NEW CENTURY COMPANIES INC
Form 10QSB
November 19, 2001

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:	Commission File Number:
September 30, 2001	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)

9515 Sorensen Avenue
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 September 30, 2001 is 48,881,909.

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

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

New Century Companies, Inc.

INDEX TO FORM 10-QSB

September 30, 2001

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Set forth below are the New Century Companies, Inc. and Subsidiary Consolidated Financial Statements as of September 30, 2001 (Unaudited) and the results of operations For The Three and Six Months Ended September 30, 2001 And 2000 (Unaudited).

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
September 30, 2001 (unaudited)

ASSETS

Current assets	
Cash	$ 37,977
Contracts receivable	585,243
Costs in excess of billings on contracts in progress	82,138
Inventory	1,081,792
Prepaid expenses and other current assets	4,409
Deferred tax assets	3,479
Total current assets	1,795,038
Property and equipment, net	761,820
Deposits	9,177
Total assets	$ 2,566,035

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

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
September 30, 2001 (unaudited)

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities	
Book overdraft	
Accounts payable	
Accrued expenses	
Billings in excess of costs on contracts in progress	
Notes payable	
Current portion of capital lease obligations	
Total current liabilities	
Capital lease obligations, net of current portion	
Total liabilities	

Commitments and contingencies

Stockholders' deficit
Cumulative, convertible Series B preferred stock, $1 par value
15,000,000 shares authorized
100,900 shares issued and outstanding
Common stock, $0.10 par value
50,000,000 shares authorized
47,959,418 shares issued
48,881,909 shares outstanding
Treasury stock at cost
77,509 shares held
Subscription receivable
Loans to stockholders
Retained earnings

Total stockholders' deficit

Total liabilities and stockholders' deficit

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

NEW CENTURY COMPANIES, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended September 30,

	For the Three Months Ended September 30,		For the Si[x Months Ended] Septe[mber 30,]
	2001	2000	2001
	(unaudited)	(unaudited)	(unaudited)
Net sales	$ 1,798,260	$ 2,264,515	$ 3,861,719
Contract costs	1,204,065	1,865,559	2,863,414
Gross profit	594,195	398,956	998,305
Operating expenses	426,412	192,588	777,785
Income from operations	167,783	206,368	220,520
Other expense			
Interest expense	(8,551)	(16,061)	(26,177
Income before provision for income taxes	159,232	190,307	194,343

Provision for income taxes	68,088	-	130,347
Net income	$ 91,144	$ 190,307	$ 63,996
Basic earnings per common share	$ 0.002	$ 0.01	$ 0.002
Diluted earnings per common share	$ 0.002	$ 0.01	$ 0.001
Weighted-average number of common shares used to compute basic earnings per share	46,068,114	15,000,000	36,613,691
Weighted-average number of common shares used to compute diluted earnings per share	53,165,646	15,000,000	43,711,224

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

NEW CENTURY COMPANIES, INC.

AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended September 30,

	2001 (unaudited)
Cash flows from operating activities	
Net income	$ 63,996
Adjustments to reconcile net income to net cash provided by (used in) operating activities	
Depreciation and amortization	100,557
(Increase) decrease in	
Contracts receivable	(517,743)
Cost in excess of billings on contracts in progress	9,812
Inventory	(189,875)
Prepaid expenses and other current assets	(799)
Deferred tax assets	(3,479)
Increase (decrease) in	
Accounts payable	117,941
Accrued liabilities	372,626

Billings in excess of costs on contracts in progress	(60,263)
Net cash provided by (used in) operating activities	(107,227)
Cash flows from investing activities	
Loans to stockholders	(85,900)
Purchases of property and equipment	(3,151)
Net cash used in investing activities	(89,051)
Cash flows from financing activities	
Book overdraft	73,572
Proceeds from note payable	-
Payments on note payable	(101,167)
Payments on capital lease obligations	(17,361)
Issuance of common stock	250,000
Net cash provided by (used by) financing activities	205,044
Net increase (decrease) in cash	8,766
Cash, beginning of period	29,211
Cash, end of period	$ 37,977

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

NEW CENTURY COMPANIES, INC.

AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended September 30,

	2001 (unaudited)
Supplemental disclosures of cash flow information	
Interest paid	$ 26,177
Income taxes paid	$ -

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

NOTE 1 - NATURE OF BUSINESS

Organization

New Century Remanufacturing, Inc. ("Remanufacturing"), a California corporation, was incorporated March 1996 and is located in Southern California. It is currently the subsidiary of New Century Companies, Inc. ("New Century") (collectively, the "Company"). 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 customer is approximately 40% to 50% of that of a new machine.

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

On May 25, 2001, Remanufacturing effected a merger, whereby Remanufacturing was acquired by the InternetMercado.com, Inc. ("InternetMercado") for certain shares of stock. In connection with the merger, substantially all of the assets and liabilities of InternetMercado were assigned or transferred out of the Company, and the name was changed to New Century Companies, Inc.

The transaction has been accounted for as a reverse acquisition, whereby the results of operations have been retroactively restated to reflect those of New Century, and the equity section of New Century was restated to reflect the capital structure of the Company.

Merger

On May 25, 2001, InternetMercado entered into a merger agreement (the "Agreement") with Remanufacturing. At the time of the merger, the authorized capital of Remanufacturing consisted of 1,000,000 shares of capital stock, $1 par value per share, of which 18,000 shares were issued and outstanding.

In accordance with the terms of the Agreement, the following conversions occurred:

- Each issued and outstanding share of common stock of InternetMercado's newly formed, wholly owned subsidiary was converted into one share of Remanufacturing's common stock.

- Each Remanufacturing's share was converted into shares of the Company's common stock, par value $0.10 per share (the "Company Shares"), at the rate of 833.3333 Company Share for each Remanufacturing share amounting to an aggregate 15,000,000 Company Shares.

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

NOTE 2 - BASIS OF PRESENTATION

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 fiscal year ended March 31, 2001 (the 2001 Form 10-KSB) of the Company.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of New Century and its wholly owned subsidiary, Remanufacturing. All significant inter-company accounts and transactions have been eliminated in consolidation.

Going Concern Issues

The Company has received a report on its financial statements for the year ended March 31, 2001 from its independent auditors that includes an explanatory paragraph describing the Company's uncertainty to continue as a going concern. These financial statements contemplate the ability to continue as such and do not include any adjustments that might result from this uncertainty. In addition, the Company is not in compliance with their debt convenant. As such, all the liabilities under notes payable are classified as current.

Method of Accounting for Long-Term Contracts

The accompanying financial statements have been prepared using the percentage-of-completion method of accounting and, therefore, take into account the cost, estimated earnings, and revenue to date on fixed-fee contracts not yet completed.

This 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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting for Long-Term Contracts (Continued)

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) or market. Cost components include material, direct labor, machinery, subcontracts, and allocations of indirect overhead.

Fair Value of Financial Instruments

The Company measures financial assets and liabilities in accordance with generally accepted accounting principles. For the Company's financial instruments, including cash, contracts receivable, accounts payable, and accrued expenses, the carrying amounts approximate fair value due to their short maturities. The amounts shown for notes payable and capital lease obligations also approximate fair value because current interest rates offered to the Company for debt of similar maturities are substantially the same.

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 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.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

As of April 30, 2001, New Century changed its federal filing status from "S" corporation to "C" corporation status. Under its "S" corporation status, any profits or losses in the Company were passed on to its stockholders 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 September 30, 2001 and may not be indicative of future tax provisions.

The pro forma effects of taxes as if the Company had been taxed as a "C" corporation during the six months ended September 30, 2001 and 2000 are as follows:

	2001	2000
Income before provision for income taxes, as reported	$ 194,343	$ 251,
Pro forma provision for income taxes	78,000	101,
Pro forma net income	$ 116,343	$ 150,
Pro forma basic and diluted earnings per share	$ 0.003	$ 0

Earnings per Share

Earnings per share is presented according to SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings 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. SFAS No. 128 also requires dual presentation of basic and diluted earnings per share on the face of the income statements and a reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per Share

The components of basic and diluted earnings per share for the six months ended September 30, 2001 and 2000 were as follows:

	2001

Numerator	
Net income	$ 63,996
Denominator	
Weighted-average number of common shares outstanding during the period	36,613,691
Assumed exercised stock options and warrants outstanding	5,415,833
Assumed conversion of cumulative, convertible Series B preferred stock	1,681,700
Common stock and common stock equivalents used for diluted earnings per share	43,711,224

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 Pronouncements

In June 2001, the Financial Accounting Standards Board ("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.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Issued Accounting Pronouncements (Continued)

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 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 Company does not expect adoption of SFAS No. 144 to have a material impact, if any, on its financial position or results of operations.

NOTE 4 - STOCKHOLDERS' DEFICIT

Preferred Stock

The Series B shares have a cumulative dividend of $1.25 per share on a semi-annual basis, are convertible into 16.667 shares of the Company's common stock, and have no voting rights. For the six months ended September 30, 2001, the cumulative dividend of the Series B preferred stock was $63,063.

Common Stock

During the six months ended September 30, 2001, 2,000,000 shares of common stock were issued for $250,000.

NOTE 5 - 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 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.

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 15,000,000 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 earnings of New Century Remanufacturing for the three-month period ended September 30, 2001 was lower than September 30, 2000 as a result of management's strategy to invest in research and development for the development of new projects and additional costs associated with the merger. 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 accompanying notes are an integral part of these financial statements.

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 our 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 $1,798,260 for the three-month ended September 30, 2001, which was a $466,255 or 20% decrease from $2,264,515 in the corresponding period in 2000. This decrease was primarily generated by adverse economic conditions.

Gross profit for the three-month period ended September 30, 2001, was $594,195 or 33% of revenue, compared to $398,956, in the corresponding period in 2000, increased by $195,239. This increase was primarily due to improved productivity for manufacturing.

Interest expense for the three-month period ended September 30, 2001, decreased to $8,551, compared to $16,061, period ended September 30, 2000, primarily due to a decrease in prime interest rate.

OPERATING EXPENSES

Operating expenses increased by $233,824 or 43% to $426,412 for the three-month period ended September 30, 2001 from $192,588 for corresponding period in year 2000. This was due primarily to additional costs associated with the merger and accounting and legal fees.

NET INCOME/LOSS AND EARNING PER SHARES

Net income was $91,144 for the three-month period ended September 30, 2001 compared to net income of $190,307 for the corresponding period in 2000. The decrease was attributable to additional costs associated with the merger and accounting and legal fees.

Earning/loss per shares for the three-month period ended September 30, 2001 decreased by $0.008 to $(0.002), as compared to $0.01 for the corresponding period in the year 2000.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2001

REVENUE AND GROSS PROFIT MARGIN

The Company generated revenues of $3,861,719 for the six-month period ended September 30, 2001, which was a $153,424 or 3.8% decrease from $4,015,143 in the corresponding period in 2000. This decrease was primarily generated by adverse economic conditions.

Gross profit for the six-month period ended September 30, 2001, was $998,305 or 25% of revenue, compared to $663,529, in the corresponding period in 2000, increased by $334,776. This increase was primarily due to improved productivity for manufacturing.

Interest expense for the six-month period ended September 30, 2001, decreased to $26,177, compared to $26,702 for the corresponding period in 2000, primarily due to a decrease in prime interest rate.

OPERATING EXPENSES

Operating expenses increased by $392,777 or 50% to $777,785 for the six-month period ended September 30, 2001 from $385,008 for corresponding period in year 2000. This was due primarily to additional costs associated with the merger and accounting and legal fees.

NET INCOME/LOSS AND EARNING PER SHARES

Net income was $63,996 for the six-month period ended September 30, 2001 compared to net income of $251,819 for the corresponding period in 2000. The decrease was attributable to additional costs associated with the merger and accounting and legal fees.

Earning/loss per shares for the six-month period ended September 30, 2001 decreased to $0.002, as compared to $0.02 for the corresponding period in the year 2000.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in the operations of the Company were $107,227 for the six months period ended 9/30/01. This represents a decrease from the corresponding period in 2000. The decrease is due to decreased sales incurred by the Company during the six-month period. The Company used the cash received from operating activities for working capital. In connection with the Merger, the Company issued 15,000,00 shares of common stock in exchange for all of the outstanding stock of New Century Remanufacturing. 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.

INFLATION AND CHANGING PRICES

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

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:

None.

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: November 19, 2001

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.