

TS ELECTRONICS INC
Form 10KSB
October 14, 2004

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

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2004

OR

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

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

Delaware
(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)

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 during the past twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

State issuer's revenues for its most recent fiscal year: \$23,275

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity (\$0.925), as of October 11, 2004: \$277,513.

As of October 11, 2004, there were 600,015 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 [X]

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Item 1. Description of Business.

Business Development.

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

Description of Business

Our focus initially was solely on realizing the commercial benefits of a process developed and patented by our first president, Frederick Parker. This process converts waste tires into useful products. The Parker I System machine was constructed in Ardmore, Oklahoma as a proof-of-concept prototype. With certain adjustments 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. We were not successful in promoting this business, wrote off all assets associated with the business and shifted our attention to the commercial possibilities of a superior, newly discovered devulcanization process to which we acquired a 5.5-year exclusive license for the Western Hemisphere. In addition we began an importation business dealing in hard-to-find and specialty crumb rubber. To date, we have not been successful in either of these endeavors and have abandoned all efforts in such pursuit.

Employees

At present we have one full-time employee that draws no salary or compensation and no part-time employees.

Acquisition of China ESCO Holdings Limited. Effective August 11, 2004, we entered into a Stock Exchange Agreement (the "Agreement") with Mr. Hou Xiao, the sole shareholder of China ESCO and its wholly owned operating subsidiary, AsiaNet. China ESCO was incorporated on February 13, 2001, to be the present holding company of AsiaNet that was organized on April 25, 2000, in the Zhu Hai City Economic Special District, Guangdong Province in The People's Republic of China (the "PRC"). China ESCO is engaged in the development and manufacturing of electrical energy saving systems and products in the PRC.

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The Agreement provides that our company will issue approximately 11,201,902 shares of its restricted common stock in exchange for 100% of the issued and outstanding capital stock of China ESCO which will represent approximately 94% of the then total issued and outstanding common stock of our company after the exchange.

General. China ESCO Holdings Limited ("China ESCO") is an energy saving technology company that was incorporated on February 13, 2001 in the Hong Kong Special Administrative Region of China in The People's Republic of China (the "PRC").

Substantially all of the operations of China ESCO are conducted through its wholly-owned subsidiary AsiaNet PE Systems Limited ("AsiaNet") which was incorporated on April 25, 2000 in the Zhuai City Economic Special District in Guangdong Province in the PRC. The predecessor of AsiaNet was a company located in New Zealand that was organized in 1994. The principal business activities of AsiaNet is the design and manufacturing of energy saving devices for air conditioning systems, motors and other electrically operated equipment and systems in the PRC. The Zhuai provincial government has issued a Certificate of Authority to AsiaNet as an enterprise with foreign investment in the PRC and classified AsiaNet as a wholly owned foreign enterprise ("WOFE") which entitles AsiaNet to substantial PRC corporate income tax benefits.

Both our company and China ESCO have commenced due diligence investigations of each other in preparation for the consummation of the transaction. We plan to prepare appropriate shareholder materials for dissemination to the shareholders to obtain shareholder approval of the proposed transaction as soon as practicable, subject to completion of due diligence and receipt of appropriate financial statements of China ESCO and its subsidiary.

If the transaction is consummated, our name is expected to be changed to "China ESCO Corporation" or such other name as selected by China ESCO. Upon closing, all of our current officers and directors will resign and be replaced by officers and directors of China ESCO. The Agreement also contemplates the adoption of a 2004 Stock Benefit Plan, the appointment of the new auditors of China ESCO as the independent auditors of our company and the filing of an amendment to the Certificate of Incorporation of our company to change its name, as described above, and to

increase the authorized number of shares of its common stock from 30,000,000 shares to 50,000,000 shares of common stock.

The consummation of the transaction with China ESCO is subject to a number of conditions, including approval by the board of directors of our company and China ESCO and the shareholders of our company and China ESCO, completion of satisfactory due diligence, receipt by our company of financial statements of China ESCO as required under applicable regulations, and satisfaction of all applicable regulatory requirements. As a result of the exchange of the China ESCO stock in exchange for our company's stock, China ESCO will become a wholly-owned subsidiary of our company.

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Business of China ESCO. The manufacturing system of China ESCO has been verified by the China Quality Certification Center and has been granted certificate ISO #9001:2000 and certificate ISO #14001. Its products have passed the test procedures of the Wuhan High-Voltage Research Institute. China ESCO also passed the requirements for the China National Compulsive Certification (3C Certification) and the China National Saving Certification.

All of the products of China ESCO are researched and developed by the technicians of the Company. All key components of its products are manufactured by China ESCO, and other affiliated components are acquired from approximately 200 unaffiliated third party vendors. In addition to its direct marketing activities, China ESCO has distribution relationships with more than 200 authorized distribution companies with sales and distribution to over 30 provinces in the PRC.

China ESCO has manufactured more than 100 series of products that primarily are used in electrical appliances such as motors, air conditioners, illumination equipment, oil pumps, boilers, and electrical transmission and distribution purposes. It has a broad range of customers, including numerous small and middle size companies, in various industries such as manufacturing, smelting, oil and gas, electronics, textiles, hospitals and publishing.

China ESCO emphasizes the service and maintenance of its energy saving products and systems after their sale to its customers, and has 25 service centers in the PRC that provide 24 hour/seven days a week services to its customers.

The principal executive office of China ESCO in the PRC is at: Jinye Industrial Mansion No2, GangEr Road, Qianshan Zhuhai, Guangdong, P.R. China, Post Code: 519020.

WOFE Tax Rates. Under the Provisional Regulations of The People's Republic of China Concerning Income Tax on Enterprises promulgated by the State Council and which came into effect on January 1, 1994, income tax is generally payable by enterprises at a rate of 33% of their taxable income. China ESCO became entitled to a tax holiday of "two years full exemption beginning in 2001, and then became entitled to three years at one half of the applicable tax rate" thereafter, during which such enterprises are able to enjoy further preferential tax treatment. As a result, China ESCO was entitled to the full WOFE exemption for the years of 2001 and 2002. Commencing with the year of 2003, the Company became entitled to a tax exemption at an applicable tax rate of 7-1/2% of taxable income.

Enterprise income tax ("EIT") is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

Summary of Financial Information. The following information is a summary of a consolidated financial information regarding China ESCO and its subsidiaries:

	Year ended		Six Months	
	December 31 (audited)		ended June 30 (unaudited)	
	2002	2003	2003	2004
Selected Income Statement Data:				
Operating revenues	\$ 2,147,897	\$ 2,904,489	\$	\$
Operating income	\$ 383,180	\$ 1,219,629	\$	\$
Net income applicable to Capital Stock	\$ 404,820	\$ 1,148,626	\$	\$
Fully diluted income per average share	\$	\$	\$	\$
Dividends per of Capital Stock	\$	\$	\$	\$
Average fully diluted shares outstanding	\$	\$	\$	\$
Selected Balance Sheet Data:				
Current assets	\$ 699,338	\$ 1,485,021	\$	\$
Total assets	\$ 991,015	\$ 1,850,679	\$	\$
Long-term debt (including current portion)	\$ -0-	\$ -0-	\$	\$
Capital stockholders equity	\$ 251,722	\$ 1,193,722	\$	\$

Management of China ESCO. Upon the closing of the reorganization of our company with China ESCO, it is expected that our management will be changed and will comprised of the following persons:

Name	Age	Position
Hou Xiao	46	Chief Executive Officer and President
Liao Jing	27	Vice President, Treasurer

		and Chief
		Financial Officer
Peng Fei	32	Vice President - Production
Fang Fang	34	Vice President - Human Resources
Zhu Na	25	Secretary

Hou Xiao (also known as "Michael") has been the Chief Executive Officer, President and the sole shareholder of China ESCO and AsiaNet since 1997. He is responsible for the overall strategic planning, management and business development of China ESCO. From June 1986 to January 2002, he was a researcher at the Hubei Academy of Social Sciences in the PRC. From August 1993 to September 1994, he was the Communications Manager of Fukuyama Holdings in New Zealand. Mr. Hou received a degree in 1990 in American culture and language at the Post Graduate School of China Academy of Social Sciences, and received a degree from Hebei Broadcasting & TV University in 1984 in Chinese language and literature.

Liao Jing (also known as "Maddy") has been the Chief Financial Officer of China ESCO and AsiaNet from February 2001 to the present. From 1999 to 2001 Mr. Liao was an accountant for Zhuai Sunrana Cosmetics Co., Ltd. in the PRC. Ms. Liao received a degree in accounting at Shanghai Lixin University of Commerce in 2001, and received a degree from the University of International Business & Economics in accounting in 2004.

Peng Fei (also known as "Likoff") has been the Production Department Manager of China ESCO and AsiaNet from May 2001 to the present. From September 1998 to May 2001, Mr. Peng was an electrical engineer for Zhuhai Coca-Cola Beverage, Ltd. in the PRC. From July 1995 to September 1998, Mr. Peng was a real estate representative for China Agriculture Group, Zhuhai Parent Co. Mr. Peng has studied Produce Process Automatization at South China University of Technology in the PRC.

Fang Fang (also known as "Sendy") has been the Human Resources Manager of China ESCO and AsiaNet from July 2001 to the present. From November 1997 to July 2001, Ms. Fang was the office supervisor of Zhuai International Financial Building Company, Ltd. Ms. Fang studied foundry operations at the Dongbei Industry Institute in the PRC.

Zhu Na (also known as "Rebecca") has been the Secretary of China ESCO and AsiaNet since 2003. Ms. Zhu received a Masters in Business Administration from the Royal Roads University of Canada in 2003. From September 1996 to July 2000 Ms. Zhu studied English and trading at The International Relationship Institute of PLA.

Reports to Security Holders

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

Item 2. Description of Property.

We neither own nor lease any office or manufacturing space. Our office space is provided rent free in Pottsboro, Texas by our president.

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

- We changed our name from Softstone Inc. to TS Electronics, Inc.
- We consolidated to 600,015 shares all outstanding shares of our common stock, effective August 14, 2003.

By written consent of the record holders of a majority of the outstanding shares, we approved the following actions, subject to our mailing an Information Statement to the non-consenting shareholders:

- We would issue 5,350,000 shares of our Common Stock to TS Electronics (China) Corp. in exchange for all its capital stock.

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

By agreement with TS Electronics (China) Corp., in January 2004 we jointly abandoned our plans for our company to acquire TS Electronics (China) Corp. We requested of the Securities and Exchange Commission authority to withdraw our Information Statement, and we have no plans to merge with or otherwise acquire that company.

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

Our common stock was admitted to trading on the OTC Bulletin Board on April 17, 2002. Its stock symbol initially was "SOFS." On August 15, 2003 the symbol was changed to "TSET". The following table shows the quarterly high and low prices of the stock since it was admitted to trading through June 30, 2004, which was before the stock symbol change. The prices reflect inter-dealer quotations without mark-up, mark-down or commissions and may not represent actual transactions.

	High	Low
Calendar 2002:		
2nd Qtr	0.51	0.11
3rd Qtr	0.25	0.06
4th Qtr	0.17	0.05
<p>® Index and each of the stocks in the S&P 500® Index will be allocated to one and only one of the Select Sector Indices.</p>		

Each constituent stock of the S&P 500® Index is assigned to a Select Sector Index on the basis of that company's sales and earnings composition and the sensitivity of the company's stock price and business results to the common factors that affect other companies in each Select Sector Index.

S&P has sole control over the removal of stocks from the S&P 500® Index and the selection of replacement stocks to be added to the S&P 500® Index. However, S&P plays only a consulting role in the Select Sector Indices.

Each Select Sector Index is calculated by S&P using a modified "market capitalization" methodology. This design ensures that each of the component stocks within a Select Sector Index is represented in a proportion consistent with its percentage with respect to the total market capitalization of that Select Sector Index. However, under certain conditions, the number of shares of a component stock within the Select Sector Index may be adjusted to conform to certain Internal Revenue Code requirements.

Calculation of the Underlying Index

Each Select Sector Index is calculated using the same methodology utilized by S&P in calculating the S&P 500® Index, using a base-weighted aggregate methodology. The daily calculation of each Select Sector Index is computed by dividing the total market value of the companies in the Select Sector Index by a number called the index divisor. A SPDR® Component Stock which has been assigned to one Select Sector Index may be determined to have undergone a transformation in the composition of its business, and that it should be removed from that Select Sector Index and assigned to a different Select Sector Index. In the event that a SPDR® Component Stock's Select Sector Index assignment should be changed, S&P will disseminate notice of the change following its standard procedure for announcing index changes, and will implement the change in the affected Select Sector Indexes on a date no less than one week after the initial dissemination of information on the sector change to the maximum extent practicable. SPDR® Component Stocks removed from and added to the S&P 500® Index will be deleted from and added to the appropriate Select Sector Index on the same schedule used by S&P for additions and deletions from the S&P 500® Index insofar as practicable.

Historical Information

The following graph sets forth the historical performance of the Reference Asset for the period from January 1, 2014 to February 4, 2019. On February 4, 2019, the closing price of the Reference Asset was \$67.74.

We obtained the Reference Asset closing share prices below from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. The historical share prices of the Reference Asset should not be taken as an indication of future performance, and no assurance can be given as to the Final Level. We cannot give you assurance that the performance of the Reference Asset will result in the return of any of your initial investment.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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Supplemental Plan of Distribution

JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and its affiliates will act as placement agents for the Notes and will receive a fee from the Issuer that will not exceed \$5.00 per \$1,000 in principal amount of the Notes, but will forgo any fees for sales to certain fiduciary accounts.

We expect that delivery of the Notes will be made against payment for the Notes on or about February 13, 2019 which is the third business day following the pricing date (this settlement cycle being referred to as “T+3”). Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on any date prior to two business days before delivery will be required, by virtue of the fact that the Notes will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement. In addition, RBCCM or another of its affiliates or agents may use this document in market-making transactions after the initial sale of the Notes, but is under no obligation to do so and may discontinue any market-making activities at any time without notice.

The value of the Notes shown on your account statement will be based on RBCCM’s estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately three months after the issue date of the Notes, the price shown on your account statement may initially be higher than RBCCM’s estimated value of the Notes. This is because the estimated value of the Notes will reflect the reduction of the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period is expected to be a higher amount, reflecting the amortization of RBCCM’s underwriting discount and our estimated profit from hedging the Notes. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect its estimated value.

The Notes are our debt securities, the return on which is linked to the performance of the Reference Asset. As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. This relatively lower implied borrowing rate, which is reflected in the economic terms of the Notes, along with the fees and expenses associated with structured notes, typically reduces the estimated initial value of the Notes at the time the terms of the Notes are set.

In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Reference Asset, and the tenor of the Notes. The economic terms of the Notes depend in part on the terms of these hedging arrangements.

The lower implied borrowing rate, the underwriting commission and the hedging-related costs relating to the Notes reduce the economic terms of the Notes to you and result in the estimated initial value for the Notes (estimated at the time the terms of the Notes are set) being less than their public offering price. See “Selected Risk Considerations—The Estimated Initial Value of the Notes Will Be Less than the Price to the Public” above.

U.S. Federal Income Tax Consequences

The following disclosure supplements, and to the extent inconsistent, supersedes, the discussion in the product prospectus supplement dated September 11, 2018 under “Supplemental Discussion of U.S. Federal Income Tax Consequences.”

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat a Note with terms described herein as a pre-paid cash-settled derivative contract in respect of the Reference Asset for U.S. federal income tax purposes, and the terms of the Notes require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the Notes for all tax purposes in accordance with such characterization. However, the U.S. federal income tax consequences of your investment in the Notes are uncertain and the Internal Revenue Service could assert that the Notes should be taxed in a manner that is different from that described in the preceding sentence.

Under Section 871(m) of the Code, a “dividend equivalent” payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments (“ELIs”) that are “specified ELIs” may be treated as dividend equivalents if such specified ELIs reference an interest in an “underlying security,” which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2021. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Reference Asset or the Notes, and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Reference Asset or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

The accompanying product prospectus supplement notes that FATCA withholding on payments of gross proceeds from a sale or redemption of Notes will only apply to payments made after December 31, 2018. That discussion is modified to reflect regulations proposed by the U.S. Treasury Department in December 2018 indicating an intent to eliminate the requirement under FATCA of withholding on gross proceeds of the disposition of financial instruments. The U.S. Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalization. Prospective investors are urged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the Notes.

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