NEW CENTURY COMPANIES INC
Form 10QSB
August 19, 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: June 30, 2003

Commission File Number: 0-7722

NEW CENTURY COMPANIES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**061034587**
(State or other jurisdiction	**(IRS Employer**
of Incorporation or organization)	**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 June 30, 2003 was 6,001,940.

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.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEET

June 30, 2003 (unaudited)

ASSETS	
Current Assets	
Cash	$ 20,660
Contracts receivable	547,439
Inventories	1,542,765
Costs and estimated earnings on contracts in progress in excess of billings	634,565
Notes receivable from stockholders	395,309
Prepaid expenses and other current assets	152,544
Total current assets	3,293,282
Property and Equipment, net	783,915
Deposits	8,760
	$ 4,085,957
LIABILITIES AND STOCKHOLDERS EQUITY	
Current Liabilities	
Bank overdraft	$ 127,821
Accounts payable and accrued expenses	1,926,731
Dividends payable	115,500
Billings in excess of costs and estimated earnings on contracts in progress	874,653
Notes payable	1,215,000
Current portion of obligations under capital lease	88,181
Total current liabilities	4,347,886
Obligations Under Capital Lease, net of current portion	97,767
Total Liabilities	4,445,653
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, 42,200 shares issued and outstanding (liquidation preference of $1,170,500)	42,200
Common stock, $0.10 par value, 50,000,000 shares authorized; 6,001,940 shares issued and outstanding	600,194
Subscriptions receivable	(462,500)
Deferred consulting fees	(28,165)
Additional paid-in capital	3,657,427
Accumulated deficit	(4,168,852)
Total stockholders deficit	(359,696)
	$ 4,085,957

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended June 30, 2003 and 2002

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET SALES	$ 1,937,832	$ 2,227,233	$ 3,655,972	$ 3,571,043
COST OF SALES	1,979,844	1,824,997	3,783,572	2,874,637
GROSS (LOSS) PROFIT	(42,012)	402,236	(127,600)	696,406
OPERATING EXPENSES				
Loss of deposit	428		465,428	
Other operating expenses	365,010	465,331	769,211	864,958
TOTAL OPERATING EXPENSES	365,438	465,331	1,234,639	864,958
OPERATING LOSS	(407,450)	(63,095)	(1,362,239)	(168,552)
OTHER INCOME (EXPENSE)				
Interest income		10,834		10,834
Interest expense	(28,784)	(94,501)	(142,217)	(162,008)
TOTAL OTHER INCOME (EXPENSE)	(28,784)	(83,667)	(142,217)	(151,174)
LOSS BEFORE PROVISION FOR INCOME TAXES	(436,234)	(146,762)	(1,504,456)	(319,726)
PROVISION FOR INCOME TAXES			1,600	
NET LOSS	$ (436,234)	$ (146,762)	$ (1,506,056)	$ (319,726)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (465,109)	$ (454,791)	$ (1,563,806)	$ (683,880)
Basic and diluted net loss available to common stockholders per common share	$ (0.08)	$ (0.09)	$ (0.26)	$ (0.12)
Basic and diluted weighted average common shares outstanding	5,946,383	5,025,684	5,935,433	5,738,495

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2003 and 2002

	2003	2002
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	$ (1,506,056)	$ (319,726)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	150,319	115,693
Amortization of consulting fees	27,668	155,031
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	
Interest income		(17,916)
Changes in operating assets and liabilities:		
Contracts receivable	544,741	(158,735)
Inventories	177,289	(397,297)
Costs and estimated earnings on contracts in progress in excess of billings	(280,952)	(169,485)
Prepaid expenses and other current assets	(67,422)	71,383
Deposits	465,000	
Accounts payable and accrued expenses	(47,964)	(91,302)
Billings in excess of costs and estimated earnings on contracts in progress	815,329	590,838
Net cash provided by operating activities	412,302	(168,516)
Cash flows from investing activities:		
Purchases of property and equipment	(10,257)	(449,123)
Net cash used in investing activities	(10,257)	(449,123)

(Continued)

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2003 and 2002

	2003	**2002**
	(unaudited)	(unaudited)
Cash flows from financing activities:		
Bank overdraft	37,524	(11,735)
Proceeds from the issuance of notes payable	455,000	
Principal repayments on notes payable	(900,000)	(18,167)
Principal repayments on obligations under capital lease	(54,185)	(21,151)
Proceeds from issuance of preferred stock		956,605
Net cash (used in) provided by financing activities	(461,661)	(905,552)
Net decrease in cash	(59,616)	(287,913)
Cash at beginning of period	80,276	43,764
Cash at end of period	$ 20,660	$ 331,677

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

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended June 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

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

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

Principles of Consolidation

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

Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. As of June 30, 2003, the Company has negative working capital of $1,449,913 (excluding notes receivable from stockholders), an accumulated deficit of $4,168,852 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 June 30, 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 June 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 Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (see below).

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended June 30, 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 871,583 and no additional potential common shares of June 30, 2003 and 2002, respectively). Because the Company has incurred net losses, basic and diluted loss per share are the same as additional potential common shares would be anti-dilutive.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended June 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic and Diluted Loss Per Common Share (continued)

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

	For the Three Months Ended June 30,	
	2003	2002
Net loss	$ (436,234)	$ (146,762)
Current cumulative preferred dividends	(28,875)	(308,029)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(465,109)	(454,791)
Denominator for basic and diluted loss per share:		
Weighted average shares	5,946,383	5,025,684
Basic and diluted loss per share	$ (0.08)	$ (0.09)

	For the Six Months Ended June 30,	
	2003	2002
Net loss	$ (1,506,056)	$ (319,726)
Cumulative preferred dividends	(57,750)	(364,154)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(1,563,806)	(683,880)
Denominator for basic and diluted loss per share:		
Weighted average shares	5,935,433	5,738,495
Basic and diluted loss per share	$ (0.26)	$ (0.12)

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended June 30, 2003 and 2002

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Based Compensation

At June 30, 2003, the Company has one stock-based employee compensation plan and one stock-based non-employee compensation plan. The Company accounts for the employee compensation plan under the recognition and measurement principles of APB 25, and related interpretation. The Company accounts for the non-employee compensation plan under the recognition measurement principles of SFAS 123. There was no employee stock-based compensation cost recognized in net loss for 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.

	For the Six Months Ended June 30,	
	2003	**2002**
Net loss applicable to common stockholders:		
As reported	$ (1,563,806)	$ (683,880)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards		
Pro forma	$ (1,563,806)	$ (683,880)
Basic and diluted net loss per share:		
As reported	$ (0.26)	$ (0.12)
Pro forma	$ (0.26)	$ (0.12)

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

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended June 30, 2003 and 2002

2. CONTRACTS IN PROGRESS

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

Cumulative costs to date	$ 3,201,002
Cumulative gross profit to date	2,490,991
Cumulative revenue earned	5,691,993
Less progress billings to date	(5,932,081)
Net overbillings	$ (240,088)

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

Costs and estimated earnings on contracts in progress in excess of billings	$ 634,565
Billings in excess of costs and estimated earnings on contracts in progress	(874,653)
Net overbillings	$ (240,088)

3. NOTES PAYABLE

A note payable agreement with a third party in the amount of $500,000 with an interest rate of 10% per annum, matured in April 2003 and is currently in default.

A note payable agreement with a third party in the amount of $250,000 with an interest rate of 8% per annum, matured in April 2003 and is currently in default.

During the quarter ended June 30, 2003, a note payable agreement with a third party in the amount of $250,000 that was in default was extended until December 31, 2003. Originally, the Company issued to the noteholder warrants to purchase 100,000 shares of the Company s restricted common stock at an exercise price of $2.00 valued at $106,000 (based on the Black-Scholes option pricing model), which the Company has amortized to interest expense during the year ended December 31, 2002. As part of the extension agreement, the Company effectively cancelled the original 100,000 warrants and issued warrants to purchase 200,000 shares of common stock at an exercise price of $1.00, which vested upon grant and expire in December 2003.

4. EQUITY TRANSACTIONS

During the quarter ended June 30, 2003, 4,000 shares of Series C preferred stock were converted into 66,669 shares of the Company s common stock.

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 Company or we). 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 June 30, 2003 were negative as a result of management s strategy of continued investment in research and development of new projects and of the corporate expenses related to compliance with the regulatory requirements of being a public company and the inability to manufacture and ship products as a result of the Company s lack of working capital. The goal of these expenditures in research and development was to position the Company as a leading manufacturer and remanufacturer of large horizontal and vertical turning machines. The Company has completed the majority of this current development effort and expects limited resources to be devoted to this area in the next fiscal year. The Company s current strategy is to expand its customer sales base with its present line of machine products. As stated below, the Company s ability to continue operations and implement its business plan depends on the raising of additional capital. No assurance can be given that funds will be available, or if available, the terms thereof.

Results of Operations

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

REVENUE AND GROSS PROFIT MARGIN

The Company generated revenues of $1,937,832 for the three-month period ended June 30, 2003, which was a $289,401 or 13% decrease from $2,227,233 in the corresponding period in 2002. The decrease is the result of a deficiency in working capital which has limited our ability to fulfill customer orders. Additionally, the overall market for machine tools is cyclical, reflecting economic conditions, production capacity utilization, changes in tax and fiscal policies, corporate profitability and financial condition as well as the general level of business confidence. The Company cannot predict for what period of time the decreased level of customer purchases will continue, whether the level of customer purchases will decline further, or the level at which incoming orders will be.

There was a decrease of 110% in gross profit (loss) for the three-month period ended June 30, 2003. Gross profit (loss) was $(42,012), compared to $402,236 or 18% of revenue, in the corresponding period in 2002. This decrease is a result of an increase in cost of sales of $154,847 or 8% compared with the period ended June 30, 2002 and is also the result of the weak economy in the United States and competitive market conditions which have dampened the demand for the Company s products.

Interest expense for the three-month period ended June 31, 2003 decreased to $28,784, compared to $94,501 for the period ended June 30, 2002. The decrease of $65,717 is primarily the result of ending the amortization of the discount relating to the warrants on a short-term loan obtained in December 2001.

OPERATING EXPENSES

Operating expenses decreased by $100,321 or 22%, from $465,331 for the three month period ended June 30, 2002 to $365,010 for the corresponding period in 2003. This decrease is a direct result of management taking a reduction in their salaries.

NET INCOME/LOSS AND EARNINGS PER SHARE

Net loss was $436,234 for the three-month period ended June 30, 2003 compared to a net loss of $146,762 for the corresponding period in 2002. The increase in net loss is attributable to a decrease in working capital which directly affected the Company s availability to ship products. Due to the working capital deficiency, the Company has been unable to fulfill customers orders.

At June 30, 2003 we had a backlog of $3,000,000. The Company anticipates that it will begin shipping the backlogged orders if and when it addresses its working capital deficiency.

Loss per share for the three-month period ended June 30, 2003 was at the same level compared to $0.08 for the corresponding period in 2002.

Six-month period Ended June 30, 2003 compared to the Six-month period ended June 30, 2002

REVENUE AND GROSS PROFIT MARGIN

For the six-month period ended June 30, 2003, total revenues were $3,655,972, which was an increase of $84,929 or 2% from revenues of $3,571,043 in the corresponding period in 2002. This is the result of an increase in customers orders for the first quarter of year 2003.

For the six-month period ended June 30, 2003, gross profit was negative $127,600, compared to a positive $696,406 in the corresponding period in 2002, a decrease of $824,006. This decrease is a result of an increase of cost of sales of $908,935 or 32% compared with the period ended June 30, 2002.

Interest expense for the six-month period ended June 30, 2003 decreased by $19,791. This decrease is primarily the result of ending the amortization of the discount relating to the warrants on a short-term loan obtained in December 2001.

OPERATING EXPENSES

For the six-month period ended June 30, 2003, operating expenses increased by $369,681 or 43%. This increase is related to the recording in the first quarter of year 2003 of a loss of a $465,000 deposit due to a cancellation of a purchase option for the new facility leased in February 2002.

NET INCOME/LOSS AND EARNING PER SHARE

For the six-month period ended June 30, 2003, we had a net loss of $1,506,056 compared to a net loss of $319,726 for the corresponding period in 2002. The increase in net loss is attributable to cash flow problems which affected the Company s ability to complete the manufacture of and to ship products.

Loss per share increased by $0.14 from $0.12 for the six-month period ended June 30, 2002 to $0.26 for the corresponding period in 2003.

Financial Condition, Liquidity, Capital Resources

Cash and cash equivalents were $20,660 as of June 30, 2003. At June 30, 2003 we had negative working capital of $1,449,913 (excluding notes receivable from stockholders) and an accumulated deficit of $4,168,852. Our primary liquidity need is for working capital. To date, we have financed our working capital requirements through a combination of internally generated cash, and short-term loans. We intend to continue funding our current operations through sales and debt and equity financing arrangements which may be insufficient to fund our capital expenditures, working capital and other cash requirements. In order to continue operations, we must obtain financing. We are currently addressing our liquidity issue by the following actions:

Continue our aggressive program for selling inventory.

Continue to implement plans to further reduce operating costs.

Continue seeking investment capital through the public or private markets.

Secure new customer orders. Since January 2003 we have secured $3,000,000 of new orders.

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

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 Accounting 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 Statement of Position 81-1, *Accounting for Performance of Construction Type and Certain Production Type Contracts*.

Method of Accounting for Long-Term Contracts

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

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

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

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

Other Significant Accounting Policies

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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 June 30, 2003, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures over financial reporting are effective to ensure that the information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds.

During the quarter ended June 30, 2003, 4,000 shares of Series C preferred stock were converted into 66,669 shares of the Company s common stock.

Item 3. Defaults Upon Senior Securities

1. A note payable to an unaffiliated third party in the amount of $500,000 with an interest rate of 10% per annum, matured in April 2003 and is currently in default.

2. A note payable to an unaffiliated third party in the amount of $250,000 with an interest rate of 8% per annum, matured in April 2003 and is currently in default.

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

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

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

32.1 906 Sarbanes Oxley Certification

(b) Reports on Form 8-K:

None.

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.

August 15, 2003		/s/ DAVID DUQUETTE
	Name:	David Duquette
	Title:	Chief Executive Officer and Chief Financial Officer