480,000 shares of common stock under a second 504 offering for \$1.25 per share, of which 423,190 have been sold as of June 30, 2000.

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During the fiscal year ended June 30, 2001, an additional 42,500 shares were sold for \$53,125 in connection with the second offering.

In May 2001, the Company, pursuant to Rule 504, offered 625,000 shares of common stock at \$.40 per share and prior to June 30, 2001, 277,100 shares were issued. Offering costs of this offering totaled \$62,896 of which \$52,296 related to the shares of stock issued for services mentioned above.

### 6. 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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	Period from	Year Ended June 30,	October 7, 1998 (inception) through June 30, 2002
	2002	2001	
	-----	-----	-----
Income tax benefit at			
federal statutory rate	\$ 375,405	\$ 135,256	\$ 954,907
Nondeductible expenses	(2,100)	(1,700)	7,970
Other, including graduated rates	-	-	23,321
Change in valuation allowance	(373,305)	(133,556)	(981,998)
	-----	-----	-----
	\$ -	\$ -	-
	=====	=====	=====

Components of deferred tax assets at June 30, 2002, are as follows:

#### Assets

Net operating loss carryforward	\$ 981,998
Valuation allowance	(981,998)
	-----
	\$ -
	=====

The valuation allowance increase \$373,305 for the year ended June 30, 2002, and \$133,556 for the year ended June 30, 2001.

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 not be realized. At June 30, 2002 and 2001, the Company had a net deferred

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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 2017.

### 7. RELATED PARTY TRANSACTIONS

In August 2000, the Company completed its acquisition of the patent rights to its production process. This transaction involved the issuance of 300,000 shares of common stock to a corporation owned by stockholders of the Company. Office equipment was acquired from a stockholder for the issuance of common stock and certain shareholders contributed their common stock, which was cancelled to facilitate the merger discussed in Note 8. Most of the equipment used in the Company manufacturing process was purchased from a company controlled by a shareholder of the Company.

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SOFTSTONE, INC.  
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### 8. MERGER & ACQUISITION

The Company has agreed to participate in a plan of reorganization involving Kilkenny Acquisition Corp. (Kilkenny) whereby the Company, upon merger, is the survivor and controls the board of directors. To facilitate the merger and acquire additional capital, the Company is committed to issue certain of the Company stock for all the common stock of Kilkenny. In connection with this merger, on April 4, 2001, certain insider shareholders of the Company contributed 3,947,686 of their common stock to the Company and effectively reduced 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, July 24, 2001, 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 merged Company.

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 recorded its investment in Lev gum for \$125,000 and license 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.

### 9. 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 June 30, 2002, the Company had incurred cumulative losses of \$2,808,548 and negative working capital of \$667,631. The Company's successful transition from a



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development stage company to attaining profitable operations is dependent upon obtaining financing adequate to fulfill its research and development activities, production of its equipment 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.

### 10. SUBSEQUENT EVENT

Effective August 7, 2002, the Company ventured a business agreement to sell specified tire bufflings with \$42,500 advance payment and \$42,500 upon delivery.

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SOFTSTONE, INC.  
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The Company received stock subscriptions to purchase 3,500 shares of restricted common stock for \$1,165 subsequent to June 30, 2002.

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

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The report of Hogan & Slovacek on the financial statements of Softstone 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, Softstone engaged Kabani & Company, Inc. of Fountain Valley, California as its new principal accountant to audit its consolidated financial statements.

The decision to change accountants was recommended and approved by the board of directors.

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

A list of the current officers, directors and significant employees of Softstone, Inc. 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, 28	President	2001	May 2002
	Director	2001	May 2002
Frederick W. Parker, 67	Director	1999	May 2002
Gene F. Boyd, 64	Secretary	1999	May 2002
	Chairman of the Board of Directors	1999	May 2002
Jim Miller, 65	Vice President	2001	May 2002
Joseph J. Johnston, 58	Chief Financial Officer	2001	May 2002

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

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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 Softstone.

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

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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 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.

Jim Miller. Mr. Miller has years of experience in the areas of manufacturing and equipment automation. Mr. Miller formerly worked as head of operations for Amusements of America, where he built - from blue print - carnival rides for the amusement Industry. Prior to his employment with Amusements of America, he owned and operated Miller Manufacturing of Lubbock, Texas, developing amusement rides. He completed the automation of Softstone's Parker System I, tripling its production capabilities. Mr. Miller is developing for Softstone a fully automated tire de-beader machine. He is continuing to devote his time to this project and Softstone.

Joseph J. Johnston. From May 1997 until 1999 Mr. Johnston was the president, chief financial officer and chairman of the board of directors of Creative Restaurant Concepts, Inc., an Oklahoma City owner and manager of several restaurants. From 1999 until 2002 he was a restaurant business consultant for Monroe Advisers, Inc., an Oklahoma City business consulting firm.

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 Compensation			Awards		Securities Underlying LTIP SARS	Pay
		Annual Salary	Bonus	Other Restricted Compensation	Options/ Stock Awards			
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		
Tom Brewer	2000	20,833	0	0	0	0		
Frederick Parker	2000	0	0	0	0	0		
Tom Brewer	1999	18,750	0	0	0	0		

Employment Contracts.

As of September 30, 2002, Softstone has no long-term compensation plans or

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employment agreements with any of its officers or directors.

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

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Stock Options.

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There have been no stock options granted to the officers and directors of Softstone, 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.

The following table sets forth certain information regarding beneficial ownership of the common stock of Softstone as of September 30, 2002, by each officer and director of Softstone, by each individual who is known to Softstone, as of the date of this filing, to be the beneficial owner of more than five percent of Softstone's common stock, its only voting security, and by the officers and directors of Softstone as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class	Office
Keith P. Boyd P.O. Box 2365 Ardmore, OK 73402	532,150	7.5	President Director
Frederick W. Parker (1) 811 N. Rockford Place Ardmore, OK 73401	775,419	11.0	Director
Gene F. Boyd (2) Route 2, Box 437 Tishomingo, OK 73460	750,296	10.6	Secretary Director
Jim Miller 906 Oak Tree Loop Ardmore, OK 73401	55,000	0.8	Vice President
Officers and Directors as a Group (4 persons)	2,112,865	30.0	

(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,

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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.

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On June 29, 1999 Softstone acquired a license to the U.S. patent rights to the manufacturing process now employed in the company's plant in Joshua, Texas. The license was acquired from Softstone International LLC, an entity under the control of Frederick Parker, a co-inventor of the patented process and who was at that time the chief executive officer and a director of Softstone, Inc. The cost of the license was \$100,000 and was financed by a promissory note due December 31, 2000. Subsequently, on July 31, 2000 Softstone bought all rights to the patent through the issuance of 300,000 shares of common stock to Softstone International LLC, and the \$100,000 promissory note was cancelled.

Softstone's Transactions with Management. In fiscal year 2002 Softstone borrowed money from the following persons on the following terms for operating capital:

Lender	Relationship to Softstone	Principal Amount	Interest Rate	Maturity Date
Gene Boyd	Secretary and Director	\$ 80,000	8%	3-11-03
Meinecke Boyd, Inc.	Corporation of Gene and Betty Boyd	\$125,000	8%	12-02-02

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

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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.\*\*\*
- 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.

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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 September 5, 2002, reporting Item 4 - Change in Registrant's Certifying Accountant (Commission File #000-29523, EDGAR Accession #0001060830-02-000155 filed September 11, 2002).

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

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

Date: August 28, 2003

Softstone Inc.

By:/s/ Keith Boyd

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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: August 28, 2003

/s/ Keith Boyd

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Keith Boyd, President, Chief  
Executive Officer and Director

Date: August 28, 2003

/s/ Gene Boyd

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Gene Boyd, Secretary and Director

Date: August 28, 2003

/s/ Keith Boyd

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Keith Boyd, Chief Financial Officer

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SOFTSTONE INC.  
Commission File Number 0-29523

Index to Exhibits to  
Amendment No. 3 to Form 10-KSB 06-30-02

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

Exhibit	Item
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