NEW CENTURY COMPANIES INC
Form 10QSB
May 20, 2003

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, 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)**

(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, 2003 was 5,870,550.

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

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 OF FINANCIAL CONDITION AND RESULTS 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 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 March 31, 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. The goal of these expenditures 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. 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.

Results Of Operations For the Three Months Ended March 31, 2003 Compared to March 31, 2002.

Revenues. The Company generated revenues of $1,718,140 for the three months ended March 31, 2003, which was a $374,330 increase from $1,343,810 for the three months ended March 31, 2002. This increase was primarily a result of increased selling efforts and sales to new industries such as the defense and medical industries.

Gross Profit. Gross profit for the three months ended March 31, 2003, was $(85,588) or -5% of revenues, compared to $294,179, or 21.9% for the three months ended March 31, 2002.

Net Loss. Net operating loss increased to ($954,789) for the three months ended March 31, 2003 compared to $(103,820) for the three months ended March 31, 2002 as a result of write-off of deposits and delayed production.

Interest Expense. Interest expense for the three months ended March 31, 2003, increased to $113,433 compared to $67,714, for the three months ended March 31, 2002, primarily due to a increase in short term borrowings.

Financial Condition, Liquidity, Capital Resources

The net cash decrease of the Company during the three months ended March 31, 2003 was ($37,275). The decrease is due to net corporate financing activities of ($482,958), which is primarily due to principal repayments on notes payable of $900,000. The decrease from financing activities is offset by $454,132 provided by operations. The Company is currently negotiating the terms of a $2 million dollar subordinated debt offering, which once completed could satisfy the Company s working capital requirements through 2004. However, there is no guarantee that the Company 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.

The Company is currently addressing its liquidity issue by the following actions: The Company continues its aggressive program for selling inventory that has been produced or is currently in production. The Company continues to implement plans to further reduce operating costs. The Company is continually seeking investment capital through the public markets. However, there is no guarantee that any of these strategies will enable the Company to meet its obligations for the foreseeable future.

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 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.

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 SOP 81-1.

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 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.

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 that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures 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 or in the other factors that could have significantly affected those controls subsequent to the date of the Company s most recent evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds.

In January 2003, we issued 100,000 shares of common stock to a consultant for services to be rendered which are valued at $72,000 and amortized to expense over the term of the services, as defined. The value of the shares was determined by the market price on the date of the grant. The offering was made pursuant to an exemption for private placements provided by Section 4(2) of the Securities and Exchange Act of 1934 as amended.

In connection with a note payable, the Company issued warrants to purchase 25,000 shares of common stock at an exercise price of $1.00 per share, which vested upon grant and expire in January 2008. The warrants were valued at $13,000 (estimated based on the pro-rata market value on the date of grant).

In March 2003, the Company issued warrants to purchase 5,000 shares of common stock at an exercise price of $1.25, which vested upon grant and expire in March 2008 related to the extension of the maturity date of a note payable. The warrants were valued at $4,350 (based on the Black Scholes option pricing model).

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:

Form 8-K filed on January 6, 2003 reporting Item 4.

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.

May 19, 2003	/s/ DAVID DUQUETTE	
	Name:	David Duquette
	Title:	Chief Executive Officer and Chief Financial Officer

CERTIFICATION

I, David Duquette, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of New Century Companies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 20, 2003 /s/ DAVID DUQUETTE

Name:	David Duquette
Title:	Chief Executive Officer and Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEET

March 31, 2003 (unaudited)

ASSETS	
Current Assets	
Cash	$ 43,001
Contracts receivable	866,809
Inventories	1,497,215
Costs and estimated earnings on contracts in progress in excess of billings	549,874
Notes receivable from stockholders	395,309
Prepaid expenses and other current assets	233,780
Total current assets	3,585,988
Property and Equipment, net	857,191
Deposits	8,760
	$ 4,451,939
LIABILITIES AND STOCKHOLDERS EQUITY	
Current Liabilities	
Bank overdraft	$ 84,533
Accounts payable and accrued expenses	2,123,318
Dividends payable	86,625
Billings in excess of costs and estimated earnings on contracts in progress	638,029
Notes payable	1,215,000
Current portion of obligations under capital lease	88,181
Total current liabilities	4,235,686
Obligations Under Capital Lease, net of current portion	119,758
Total Liabilities	4,355,444
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, 46,200 shares issued and outstanding (liquidation preference of $1,241,625)	46,200
Common stock, $0.10 par value, 50,000,000 shares authorized; 5,870,550 shares issued and outstanding	587,055
Subscriptions receivable	(462,500)
Deferred consulting fees	(37,083)
Additional paid-in capital	3,666,566
Accumulated deficit	(3,703,743)
Total stockholders equity	96,495
	$ 4,451,939

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31, 2003 and 2002

	2003	**2002**
	(unaudited)	(unaudited)
NET SALES	$ 1,718,140	$ 1,343,810
COST OF SALES	1,803,728	1,049,631
GROSS PROFIT	(85,588)	294,179
OPERATING EXPRESSES		
Loss of deposit	465,000	
Other operating expenses	404,201	397,999
TOTAL OPERATING EXPENSES	869,201	397,999
OPERATING LOSS	(954,789)	(103,820)
OTHER EXPENSE		
Interest expense	(113,433)	(67,714)
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,068,222)	(171,534)
PROVISION FOR INCOME TAXES	1,600	1,630
NET LOSS	$ (1,069,822)	$ (173,164)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (1,156,447)	$ (229,289)
Basic and diluted net loss available to common stockholders per common share	$ (0.20)	$ (0.05)
Basic and diluted weighted average common shares outstanding	5,853,883	4,942,749

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2003 and 2002

	2003	2002
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	$ (1,069,82)	$ (173,164)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	75,235	57,448
Amortization of consulting fees	18,750	114,031
Amortization of debt discount on note payable	45,000	53,000
Estimated fair market value of common stock issued for consulting services	72,000	
Estimated fair market value of stock warrants issued with notes payable and amortized to interest expense	17,350	
Changes in operating assets and liabilities:		
Contracts receivable	225,371	(41,387)
Inventories	222,839	(305,414)
Costs and estimated earnings on contracts in progress in excess of billings	(196,261)	(49,110)
Prepaid expenses and other current assets	(148,658)	90,133
Deposits	465,000	
Accounts payable and accrued expenses	148,623	131,824
Billings in excess of costs and estimated earnings on contracts in progress	578,705	246,237
Net cash provided by operating activities	454,132	123,598
Cash flows from investing activities:		
Purchases of property and equipment	(8,449)	(121,425)
Cash flows from financing activities:		
Bank overdraft	(5,764)	8,709
Proceeds from the issuance of notes payable	455,000	
Principal repayments on notes payable	(900,000)	(24,102)
Principal repayments on obligations under capital lease	(32,194)	(13,874)
Net cash used in financing activities	(482,958)	(29,267)
Net decrease in cash	(37,275)	(27,094)
Cash at beginning of period	80,276	43,764
Cash at end of period	$ 43,001	$ 16,670

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 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 with a publicly traded shell company 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 March 31, 2003, the Company has negative working capital of $649,698, an accumulated deficit of $3,703,743 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.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Going Concern (continued)

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 $3,000,000 of new orders from January 2003 through March 2003.

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.

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 SOP 81-1 (see below).

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 870,015 and no additional potential common shares of March 31, 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.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 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 periods ended March 31, 2003 and 2002:

	2003	**2002**
Net loss	$ (1,069,822)	$ (173,164)
Cumulative preferred dividends	(86,625)	(56,125)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(1,156,447)	(229,289)
Denominator for basic and diluted loss per share:		
Weighted average shares	5,853,883	4,942,749
Basic and diluted loss per share	$ (0.20)	$ (0.05)

Stock Based Compensation

At March 31, 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 fiscal 2002 and 2001, respectively. 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.

	2003	2002
Net loss applicable to common stockholders:		
As reported	$ (1,156,447)	$ (229,289)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards		

Pro forma	$ (1,156,447)	$ (229,289)
Basic and diluted net loss per share:		
As reported	$ (0.17)	$ (0.05)
Pro forma	$ (0.17)	$ (0.05)

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Based Compensation (continued)

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

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 2003 condensed consolidated financial statements to conform to the 2002 presentation.

2. CONTRACTS IN PROGRESS

Contracts in progress as of March 31, 2003 were as follows:

Cumulative costs to date	$	2,653,269
Cumulative gross profit to date		2,416,632
Cumulative revenue earned		5,069,901
Less progress billings to date		(5,158,056)
Net overbillings	$	(88,155)

The following is included in the accompanying condensed consolidated balance sheet under these captions as of March 31, 2003:

Costs and estimated earnings on contracts in progress in excess of billings	$ 549,874
Billings in excess of costs and estimated earnings on contracts in progress	(638,029)
Net overbillings	$ (88,155)

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2003 and 2002

3. LEASE DEPOSIT

The Company leases its office and warehouse facility under a non-cancelable operating lease agreement. The lease agreement included a provision in which the Company could purchase the land and building (the Property) for $3,050,000 from the current landlord/owner, as amended. During the year ended December 31, 2001, the Company entered into a note payable with the prior landlord/owner of the Property in the amount of $215,000, as a condition of sale of the Property to the current landlord/owner and as a deposit toward the eventual purchase of the Property and deposited an additional $250,000 directly into escrow. The deposits totaling $465,000 are non-refundable. In March 2003, a third party purchased the Property. Therefore, as the Company has no legal claim for the deposits, such amounts have been expensed in the accompanying condensed consolidated statements of operations.

4. NOTES PAYABLE

On January 30, 2003, the Company entered into a note payable agreement (the Note) with two individuals in the amount of $500,000 with an interest rate of 10% per annum, which matures in April 2003. The note was issued with a discount of $45,000, which the Company amortized to interest expense in the accompanying condensed consolidated statements of operations. In connection with the Note, the Company issued warrants to purchase 25,000 shares of common stock at an exercise price of $1.00 per share, which vested upon grant and expire in January 2008. The warrants were valued at $13,000 (estimated based on the pro-rata market value on the date of grant), which the Company amortized to interest expense in the accompanying condensed consolidated statements of operations.

5. EQUITY TRANSACTIONS

Common Stock

In January 2003, the Company issued 100,000 shares of common stock to a consultant for services to be rendered valued at $72,000 (estimated based on the market price on the date of grant) and amortized to expense over the term of the services, as defined.

Stock Options and Warrants

In March 2003, the Company issued warrants to purchase 5,000 shares of common stock at an exercise price of $1.25, which vested upon grant and expire in March 2008 related to the extension of the maturity date of a note payable. The warrants were valued at $4,350 (based on the Black Scholes option pricing model) and are included as interest expense in the accompanying condensed consolidated statements of operations.