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NEW CENTURY COMPANIES INC
Form 10QSB
May 15, 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:
March 31, 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 ___

The number of shares of Common Stock, par value \$.10 per share, outstanding as of March 31, 2002 is 4,960,527.

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

NEW CENTURY COMPANIES, INC.

INDEX TO FORM 10-QSB

March 31, 2002

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ITEM 1. FINANCIAL STATEMENTS

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONTENTS
March 31, 2002 (unaudited)

	Page
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet	1 - 2
Consolidated Statements of Operations	3
Consolidated Statements of Cash Flows	4 - 5
Notes to Consolidated Financial Statements	6 - 11

2

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
March 31, 2002 (unaudited)

ASSETS

Current assets

Cash	\$ 16,670
Contracts receivable	347,563
Costs in excess of billings on contracts in progress	155,664
Inventory	1,498,618
Prepaid expenses and other current assets	25,716

Total current assets	2,044,231
Property and equipment, net	771,291
Deposits	259,177

Total assets	\$3,074,699 =====

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

3

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NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
March 31, 2002 (unaudited)

LIABILITIES AND SHAREHOLDERS' DEFICIT

Current liabilities

Book overdraft	\$ 96,788
Notes payable, net of discount of \$53,000	419,910
Current portion of capital lease obligations	51,237
Accounts payable	1,291,039
Accrued expenses	271,559
Billings in excess of costs and estimated earnings on contracts in progress	1,167,821

Total current liabilities	3,298,354
---------------------------	-----------

Capital lease obligations, net of current portion	35,889

Total liabilities	3,334,243

Commitments and contingencies

Shareholders' deficit

Cumulative, convertible, Series B preferred stock, \$1 par value	
15,000,000 shares authorized	
44,900 shares issued and outstanding	44,900
Common stock, \$0.10 par value	
6,000,000 shares authorized	
4,960,527 shares issued and outstanding	496,053
Additional paid-in capital	1,420,927
Treasury stock, at cost, 7,750 shares	(7,750)
Subscription receivable	(1,087,500)
Loans to shareholders	(433,345)
Deferred consulting fees	(41,000)
Accumulated deficit	(651,829)

Total shareholders' deficit	(259,544)

Total liabilities and shareholders' deficit	\$ 3,074,699
	=====

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

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For the Three Months Ended March 31,

=====

	2002	2001
	-----	-----
	(unaudited)	(unaudited)
Net sales	\$1,343,810	\$1,200,937
Contract costs	1,049,631	1,135,035
	-----	-----
Gross profit	294,179	65,902
Operating expenses	397,999	130,704
	-----	-----
Loss from operations	(103,820)	(64,802)
Other expense		
Interest expense, net	(67,714)	(10,033)
	-----	-----
Loss before provision for income taxes	(171,534)	(74,835)
Provision for income taxes	1,630	-
	-----	-----
Net loss	(173,164)	(74,835)
Preferred stock dividends	56,125	-
	-----	-----
Net loss attributable to common shareholders	\$ (229,289)	\$ (74,835)
	=====	=====
Basic and diluted loss attributable to common shareholders per common share	\$ (0.05)	\$ (0.04)
	=====	=====
Weighted-average number of common shares used to compute basic and diluted loss attributable to common shareholders per share	4,942,749	1,761,156
	=====	=====

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

5

NEW CENTURY COMPANIES, INC
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31,

	2002	2001
	-----	-----
	(unaudited)	(unaudited)
Cash flows from operating activities		
Net loss	\$ (173,164)	\$ (74,835)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	57,448	45,218
Amortization of consulting fees	114,031	-
Amortization of discount on notes payable	53,000	-
Interest income	(17,916)	-
(Increase) decrease in		
Contracts receivable	(41,387)	191,500
Cost in excess of billings on contracts in progress	(49,110)	190

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Inventory	(305,414)	(202,078)
Prepaid expenses and other current assets	90,133	24,324
Increase (decrease) in		
Accounts payable	193,566	272,536
Accrued expenses	(43,826)	(73,210)
Billings in excess of costs and estimated earnings on contracts in progress	246,237	(284,558)
	-----	-----
Net cash provided by (used in) operating activities	123,598	(100,913)
	-----	-----
Cash flows from investing activities		
Loans to officers	-	(56,721)
Purchases of property and equipment	(121,425)	-
	-----	-----
Net cash used in investing activities	(121,425)	(56,721)
	-----	-----
Cash flows from financing activities		
Bank overdraft	8,709	5,865
Payments on notes payable	(24,102)	(29,333)
Payments on capital lease obligations	(13,874)	(14,767)
	-----	-----
Net cash used in financing activities	(29,267)	(38,235)
	-----	-----
Net decrease in cash	(27,094)	(195,869)
Cash, beginning of period	43,764	224,218
	-----	-----
Cash, end of period	\$ 16,670	\$ 28,349
	=====	=====

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

6

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31,

	2002	2001
	-----	-----
	(unaudited)	(unaudited)
Supplemental disclosures of cash flow information		
Interest paid	\$14,713	\$ 10,033
	=====	=====
Income taxes paid	\$ 1,630	\$ -
	=====	=====

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Supplemental schedule of non-cash financing activities

During the three months ended March 31, 2002, the Company entered into the following non-cash transactions:

- .. 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
- .. acquired \$6,449 of property and equipment under capital lease obligations

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

7

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (unaudited)

NOTE 1 - NATURE OF BUSINESS

General

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

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.

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:

- . 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.
- . 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

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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

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

8

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (unaudited)

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.

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.

Interim Unaudited Financial Information

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 three months ended March 31, 2002 are not necessarily indicative of results for the entire fiscal year ending December 31, 2002.

The information with respect to the three months ended March 31, 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

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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.

9

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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

Inventory

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

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

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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.

10

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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 March 31, 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 three months ended March 31, 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

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 three months ended March 31, 2002 and 2001 were as follows:

	2002	2001
	-----	-----
	(unaudited)	(unaudited)
Numerator		
Net loss	\$ (173,164)	\$ (74,835)
	=====	=====
Denominator		
Weighted-average number of common shares outstanding during the period	4,942,749	1,761,156
Assumed exercised stock options and warrants outstanding	*	-
Assumed conversion of cumulative, convertible Series B preferred stock	*	-
	-----	-----
Common stock and common stock equivalents used for diluted income per share	4,942,749	1,761,156
	=====	=====

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

11

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

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

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

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 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.

NOTE 4 - CONTRACTS IN PROGRESS

Contracts in progress as of March 31, 2002 were as follows:

Cumulative costs to date	\$ 1,402,940
Cumulative gross profit to date	1,370,428

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Cumulative revenue earned	2,773,368
Less progress billings to date	3,785,525

Net overbillings	\$ (1,012,157)
	=====

12

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (unaudited)

NOTE 4 - CONTRACTS IN PROGRESS (Continued)

The following is included in the accompanying balance sheet under these captions as of March 31, 2002:

Costs and estimated earnings on contracts in progress in excess of billings	\$ 155,664
Billings in excess of costs and estimated earnings on contracts in progress	1,167,821

Net overbillings	\$ (1,012,157)
	=====

NOTE 5 - LOANS TO SHAREHOLDERS

As of March 31, 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 three months ended March 31, 2002 and 2001, total interest income from loans to shareholders was \$5,417 and \$5,188, respectively.

NOTE 6 - SHAREHOLDERS' EQUITY

The Company has 15,000,000 authorized shares of cumulative, convertible Series B preferred stock. The preferred shares have a cumulative dividend of \$1.25 per share, which is payable on a semi-annual basis, are convertible into 1.67 shares of the Company's common stock, and do not have any voting rights. As of March 31, 2002, 44,900 shares were issued and outstanding, and accumulated dividends amounted to \$56,125 for the three months ended March 31, 2002. Cumulative dividends attributable to the Company since May 25, 2001 were \$449,248. During the three months ended March 31, 2002, 12,000 preferred shares were converted into 20,000 common shares.

NOTE 7 - 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 bear

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interest at 6% per annum. The principal and accrued interest are payable in May 2002, with an option to extend the due date for one year in return for an increase in the interest rate to 10% per annum.

13

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.

PLAN OF OPERATIONS

The loss of New Century Remanufacturing for the three-month period ended March 31, 2002 was higher than March 31, 2001 as a result of business interruption due to management decision to move in to a larger facility. The goal of these expenditures was to position New Century as a leading manufacturer and remanufacturer of large horizontal and vertical turning machines. New Century 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. Plans for expansion are expected to be funded through current working capital from ongoing sales. However, significant growth will require additional funds in the form of debt or equity, or a combination thereof. However, there can be no assurance these funds will be available.

Our growth strategy also includes strategic acquisition in addition to growing its current business. A significant acquisition will require additional financing. There can be no assurance that the Company can obtain such financing.

RESULTS OF OPERATIONS

REVENUE AND GROSS PROFIT MARGIN

The Company generated revenues of \$1,343,810 for the three-month ended March 31, 2002, which was a \$142,873 or 11% increase from \$1,200,937 in the corresponding period in 2001. This increase was primarily generated by shipments from its back log of sales.

Gross profit for the three-month period ended March 31, 2002, was \$294,179 or 22% of revenue, compared to \$65,902, in the corresponding period in 2001, an increased by \$228,277. The increase was primarily due to improved productivity in manufacturing.

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

14

Interest expense for the three-month period ended March 31, 2002, increased to \$67,714, compared to \$10,033 for the period ended March 31, 2001, primarily

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due to amortization of the discount relating to the warrants on a short term loan obtained in December 2001.

OPERATING EXPENSES

Operating expenses increased by \$267,295 or 205%, from \$130,704 for the three month period ended March 31, 2001 to \$397,999 for the corresponding period in 2002. This was due primarily to costs associated to the company's transfer to a larger facility and expenses associated with the May 2001 merger.

NET INCOME/LOSS AND EARNING PER SHARE

Net loss was \$173,164 for the three-month period ended March 31, 2002 compared to a net loss of \$74,835 for the corresponding period in 2001. The increase was attributable to costs associated with the May 2001 merger and the cost incurred by moving to a new location.

Loss per share for the three-month period ended March 31, 2002 increase by \$0.01, from \$0.04 for the three month period ended March 31, 2001 to \$0.05 for the corresponding period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

The decrease in cash for the three month period ended March 31, 2002 was \$27,094, from \$28,349 in March 31, 2001 to \$16,670 in period ended March 31, 2001.

The Company used the \$123,598 cash generated from operating activities to pay the leasehold improvements relating to the new warehouse, new office space and the machine moving expenses incurred on the transfer to the new facility and the cost attributable with the May 2001 merger.

The Company intends to pursue external financing sources to meet the cash requirement of its ongoing operations. Management is currently seeking to raise additional funding in the form of equity or debt, or a combination thereof. However, there is can be no guarantee that it will raise sufficient capital to execute its business plan. To the extent that the Company is unable to raise sufficient capital, the Company's business plan will be required to be substantially modified and its operations curtailed. These conditions raise substantial doubt about the Company's ability to continue as a going concern. the Company's continuation as a going concern is dependent upon its ability to ultimately attain profitable operations, generate sufficient cash flow to meet its obligations, and obtain additional financing as may be required.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of long-lived assets, except for certain obligations of lessees. This statement is not applicable to the Company.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, the accounting and reporting provisions of APB No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions, for the disposal of a segment of

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a business, and amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The adoption of SFAS No. 144 has not had a material impact, if any, on its financial position or results of operations.

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

15

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. This statement is not applicable to the Company.

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 accompanying notes are an integral part of these financial statements.

16

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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

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

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

17

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds.

None.

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:

None

(b) Reports on Form 8-K:

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None.

18

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.

Dated: May 16, 2002

NEW CENTURY COMPANIES, INC.

By: /s/ David Duquette

Name: David Duquette

Title: Chairman, President and Director

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

19