

NEW CENTURY COMPANIES INC

Form 10QSB

November 12, 2003

Table of Contents

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: September 30, 2003

Commission File Number: 0-7722

NEW CENTURY COMPANIES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

061034587
(IRS Employer
Identification Number)

9835 Santa Fe Springs Road

Santa Fe Springs, CA
(Address of Principal Executive Offices)

90670
(Zip Code)

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

(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 No

The number of shares of Common Stock, par value \$.10 per share, outstanding as of September 30, 2003 was 6,895,265.

Transitional Small Business Disclosure Format (check one): Yes No

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated Financial Statements are set forth at the end of this document.

	Page
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
<u>Condensed Consolidated Balance Sheet</u>	12
<u>Condensed Consolidated Statements of Operations</u>	13
<u>Condensed Consolidated Statements of Cash Flows</u>	14-15
<u>Notes to Condensed Consolidated Financial Statements</u>	16-21
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS</u>	
<u>ITEM 3. CONTROLS AND PROCEDURES</u>	
PART II OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDING</u>	
<u>ITEM 2. CHANGES IN SECURITIES</u>	
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	
<u>ITEM 4. SUBMISSION OF MATERS TO A VOTE OF SECURITY HOLDERS</u>	
<u>ITEM 5. OTHER INFORMATION</u>	
<u>ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K</u>	

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated Financial Statements are set forth at the end of this document.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with the Company's condensed consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-QSB. Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Company's business strategy and objectives, future financial position, expectations about pending litigation and estimated cost savings, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") and involve risks and uncertainties. Although the Company believes that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, and market and general economic factors. All forward-looking statements contained in this Form 10-QSB are qualified in their entirety by this statement.

OVERVIEW

On May 25, 2001, the Company entered into a plan of Reorganization and Merger with New Century Remanufacturing, Inc. ("NCR"). Immediately prior to the merger, the Company had 50,000,000 shares authorized and 2,695,942 shares issued and outstanding. Pursuant to the merger, all of the 1,800 outstanding shares of NCR were exchanged for shares of the Company on a 1 to 833.33 basis or into 1,500,000 shares of common stock of the Company for a total of 4,195,942 shares of common stock issued and outstanding. Immediately after the merger, all then existing officers and directors of the Company resigned and the management of NCR was elected and appointed to such positions; thereby effecting a change of control. Although NCR became a wholly owned subsidiary of the Company following the transaction, because the transaction resulted in a change of control, the transaction was recorded as a reverse merger whereby NCR was considered to be the accounting acquirer of the Company.

After the reverse merger the Company changed its name to New Century Companies, Inc. The results of the Company previously filed in the past years are not included herein. The related financial statements are the results of operations for NCR.

Plan of Operations

The earnings of the Company for the three months ended September 30, 2003 were negative as a result of management's strategy of continued investment in research and development of new projects and of the corporate expenses related to compliance with the regulatory requirements of being a public company and the inability to manufacture and ship products as a result of the Company's lack of working capital. The goal of these expenditures in research and development was to position the Company as a leading manufacturer and remanufacturer of large horizontal and vertical turning machines. The Company has completed the majority of this current development effort and expects limited resources to be devoted to this area in the next fiscal year. The Company's current strategy is to expand its customer sales base with its present line of machine products. As stated below, the Company's ability to continue operations

Table of Contents

and implement its business plan depends on the raising of additional capital. No assurance can be given that funds will be available, or if available, the terms thereof.

RESULTS OF OPERATIONS

Three-month period Ended September 30, 2003 compared to the Three-month period ended September 30, 2002

REVENUE AND GROSS PROFIT MARGIN

The Company generated revenues of \$2,108,964 for the three-month period ended September 30, 2003, which was a \$966,473 or 31 % decrease from \$3,075,437 in the corresponding period in 2002. The decrease is the result of a deficiency in working capital which has limited our ability to fulfill customer orders. Additionally, the overall market for machine tools is cyclical, reflecting economic conditions, production capacity utilization, changes in tax and fiscal policies, corporate profitability and financial condition as well as the general level of business confidence. The Company anticipates an increase in customer orders for next quarter, based on the growth of overall market, but there can be no assurance of such orders.

There was a 48% decrease in gross profit for the three-month period ended September 30, 2003, due to lower revenues. Gross profit (loss) was \$342,346, compared to \$664,129 from the corresponding period in 2002. This decrease is a result of the weak economy in the United States and competitive market conditions which have dampened the demand for the Company's products.

Interest expense for the three-month period ended September 30, 2003 decreased to \$78,454, compared to \$284,834 for the period ended September 30, 2002. The decrease of \$206,380 is primarily the result of ending the amortization of the discount relating to the warrants on a short-term loan obtained in April 4, 2002 from an individual and recognized on September 30, 2003 New Century Companies' financials.

OPERATING EXPENSES

Operating expenses decreased by \$94,900 or 21%, from \$458,740 for the three month period ended September 30, 2002 to \$363,750 for the corresponding period in 2003. This decrease is a direct result of management and officers taking a reduction in their salaries.

NET INCOME/LOSS AND EARNING/LOSS PER SHARE

Net loss was \$100,725 for the three-month period ended September 30, 2003, compared to a loss of \$76,779 for the corresponding period in 2002. The increase in net loss is attributable to cash flow problems which affected the Company's ability to complete timely the manufacture and shipment of machines.

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Loss per share for the three-month period ended September 30, 2003 was at the same level compared to \$0.02 for the corresponding period in 2002.

Table of Contents

Nine-month period Ended September 30, 2003 compared to the Nine-month period ended September 30, 2002

REVENUE AND GROSS PROFIT MARGIN

For the nine-month period ended September 30, 2003, total revenues were \$5,764,936, which was an \$881,544 or 13 % decrease from \$6,646,480 in the corresponding period in 2002. The decrease is the result of a deficiency in working capital which has limited our ability to fulfill customer orders.

For the nine-month period ended September 30, 2003, gross profit was \$214,746 or 4% of revenue, compared to \$1,360,535 or 20% of revenue in the corresponding period in 2002. This decrease is a result of the weak economy in the United States and competitive market conditions which have caused the company to sell products at lower costs.

Interest expense for the nine-month period ended September 30, 2003, decrease from \$446,842 for the nine month ended September 30, 2002 to \$220,671 on 2003. The decrease of \$226,171 is the result of ending the amortization of the discount relating to the warrants on short-term loans obtained in 2002 and reduced loan amounts.

OPERATING EXPENSES

For the nine-month period ended September 30, 2003, operating expenses increased by \$274,691 or 21% from \$1,323,698 for the nine month period ended September 30, 2002, to \$1,598,389 for the nine month period ended September 30, 2003. This increase is related to the recording in the first quarter of year 2003 of a loss of a \$465,000 deposit due to a cancellation of a purchase option for the new facility leased in February 2002, increase in worker compensation expense, and property liability insurance.

NET LOSS AND LOSS PER SHARE

For the nine-month period ended September 30, 2003, we had a net loss of \$1,606,781 compared to a net loss of \$396,505 for the corresponding period in 2002. The increase in net loss is attributable to a decrease of \$264,245 in net sales, increased expenses and a deposit write off.

For the nine-month period ended September 30, 2003, loss per share increase by \$0.14 from \$(0.14) for the nine-month period ended September 30, 2002 to \$(0.28) for the corresponding period in 2002. The increase in loss per share is attributable to the operating loss, the cost of shares issued to a bridge note holder as interest expense and the cost of consulting services incurred by the Company for corporate finance and investor relation matters.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

We have financed our working capital requirements through a combination of internally generated cash and short-term loans.

Cash and cash equivalents were \$55,637 as of September 30, 2003.

At September 30, 2003, we had a stockholder's deficit of \$432,194 (excluding notes receivable from stockholders) and an accumulated deficit of \$4,309,327. Our primary liquidity need is for working capital. To date, we have financed our working capital requirements through a combination of internally generated cash and short-term loans. We intend to continue funding our current operations through sales and debt and equity financing arrangements which may be insufficient to fund our capital expenditures,

Table of Contents

working capital and other cash requirements. In order to continue operations, we must obtain financing. We are currently addressing our liquidity issue by the following actions:

Continue our aggressive program for selling inventory.

Continue to implement plans to further reduce operating costs.

Continue seeking investment capital through the public or private markets.

Secure new customer orders. Since January 2003, we have secured \$6,000,000 of new orders.

There is no guarantee that any of these strategies will enable the Company to meet its obligations for the foreseeable future. If we are not successful in implementing these strategies and if we are unable to obtain additional financing, we will be unable to continue our operations.

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 an 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 modifications 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.

Inflation and Changing Prices

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

Going Concern

The Company has incurred operating losses in the last two years, has a working capital deficit and a significant stockholders' deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Critical Account Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. The amounts of assets and liabilities reported on the balance sheet and the amounts of

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

revenues and expenses reported for each of the fiscal periods are affected by estimates and assumptions, which are used for, but not limited to, the accounting for revenue recognition, accounts receivable, doubtful accounts and inventories. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements:

Concentration of Credit Risk

The Company sells products to customers throughout the United States. The Company's ability to collect receivables is affected by economic fluctuations in the geographic areas served by the Company. Although the Company does not obtain collateral with which to secure its contracts receivable, management periodically reviews contracts receivable and assesses the financial strength of its customers and, as a consequence, believes that the receivable credit risk exposure is limited.

Table of Contents

Long-Lived Assets

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discounted operations and extends that reporting to a component of an entity that either has been disposed of (by sales, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company adopted SFAS 144 on January 1, 2002. The provision of this statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated commitments to plan to sell such assets, as defined, by management. As a result, management cannot determine the potential effects that adoption of SFAS 144 will have on the Company's financial statements with respect to future disposal decision, if any. To date, management has determined that no such impairment exists and therefore, no adjustments have been made to the carrying values of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products or services will continue which could result in impairment of long-lived assets in the future.

Revenue Recognition

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

The Company accounts for shipping and handling fees and costs in accordance with EITF 00-10 *Accounting for Shipping and Handling Fees and Costs*. Such fees and costs incurred by the Company are immaterial to the operations of the Company.

In accordance with SFAS 48, *Revenue Recognition when Right of Return Exists*, revenue is recorded net of an estimate of markdowns, price concessions and warranty costs. Such reserve is based on management's evaluation of historical experience, current industry trends and estimated costs.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 (SAB 101), *Revenue Recognition*, which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 101. The Company recognizes revenue of long-term contracts pursuant to Statement of Position 81-1, *Accounting for Performance of Construction Type and Certain Production Type Contracts*.

Table of Contents

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, takes 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 may extend over a period of time, 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 consolidated financial statements.

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

Other Significant Accounting Policies

Other significant accounting policies not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. The policies related to consolidation and loss contingencies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters are among topics currently under reexamination by accounting standards setters and regulators. Although no specific conclusions reached by these standards setters appear likely to cause a material change in the Company's accounting policies, outcomes cannot be predicted with confidence. Also see Note 1 of the Notes to Condensed Consolidated Financial Statements, Organization and Significant Accounting Policies, which discusses accounting policies that must be selected by management when there are acceptable alternatives.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures (as defined in Rules 13(a)-15(c) of the Exchange Act) include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

Within 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of September 30, 2003, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures over financial reports are effective to ensure that the information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Controls

There were no changes in the Company's internal controls over financial reports during the quarter ended September 30, 2003 that are likely to affect those controls. Thus, no corrective actions with regard to significant deficiencies or material weakness were necessary.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

During the quarter ended September 30, 2003, 10,400 shares of Series C preferred stock were converted into 173,336 shares of the Company's common stock.

Effective September 12, 2003, the Company granted to certain of its employees options to purchase an aggregate of 1,300,000 shares of its Common Stock at an exercise price of \$0.25 per share. The options were granted pursuant to the Company's 2000 Stock Option Plan and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act").

During the quarter ended September 30, 2003, the Company issued 719,989 shares of restricted common stock and 31,800 shares of Series C preferred stock collectively valued at \$262,500 (estimated based on the market price on the date of grant) to four consulting firms for services to be rendered in relation to corporate finance and investor relations for periods ranging from six months to one year. The shares were issued pursuant to Section (2) of the Act.

Item 3. Defaults Upon Senior Securities

1. A note payable to an unaffiliated third party in the amount of \$500,000 with an interest rate of 10% per annum, matured in April 2003 and is currently in default.
2. A note payable to an unaffiliated third party in the amount of \$250,000 that was in default was extended until December 31, 2003. Originally, the Company issued to the note holder warrants to purchase 100,000 shares of the Company's restricted common stock at an exercise price of \$2.00 valued at \$106,000 (based on the Black-Scholes option pricing model), which the Company has amortized to interest expense during the year ended December 31, 2002. As part of an extension agreement, the Company effectively cancelled the original 100,000 warrants and issued warrants to purchase 200,000 shares of common stock at an exercise price of \$1.00, which vested upon grant and expire in December 2003.

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:

31.1 302 Sarbanes Oxley Certification of David Duquette, Chief Executive Officer and Chief Financial Officer

32.1 906 Sarbanes Oxley Certification

(b) Reports on Form 8-K:

None.

Table of Contents

SIGNATURES

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.

November 7, 2003

/s/ David Duquette

Name: David Duquette

Title: Chief Executive Officer and Chief Financial Officer

Table of Contents**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEET**

September 30, 2003 (unaudited)

ASSETS	
Current Assets	
Cash	\$ 55,637
Contracts receivable	215,530
Inventories	1,560,702
Costs and estimated earnings on contracts in progress in excess of billings	347,642
Notes receivable from stockholders	395,309
Prepaid expenses and other current assets	109,132
	<hr/>
Total current assets	2,683,952
Property and Equipment, net	708,770
Deposits	1,960
	<hr/>
	\$ 3,394,682
	<hr/>
LIABILITIES AND STOCKHOLDERS DEFICIT	
Current Liabilities	
Bank overdraft	\$ 97,630
Accounts payable and accrued expenses	1,959,055
Dividends payable	155,250
Billings in excess of costs and estimated earnings on contracts in progress	228,167
Notes payable	1,215,000
Current portion of obligations under capital lease	88,181
	<hr/>
Total current liabilities	3,743,283
Obligations Under Capital Lease, net of current portion	83,593
	<hr/>
Total Liabilities	3,826,876
Commitments and Contingencies	
Stockholders Equity	
Cumulative, convertible, Series B preferred stock, \$1 par value; 15,000,000 shares authorized, no shares issued and outstanding	
Cumulative, convertible, Series C preferred stock, \$1 par value; 75,000 shares authorized, 63,600 shares issued and outstanding (liquidation preference of \$1,745,250)	63,600
Common stock, \$0.10 par value, 50,000,000 shares authorized; 6,895,265 shares issued and outstanding	689,527
Subscriptions receivable	(462,500)
Deferred consulting fees	(222,688)
Additional paid-in capital	3,809,194
Accumulated deficit	(4,309,327)
	<hr/>
Total stockholders deficit	(432,194)
	<hr/>

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2003 and 2002

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET SALES	\$ 2,108,964	\$ 3,075,437	\$ 5,764,936	\$ 6,646,480
COST OF SALES	1,766,618	2,411,308	5,550,190	5,285,945
GROSS PROFIT	342,346	664,129	214,746	1,360,535
OPERATING EXPENSES				
Loss of deposit			465,428	
Other operating expenses	363,750	458,740	1,132,961	1,323,698
TOTAL OPERATING EXPENSES	363,750	458,740	1,598,389	1,323,698
OPERATING LOSS	(21,404)	205,389	(1,383,643)	36,837
OPERATING INCOME (EXPENSE)				
Interest income		5,366		16,200
Interest expense	(78,454)	(284,834)	(220,671)	(446,842)
TOTAL OTHER INCOME (EXPENSE)	(78,454)	(279,468)	(220,671)	(430,642)
LOSS BEFORE PROVISION FOR INCOME TAXES	(99,858)	(74,079)	(1,604,314)	(393,805)
PROVISION FOR INCOME TAXES	867	2,700	2,467	2,700
NET LOSS	\$ (100,725)	\$ (76,779)	\$ (1,606,781)	\$ (396,505)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (140,475)	\$ (105,654)	\$ (1,704,281)	\$ (733,409)
Basic and diluted net loss available to common stockholders per common share	\$ (0.02)	\$ (0.02)	\$ (0.28)	\$ (0.14)
Basic and diluted weighted average common shares outstanding	6,150,828	5,303,897	6,007,231	5,070,930

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended September 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	\$ (1,606,781)	\$ (396,505)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	225,464	189,158
Amortization of consulting fees	55,833	237,531
Amortization of debt discount on note payable	45,000	53,000
Estimated fair market value of common and preferred stock issued for consulting services	111,812	
Estimated fair market value of stock warrants issued with notes payable and amortized to interest expense	17,350	
Interest expense		266,000
Changes in operating assets and liabilities:		
Contracts receivable	876,650	(1,353,549)
Inventories	159,352	(320,154)
Costs and estimated earnings on contracts in progress in excess of billings	5,971	(84,697)
Prepaid expenses and other current assets	(24,010)	62,335
Deposits	471,800	
Accounts payable and accrued expenses	(15,640)	349,008
Billings in excess of costs and estimated earnings on contracts in progress	168,843	(11,206)
	<u>491,644</u>	<u>(1,009,079)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Loans to officers		4,800
Purchases of property and equipment	(10,257)	(470,932)
	<u>(10,257)</u>	<u>(466,132)</u>
Net cash used in investing activities		

(Continued)

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
Cash flows from financing activities:		
Bank overdraft	7,333	(33,096)
Proceeds from the issuance of notes payable	455,000	900,000
Proceeds from the issuance of preferred stock		956,605
Principal repayments on notes payable	(900,000)	(192,613)
Principal repayments on obligations under capital lease	(68,359)	(26,250)
	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities	(506,026)	1,604,646
	<u> </u>	<u> </u>
Net (decrease) increase in cash	(24,639)	129,435
Cash at beginning of period	80,276	43,764
	<u> </u>	<u> </u>
Cash at end of period	\$ 55,637	\$ 173,199
	<u> </u>	<u> </u>

See accompanying notes to the condensed consolidated financial statements for additional disclosure of non-cash investing and financing activities.

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

New Century Companies, Inc. and Subsidiary (collectively, the Company), a California corporation, was incorporated March 1996 and is located in Southern California. The Company 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.

The Company completed a reverse merger in May 2001 and trades on the OTC Bulletin Board under the symbol NCNC.OB.

Principles of Consolidation

The condensed 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.

Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. As of September 30, 2003, the Company has negative working capital of \$ 1,454,640 (excluding notes receivable from stockholders), an accumulated deficit of \$ 4,309,327 and recurring losses from operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company intends to fund operations through increased sales and debt and equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the fiscal year ending December 31, 2003. Therefore, the Company will be required to seek additional funds to finance its long-term operations. The successful outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its

intended business plan or generate positive operating results.

In response to these problems, management has taken the following actions:

The Company continues its aggressive program for selling inventory.

The Company continues to implement plans to further reduce operating costs.

The Company is seeking investment capital through the public markets.

The Company has secured approximately \$6,000,000 of new orders from January 2003 through September 2003.

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2003 and 2002

The condensed consolidated financial statements do not include any adjustments related to recoverability and classification of assets carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Inventory

Inventories are stated at the lower of cost or net realizable value. Cost is determined under the first-in, first-out method. Inventories represent cost of work in process on units not yet under contract. Cost includes all direct materials and labor, machinery, subcontractors and allocations of indirect overhead.

Revenue Recognition

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

The Company accounts for shipping and handling fees and costs in accordance with EITF 00-10 *Accounting for Shipping and Handling Fees and Costs*. Such fees and costs incurred by the Company are immaterial to the operations of the Company.

In accordance with SFAS 48, *Revenue Recognition when Right of Return Exists*, revenue is recorded net of an estimate of markdowns, price concessions and warranty costs. Such reserve is based on management's evaluation of historical experience, current industry trends and estimated costs.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 (SAB 101), *Revenue Recognition*, which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 101. The Company recognizes revenue of long-term contracts pursuant to Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (see below).

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Because long-term contracts may extend over a period of time, 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 consolidated financial statements.

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

Basic and Diluted Loss Per Common Share

Under SFAS 128, *Earnings Per Share*, basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive (there were 2,171,583 and no additional potential common shares of September 30, 2003 and 2002, respectively). Because the Company has incurred net losses, basic and diluted loss per share are the same as additional potential common shares would be anti-dilutive.

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***Basic and Diluted Loss Per Common Share*** (continued)

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three month and nine month periods ended September 30, 2003 and 2002:

	For the Three Months Ended September 30,	
	2003	2002
Net loss	\$ (100,725)	\$ (76,779)
Current cumulative preferred dividends	(39,750)	(28,875)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(140,475)	(105,654)
Denominator for basic and diluted loss per share:		
Weighted average shares	6,150,828	5,303,897
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)
	For the Nine Months Ended September 30,	
	2003	2002
Net loss	\$ (1,606,781)	\$ (396,505)
Cumulative preferred dividends	(97,500)	(336,904)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(1,704,281)	(733,409)
Denominator for basic and diluted loss per share:		
Weighted average shares	6,007,231	5,070,930
Basic and diluted loss per share	\$ (0.28)	\$ (0.14)



Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)*Stock Based Compensation*

At September 30, 2003, the Company has one stock-based employee compensation plan and one stock-based non-employee compensation plan. The Company accounts for the employee compensation plan under the recognition and measurement principles of APB 25, and related interpretation. The Company accounts for the non-employee compensation plan under the recognition measurement principles of SFAS 123. There was no employee stock-based compensation cost recognized in net loss for the period ended September 30, 2003 and 2002. All options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	For the Nine Months Ended September 30,	
	2003	2002
Net loss applicable to common stockholders:		
As reported	\$ (1,704,281)	\$ (733,409)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards		
Pro forma	\$ (1,704,281)	\$ (733,409)
Basic and diluted net loss per share:		
As reported	\$ (0.28)	\$ (0.14)
Pro forma	\$ (0.28)	\$ (0.14)

The above pro forma effects of applying SFAS 123 are not necessarily representative of the impact on reported net loss for future years.

New Accounting Pronouncements

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Recent accounting pronouncements discussed in the notes to the December 31, 2002 and 2001 financial statements filed previously with the Securities and Exchange Commission in Form 10-KSB that were required to be adopted during the year ended December 31, 2003 did not have a significant impact on the Company's financial statements.

Reclassifications

Certain reclassifications have been made to the 2002 condensed consolidated financial statements to conform to the 2003 presentation.

Table of Contents

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002

2. CONTRACTS IN PROGRESS

Contracts in progress as of September 30, 2003 were as follows:

Cumulative costs to date	\$ 3,003,337
Cumulative gross profit to date	2,403,583
	<hr/>
Cumulative revenue earned	5,406,920
Less progress billings to date	(5,287,445)
	<hr/>
Net underbillings	\$ (119,475)
	<hr/>

The following is included in the accompanying condensed consolidated balance sheet under these captions as of September 30, 2003:

Costs and estimated earnings on contracts in progress in excess of billings	\$ 347,642
Billings in excess of costs and estimated earnings on contracts in progress	(228,167)
	<hr/>
Net underbillings	\$ (119,475)
	<hr/>

3. EQUITY TRANSACTIONS

During the quarter ended September 30, 2003, 10,400 shares of Series C preferred stock were converted into 173,336 shares of the Company's common stock.

During the quarter ended September 30, 2003, the Company issued 719,989 shares of restricted common stock and 31,800 shares of Series C preferred stock collectively valued at \$262,500 (estimated based on the market price on the date of grant) to four consulting firms for services to be rendered in relation to corporate finance and investor relations for periods ranging from six months to one year. The Company recorded the entire value of \$262,500 to deferred consulting fees and is amortizing the amount to consulting expense in the accompanying condensed consolidated statements of operations over the periods of service. As of September 30, 2003, the total unamortized consulting fees totaled \$222,688, which is recorded as a contra account to stockholder's equity (deficit) in the accompanying condensed consolidated balance sheet.

In September 2003, the Company issued options to purchase 1,300,000 shares of the Company's common stock to several employees. The exercise price of the options was greater than the estimated fair market value on the date of grant. The options begin to vest in January 2004.