

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

NEW CENTURY COMPANIES INC  
Form 10QSB  
August 14, 2002

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

FORM 10-QSB

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

For Quarter Ended:  
June 30, 2002

Commission File Number:  
0-7722

NEW CENTURY COMPANIES, INC.

-----  
(Exact name of Registrant as specified in its charter)

DELAWARE

061034587

-----  
(State or other jurisdiction of  
Incorporation or organization)

-----  
(IRS Employer Identification Number)

9835 Santa Fe Springs Road  
Santa Fe Springs, CA 90670

-----  
(Address of Principal Executive Offices)

(Zip Code)

(562) 906-8455

-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to filing requirements for the past 90 days.

Yes X No  
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The number of shares of Common Stock, par value \$ .10 per share, outstanding as of June 30, 2002 is 4,962,808.

Transitional Small Business Disclosure Format (check one): Yes No X  
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ITEM 1. FINANCIAL STATEMENTS

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
CONTENTS  
JUNE 30, 2002 (UNAUDITED)

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
JUNE 30, 2002 (UNAUDITED)

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ASSETS

Current Assets

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Cash	\$	331,677
Contracts receivable		464,911
Costs in excess of billings on contracts in progress		276,039
Inventory		1,590,501
Prepaid expenses and other current assets		44,466
		-----
Total current assets		2,707,594
PROPERTY AND EQUIPMENT, net		1,034,295
DEPOSITS		259,177
		-----
TOTAL ASSETS	\$	4,001,066
		=====

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

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
JUNE 30, 2002 (UNAUDITED)

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LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Book overdraft	\$	76,344
Notes payable		425,846
Current portion of capital lease obligations		45,512
Accounts payable		1,232,698
Accrued expenses		88,859

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Billings in excess of costs and estimated earnings on contracts in progress		1,512,422
		-----
Total current liabilities		3,381,681
CAPITAL LEASE OBLIGATIONS, net of current portion		27,888
		-----
Total liabilities		3,409,569
		-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Cumulative, convertible, Series B Preferred Stock, \$1 par value, 15,000,000 shares authorized 38,900 shares issued and outstanding		38,900
5%, cumulative, convertible, Series C Preferred Stock, \$1 par value, 75,000 shares authorized 46,200 shares issued and outstanding (liquidation preference of \$1,155,000)		46,200
Common stock, \$0.10 par value 6,000,000 shares authorized 4,970,527 shares issued and outstanding		497,053
Additional paid-in capital		2,801,025
Treasury stock, at cost, 164,414 shares		(164,414)
Subscription receivable		(1,087,500)
Loans to shareholders		(433,345)
Accumulated deficit		(1,106,422)
		-----
Total shareholders' equity		591,497
		-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	4,001,066
		=====

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

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002

	For the Three Months Ended June 30,		For the Six Months Ended June 30,
	2002	2001	2002
	(unaudited)	(unaudited)	(unaudited)
NET SALES	\$ 2,227,233	\$ 2,063,459	\$ 3,571,043
CONTRACT COSTS	1,824,997	1,659,349	2,874,637
	-----	-----	-----
GROSS PROFIT	402,236	404,110	696,406

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Operating expenses	465,331	351,373	864,958
	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	(63,095)	52,737	(168,552)
	-----	-----	-----
OTHER INCOME (EXPENSE)			
Interest income	10,834	-	10,834
Interest expense	(94,301)	(17,626)	(162,008)
	-----	-----	-----
Total other income (expense)	(83,667)	(17,626)	(151,174)
	-----	-----	-----
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(146,762)	35,111	(319,726)
PROVISION FOR INCOME TAXES	-	62,559	-
	-----	-----	-----
NET LOSS	(146,762)	(27,148)	(319,726)
PREFERRED STOCK DIVIDENDS	-	-	56,125
DEEMED DIVIDEND ON PREFERRED STOCK	308,029	-	308,029
	-----	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (454,791)	\$ (27,148)	\$ 683,880
	=====	=====	=====
BASIC AND DILUTED LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER COMMON SHARE	\$ (0.09)	\$ (0.01)	\$ (0.12)
	=====	=====	=====
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES USED TO COMPUTE BASIC AND DILUTED LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS PER SHARE	5,025,684	2,707,537	5,738,495
	=====	=====	=====

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

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2002

	2002	2001
	-----	-----
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (319,726)	\$ (129,283)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization of property and equipment	115,693	150,456
Amortization of consulting fees	155,031	-
Amortization of discount on notes payable	53,000	-
Interest income	(17,916)	-
(Increase) decrease in		

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Contracts receivable	(158,735)	(122,800)
Cost in excess of billings on contracts in progress	(169,485)	56,854
Inventory	(397,297)	(62,970)
Prepaid expenses and other current assets	71,383	23,524
Deferred tax assets	-	(28,256)
Increase (decrease) in		
Accounts payable	135,224	301,007
Accrued expenses	(226,526)	193,973
Billings in excess of costs and estimated earnings on contracts in progress	590,838	(440,475)
	-----	-----
Net cash used in operating activities	(168,516)	(57,970)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to officers	-	(70,221)
Purchase of property and equipment	(449,123)	(2,219)
	-----	-----
Net cash used in investing activities	(449,123)	(72,440)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Book overdraft	(11,735)	26,526
Principal payments on notes payable	(18,167)	(75,666)
Principal payments on capital lease obligations	(21,151)	(23,165)
Proceeds from issuance of preferred stock	956,605	-
	-----	-----
Net cash provided by (used in) financing activities	905,552	(72,305)
	-----	-----
Net increase (decrease) in cash	287,913	(202,715)
CASH, BEGINNING OF PERIOD	43,764	224,218
	-----	-----
CASH, END OF PERIOD	\$ 331,677	\$ 21,503
	=====	=====

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

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2002

	2002	2001
	-----	-----
	(unaudited)	(unaudited)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	\$ 86,513	\$ 27,959
	=====	=====
INCOME TAXES PAID	\$ 1,630	\$ -
	=====	=====

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### SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES

During the six months ended June 30, 2002, the Company entered into the following non-cash transactions:

- o converted 12,000 shares of Preferred Stock into 20,000 shares of common stock, reflecting an increase of \$10,000 to additional paid-in capital
- o issued 2,200 shares of Series C 5% Preferred Stock in connection with a private placement
- o acquired \$6,449 of property and equipment under capital lease obligations

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

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

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#### NOTE 1 - NATURE OF BUSINESS

##### General

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New Century Companies, Inc., a California corporation, was incorporated March 1996 and is located in Southern California. The Company (as defined in Note 3) provides after-market services, including rebuilding, retrofitting, and remanufacturing of metal cutting machinery. Once completed, a remanufactured machine is "like new" with state-of-the-art computers, and the cost to the Company's customers is approximately 40% to 50% of that of a new machine.

The Company currently sells its services by direct sales and through a network of machinery dealers across the United States. Its customers are generally medium- to large-sized manufacturing companies in various industries where metal cutting is an integral part of their businesses. The Company grants credit to its customers who are predominately located in the western United States.

##### Stock Split

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On November 26, 2001, the Company authorized a one-for-10 reverse stock split. All share and per share data have been retroactively restated to reflect the split.

Merger with InternetMercado.com, Inc.  
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On May 25, 2001, the Company entered into a merger agreement (the "Agreement") in which the Company was merged with InternetMercado.com, Inc. ("InternetMercado"). In accordance with the terms of the Agreement, the following conversions occurred:

- o Each issued and outstanding share of common stock of the new entity's newly formed, wholly owned subsidiary was converted into one share of the Company's common stock.
- o Each share of the Company's common stock was converted into shares of InternetMercado's common stock, par value \$0.10 per share (the "InternetMercado Shares") at the rate of 83.33 InternetMercado Share for each of the Company's shares amounting to an aggregate 1,500,000 InternetMercado Shares.

The transaction has been accounted for as a reverse acquisition, whereby the Company is the accounting acquirer, and the equity section has been restated to reflect the Company's current capital structure.

Name Change  
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In June 2001, the Company's name was changed from InternetMercado.com, Inc. to New Century Companies, Inc.

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

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**NOTE 2 - GOING CONCERN**

The financial information included in these financial statements is unaudited, but, in the opinion of management, reflects all normal recurring adjustments necessary for a fair presentation of the results for the interim periods. The interim results of operations and cash flows are not necessarily indicative of those results and cash flows for the entire year. These financial statements should be read in conjunction with the financial statements and notes to the financial statements contained in the Annual Report on Form 10-KSB for the year ended December 31, 2001 of the Company. In addition, the Company is in default in certain of its loans. (See Note 5.)

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation  
-----

The consolidated financial statements include the accounts of New Century Companies, Inc. and its wholly owned subsidiary, New Century Remanufacturing (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.



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### Interim Unaudited Financial Information

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The unaudited financial information furnished herein reflects all adjustments, consisting only of normal recurring adjustments, which in the opinion of management, are necessary to fairly state the Company's financial position, the results of operations, and cash flows for the periods presented. The results of operations for the six months ended June 30, 2002 are not necessarily indicative of results for the entire fiscal year ending December 31, 2002.

The information with respect to the six months ended June 30, 2002 and 2001 is unaudited.

### Revenue Recognition

-----

#### SERVICE REVENUE

Service revenues are billed and recognized in the period the services are rendered.

#### METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

The Company uses the percentage-of-completion method of accounting to account for long-term contracts and, therefore, take into account the cost, estimated earnings, and revenue to date on fixed-fee contracts not yet completed. The percentage-of-completion method is used because management considers total cost to be the best available measure of progress on the contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

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### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue Recognition (Continued)

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#### METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS (CONTINUED)

The amount of revenue recognized at the statement date is the portion of the total contract price that the cost expended to date bears to the anticipated final cost, based on current estimates of cost to complete. It is not related to the progress billings to customers. Contract costs include all materials, direct labor, machinery, subcontract costs, and allocations of indirect overhead.

Because long-term contracts extend over one or more years, changes in job performance, changes in job conditions, and revisions of estimates of cost and earnings during the course of the work are reflected in the accounting period in which the facts that require the revision become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the financial statements.

Contracts that are substantially complete are considered closed for financial statement purposes. Revenue earned on contracts in progress in excess of billings (underbillings) is classified as a current asset.

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Amounts billed in excess of revenue earned (overbillings) are classified as a current liability.

### Inventory

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Inventory is comprised primarily of work in process and is valued at the lower of cost (first-in, first-out method) or market. Cost components include material, direct labor, machinery, subcontracts, and allocations of indirect overhead.

### Income Taxes

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The Company provides for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Deferred income taxes are provided on a liability method, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Taxes (Continued)

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As of April 30, 2001, the Company's federal filing status was changed from "S" corporation to "C" corporation status. Under its "S" corporation status, any profits or losses in the Company were passed on to its shareholders and were not taxed at the corporate level. Taxes recorded on the accompanying financial statements are only those for the period from May 1, 2001 through June 30, 2002 and may not be indicative of future tax provisions.

The pro forma effects of taxes as if the Company had been taxed as a "C" corporation during the six months ended June 30, 2002 and 2001 would not have an effect on pro forma basic and diluted loss per share as a full valuation allowance was made on the deferred tax benefit.

### Loss per Share

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Loss per share is presented according to SFAS No. 128, "Earnings Per Share." Basic loss per share excludes dilution and is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The components of basic and diluted loss per share for the six months ended

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June 30, 2002 and 2001 were as follows:

	2002 ----- (unaudited)	2001 ----- (unaudited)
Numerator		
Net loss	\$ (683,880) =====	\$ (129,283) =====
Denominator		
Weighted-average number of common shares outstanding during the period	5,738,495	4,468,693
Assumed exercised stock options and warrants outstanding	*	-
Assumed conversion of cumulative, convertible Series B and C Preferred Stock	*	-
	-----	-----
COMMON STOCK AND COMMON STOCK EQUIVALENTS USED FOR DILUTED INCOME PER SHARE	5,738,495 =====	4,468,693 =====

\* The effect of outstanding stock options and preferred stock is not included as the result would be anti-dilutive.

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Reclassifications

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Certain amounts included in the prior period financial statements have been reclassified to conform with the current year presentation. Such reclassification did not have any effect on reported net loss.

#### Estimates

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The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Recent Issued Accounting Pronouncement

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In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has

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been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The Company does not expect adoption of SFAS No. 145 to have a material impact, if any, on its financial position or results of operations.

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 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 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. This statement will not have a material impact on the Company's financial statements.

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

NOTE 4 - CONTRACTS IN PROGRESS

Contracts in progress as of June 30, 2002 were as follows:

Cumulative costs to date	\$	2,658,652
Cumulative gross profit to date		2,353,040
		-----
Cumulative revenue earned		5,011,692
Less progress billings to date		6,248,075
		-----
NET OVERBILLINGS	\$	(1,236,383)
		=====

The following is included in the accompanying balance sheet under these captions as of June 30, 2002:

Costs and estimated earnings on contracts in progress in excess of billings	\$	276,039
Billings in excess of costs and estimated earnings on contracts in progress		1,512,422
		-----
NET OVERBILLINGS	\$	(1,236,383)
		=====

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### NOTE 5 - NOTES PAYABLE

As of June 30, 2002, notes payable from Citibank, which are secured by all of the Company's assets and personal guarantees of the shareholders, amounting to \$136,624 and the unsecured note payable with detachable warrants amounting to \$250,000 were in default. The Company is currently negotiating their renewal. There is not a guarantee that the Company will be able to benefit from any favorable renewal terms.

### NOTE 6 - LOANS TO SHAREHOLDERS

As of June 30, 2002, the Company had loans to certain of its shareholders for \$433,345, which bear interest at 5% per annum. There is not a specified maturity date, and it is the Company's and shareholders' intention not to reduce the balance before December 31, 2002. For the six months ended June 30, 2002, total interest income from loans to shareholders was \$10,834.

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NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2002 (UNAUDITED)

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### NOTE 7 - SHAREHOLDERS' EQUITY

#### Series B Preferred Stock

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The Company has 15,000,000 authorized shares of cumulative, convertible Series B Preferred Stock. The preferred B shares have a cumulative dividend of \$1.25 per share, which is payable on a semi-annual basis, are convertible into 1.667 shares of the Company's common stock, and do not have any voting rights. As of June 30, 2002, 38,900 shares were issued and outstanding, and accumulated dividends amounted to \$56,125 for the three months ended June 30, 2002. Cumulative dividends attributable to the Company since May 25, 2001 were \$449,248. During the six months ended June 30, 2002, 12,000 preferred shares were converted into 20,000 common shares.

#### Series C Preferred Stock

---

In March 2002, the Company authorized 75,000 shares of 5%, cumulative, convertible Series C Preferred Stock. The preferred C shares have a cumulative dividend of \$1.25 per share, which is payable on a semi-annual basis on June and December of each year to holders of record on November 30 and May 31, are convertible into 16.667 shares of the Company's common stock, and do not have any voting rights. Upon liquidation of the Company, the Series C preferred shareholder are entitled to a liquidation preference of \$25 per share, which is superior to the claim of any other shareholder. The Series C preferred shareholders are not entitled to any distributions above their liquidation preference. As of June 30, 2002, there were not any shareholders of record entitled to dividends. .

As of June 30, 2002, the Company completed the following transactions:

- o Issued 44,000 shares valued at \$25 per share for \$1,100,000 in cash

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- o Issued 2,200 shares in exchange for services rendered by the placement agent in connection with a private placement

As the Series C Preferred Stock was issued with a conversion feature at a discount to the trading value of the Company's common stock, the Company has recorded a deemed dividend to its preferred shareholders of \$308,029. The deemed dividend is reflected as an increase in the net loss attributable to common shareholders on the accompanying consolidated statements of operations.

### NOTE 8 - RELATED PARTY TRANSACTIONS

The Company received a \$1,000,000 subscription receivable from employees in exchange for 4,000,000 shares of the Company's common stock. The notes receivable were extended during May 2002 for one year at an interest rate of 10% per annum.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### OVERVIEW

On May 25, 2001, the Registrant acquired all of the outstanding capital stock of New Century Remanufacturing, Inc. in exchange for 1,500,000 shares of the Registrant's common stock. For accounting purposes, this acquisition will be treated as a recapitalization of New Century Remanufacturing, Inc. with New Century Remanufacturing, Inc. as the acquirer. Therefore following is a discussion of the results of operations of New Century Remanufacturing, Inc.

### RESULTS OF OPERATIONS

Three-month period Ended June 30, 2002 compared to the Three-month period ended  
-----  
June 30, 2001  
-----

#### REVENUE AND GROSS PROFIT MARGIN

The Company generated revenues of \$2,227,233 for the three-month period ended June 30, 2002, which was a \$163,774 or 8% increase from \$2,063,459 in the corresponding period in 2001. The increase is a result of an increase in customer's orders.

There was a slight decrease of 2% in Gross profit for the three-month period ended June 30, 2002. Gross Profit was \$402,236 or 18% of revenue, compared to \$404,110 or 20%, in the corresponding period in 2001.

Interest expense for the three-month period ended June 31, 2002, increased to \$94,301, compared to \$17,626 for the period ended June 30, 2001. This increase is the result of amortization of the discount relating to the warrants on a short-term loan obtained in December 2001.

#### OPERATING EXPENSES

Operating expenses increased by \$113,958 or 32%, from \$351,373 for the three month period ended June 30, 2001 to \$465,331 for the corresponding period

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in 2002. This increase is the result of costs associated to our move to a larger facility in February of 2002.

### NET INCOME/LOSS AND EARNINGS PER SHARE

Net loss was \$146,762 for the three-month period ended June 30, 2002 compared to a net loss of \$27,148 for the corresponding period in 2001. The increase in net loss is attributable to costs associated with the expansion of our operations and the cost incurred by moving to a larger facility.

Loss per share for the three-month period ended June 30, 2002 increased by \$0.08, from \$0.01 for the three month period ended June 30, 2001 to \$0.09 for the corresponding period in 2002. The increase was attributable to a discount on deemed dividends of \$308,029 related to private placement of our Series C 5% Convertible Preferred Shares.

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Six-month period Ended June 30, 2002 compared to the Six-month period ended June  
-----  
30, 2001  
-----

### REVENUE AND GROSS PROFIT MARGIN

For the six-month period ended June 30, 2002, total revenues were \$3,571,043, which was an increase of \$333,647 or 10% from revenues of \$3,237,396 in the corresponding period in 2001. The increase is the result of an increase in customer's orders.

For the six-month period ended June 30, 2002, gross profit was \$696,406 or 19% of revenue, compared to \$443,012 in the corresponding period in 2001, an increase by \$253,394. The increase is the result of improved productivity in manufacturing.

Interest expense for the six-month period ended June 31, 2002, increased by \$134,349. This increase is the result of amortization of the discount relating to the warrants on a short-term loan obtained in December 2001.

### OPERATING EXPENSES

For the six-month period ended June 30, 2002 operating expenses increased by \$382,881 or 79%. This increase is related to our move to a larger facility on February 2002.

### NET INCOME/LOSS AND EARNING PER SHARE

For the six-month period ended June 30, 2002, we had a net loss of \$319,726 compared to a net loss of \$129,283 for the corresponding period in 2001. The increase in net loss is attributable to costs associated with the expansion of our operations and the cost incurred by moving to a larger facility.

For the six-month period ended June 30, 2002, loss per share increase by \$0.09 from \$0.03 for the six-month period ended June 30, 2001 to \$0.12 for the corresponding period in 2002. The increase in loss per share is attributable to a discount on deemed dividends of \$308,029 related to private placement of our Series C 5% Convertible Preferred Shares.

### LIQUIDITY AND CAPITAL RESOURCES

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Our primary liquidity needs are to fund capital expenditures. We have financed our working capital requirements through a combination of internally generated cash, short-term loans and private placements.

Cash and cash equivalents were \$331,677 as of June 30, 2002. This represents an increase of \$310,174 from June 30, 2001. The increase was primarily due to proceeds from financing activities.

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We received \$905,552 from the sale of 44,000 shares of Series C 5% Convertible Preferred Shares in a private placement. These proceeds were used to purchase property and equipment and for working capital.

We intend to pursue external financing sources to meet the cash requirement of ongoing operations. Management is currently seeking to raise additional funds in the form of a equity or debt securities offering, or a combination thereof. However, there is can be no guarantee that we will raise sufficient capital to execute our business plan. To the extent that we are unable to raise sufficient capital, our business plan will require substantial modified and our operations may be curtailed. These conditions raise substantial doubt about our ability to continue as a going concern. Continuation as a going concern is dependent upon our ability to ultimately attain profitable operations, generate sufficient cash flow to meet obligations, and obtain additional financing as may be required.

### RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44 AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS. SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishments of debt to be aggregated and if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The Company does not expect adoption of SFAS No. 145 to have a material impact, if any, on its financial position or results of operations.

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 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 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. This statement will not have a material impact on



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the Company's financial statements.

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### CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial conditions and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of financial statements require management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures on the date of the financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgements. Actual results could differ from those estimates. We believe that the following critical accounting policies affect our more significant judgments and estimates in the preparation of our consolidated financial statements.

#### Revenue Recognition

##### SERVICE REVENUE

Service revenues are billed and recognized in the period the services are rendered.

##### METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

The Company uses the percentage-of-completion method of accounting to account for long-term contracts and, therefore, take into account the cost, estimated earnings, and revenue to date on fixed-fee contracts not yet completed. The percentage-of-completion method is used because management considers total cost to be the best available measure of progress on the contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

The amount of revenue recognized at the statement date is the portion of the total contract price that the cost expended to date bears to the anticipated final cost, based on current estimates of cost to complete. It is not related to the progress billings to customers. Contract costs include all materials, direct labor, machinery, subcontract costs, and allocations of indirect overhead.

Because long-term contracts extend over one or more years, changes in job performance, changes in job conditions, and revisions of estimates of cost and earnings during the course of the work are reflected in the accounting period in which the facts that require the revision become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the financial statements.

Contracts that are substantially complete are considered closed for financial statement purposes. Revenue earned on contracts in progress in excess of billings (underbillings) is classified as a current asset. Amounts billed in excess of revenue earned (overbillings) are classified as a current liability.

### INFLATION AND CHANGING PRICES

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The Company does not foresee any adverse effects on its earnings as a result of inflation or changing prices.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

None.

#### Item 2. Changes in Securities and Use of Proceeds.

In June 2002 the Company issued 44,000 shares of Series C 5% Convertible Preferred Stock to certain accredited investors for an aggregate amount of \$1,100,000. The shares were issued in a private placement pursuant to an exemption provided by Section 4(2). The net proceeds of \$905,552 were used for working capital.

In connection with the closing of the private placement of Series C 5% convertible Preferred Stock, the Company issued 2,200 shares of Series C 5% convertible Preferred Stock to West America Securities Corp. as payment for their services as Placement Agent.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Submission of Matters to a Vote of Security Holders

None.

#### Item 5. Other Information

None.

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits:

99.1 Sarbanes Oxley Certification

##### (b) Reports on Form 8-K:

None.

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SIGNATURES

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

Dated: August 14, 2002

NEW CENTURY COMPANIES, INC.

By: /s/ David Duquette

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Name: David Duquette

Title: Chairman, President and Director