NEW CENTURY COMPANIES INC
Form 10KSB/A
April 30, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549

FORM 10-KSB/A

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2001

OR

[_] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from ________ to ________

Commission file Number 0-9459

NEW CENTURY COMPANIES, INC.

(Name of Small Business Issuer in Its Charter)

Delaware	06-1034587
(State or other Jurisdiction of Incorporation)	(I.R.S. Employer Identif
9835 Santa Fe Springs Road Santa Fe Springs, CA	90670
(Address of Principal Executive Offices)	(Zip Code)

(562) 906-8455

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each on Which Reg

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $0.10

(Title of Class)

(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.

Yes X No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-SKB. [X]

State issuer's revenue for its most recent fiscal year $6,138,829.

State the aggregate market value of the voting and non-voting common equity held by no-affiliates computed by reference to the price at which the common equity as sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days (See definition of affiliate in Rule 12b-2 of the Exchange Act.). $13,099,299.

Note. If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PAST FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.
Yes X No

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of share outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of April 10, 2001 there were 5,038,192 shares of common stock issued and outstanding

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

PART I

ITEM 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Registrant's consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-KSB. Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Registrant'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 Registrant's 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-KSB are qualified in their entity by this statement.

OVERVIEW

On May 25, 2001, the Company entered into a plan of Reorganization and Merger with New Century Remanufacturing, Inc. 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 New Century Companies for the year ended 2002 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 New Century as a leading manufacturer and remanufacturer of large horizontal and vertical turning machines. New Century has completed the majority of this current development effort and expects limited resources to be devoted to this area in the next fiscal year. The Company's current strategy is to expand its customer sales base with its present line of machine products. Plans for expansion are expected to be funded through current working capital from ongoing sales. However, significant growth will require additional funds in the form of debt or equity, or a combination thereof. However, there can be no assurance these funds will be available. The Company's growth strategy also includes strategic acquisitions in addition to growing the current business. A significant acquisition will require additional financing. There can be no assurance that the Company can obtain such financing for the period ended December 31, 200 .

Restatement of 2001 Financial Statements

The Company previously recorded its convertible, Series B preferred stock as issued and outstanding. However, in accordance with the conversion terms of the preferred stock, the shares were to automatically convert into shares of common stock with the effectiveness of the registration statement, registering the underlying shares. As such, the Company has restated its December 31, 2001 financial statements to correctly reflect the Series B preferred stock as committed common shares.

The resulting impact of this restatement on net loss attributable to common shareholders is as follows:

	Amount	Per Sh
Net loss attributable to common shareholders, as previously reported.........	$(549,791)	$(0.1
Adjustment to correct dividends on preferred shares previously recorded	71,125	0.0
Net loss attributable to common shareholders, as restated..................	$(478,666)	$(0.1

On December 21, 2001, the Company signed a promissory note agreement for $215,000 for a deposit on the purchase of the building in which it operates. This note payable was incorrectly excluded from its previously filed financial statements. This transaction did not have any impact on the Company's reported net loss for the year ended December 31, 2001.

The effect on the Company's total assets and liabilities as of December 31, 2001 is as follows:

	As Reported	Amount	As Restated
Total assets...........	$2,707,673	$215,000	$2,922,673
Total liabilities	$2,908,085	$215,000	$3,123,085

Results Of Operations For the Period Ended December 31, 2002 Compared to December 31, 2001.

Revenues. New Century generated revenues of $9,054,146 for the fiscal year ended December 31, 2002, which was a $2,915,317 increase from $6,138,829 for the fiscal year ending December 31, 2001. 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 fiscal year ending December 31, 2002, was $1,780,807 or 19.7% of revenues, compared to $1,004,241, or 16.4% in 2001, an increase of 20%, primarily due to continued product development and research and increased productivity.

Net Loss. Net operating loss increased to $1,760,601 for the fiscal year ended December 31, 2002 compared to $478,666 for the fiscal year ended December 31, 2001 due to the non-recurring corporate expenses related to being a public company, moving costs related to a new expanded production facility, increased interest expense and the write-off of subscription receivables.

Interest Expenses. Interest expense for the fiscal year ended December 31, 2002, increased to $610,675, compared to $66,507, for the fiscal year ended December 31, 2001, primarily due to a increase in short term borrowings.

RESULTS OF OPERATIONS

New Century generated revenues of $6,138,829 for fiscal year ended December 31, 2001, which was $935,318 decrease from $7,074,147 for the year ending December 31, 2000. This decrease was primarily a result of the economic slow down in 2001.

Gross profit for the year ending December 31, 2001, was $1,004,241 or 16% of revenues, compared to $357,875, or 5% in 2000, an increase of 180%, primarily due to product development and research reflected in productivity improvement.

Net operating loss increased to $478,666 for the year December 31, 2001 compared to $395,075 for year ended December 31, 2000 due to the non-recurring corporate expenses related to the public company.

Interest expense for the year ended December 31, 2001, decreased to $66,507, compared to $67,839, year ended December 31, 2000, primarily due to a decrease of the prime lending rate.

Financial Condition, Liquidity, Capital Resources

Net cash used in the operations of New Century during fiscal year 2001 was ($483,855), which was a $1,044,154 decrease from fiscal year 2000. The decrease is due to corporate expenses related to the public company. New century financed its cash flow deficiency by securing financing through the placement of common stock and Notes payable. Total cash provided by financing activities of $375,736 for the fiscal year 2001.

The Registrant plans to continue to rely upon external financing sources to meet the cash requirement of its ongoing operations. Management is currently

seeking to raise additional funding on the form of equity or debt, or a combination thereof. However, there is no guarantee that it will raise sufficient capital to execute its business plan. To the extent that the Registrant is unable to raise sufficient capital, the Registrant's business plan will be required to be substantially modified and its operations curtailed.

The company's auditors have issued their report which contains an explanatory paragraph as to the company's ability to continue as a going concern. The company is currently addressing its liquidity problem 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 Registrant does not foresee any adverse effects on its earnings as a result of inflation or changing prices.

Critical Account Policies

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

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

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

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

ITEM 7. Financial Statements.

The Restated Financial Statements of the Company are set forth at the end hereof.

PART III

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 28, 2003

NEW CENTURY COMPANIES, INC.

/s/ David Duquette

Name: David Duquette
Title: Chairman, President and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and ill the capacities and on the dates indicated.

Date: April 28, 2003 /s/ David Duquette

Name: David Duquette
Title: Chairman, President and Director

Date: April 28, 2003 /s/ Josef Czikmantori

Name: Josef Czikmantori
Title: Secretary and Director

CERTIFICATION

I, David Duquette, certify that:

1. I have reviewed this annual report on Form 10-KSB/A of New Century Companies, Inc.;

2. Based on my knowledge, this annual 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 annual report;

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

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

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

c. presented in this annual 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 Company's auditors and the audit committee of Company'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 Company's ability to record, process, summarize and report financial data and have identified for the Company'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

Company's internal controls; and

6. I have indicated in this annual 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.

April 28, 2003

/s/ David Duquette

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

NEW CENTURY COMPANIES, INC.
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December 31, 2001

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
New Century Companies, Inc.
Santa Fe Springs, California

We have audited the accompanying balance sheet of New Century Companies, Inc. as of December 31, 2001, as restated (see Note 3), and the related statements of operations, shareholders' deficit, and cash flows, as restated (see Note 3) for each of the two years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the restated financial statements referred to above present fairly, in all material respects, the financial position of New Century Companies, Inc. as of December 31, 2001, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's current liabilities exceed its current assets. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
April 1, 2002

NEW CENTURY COMPANIES, INC.
BALANCE SHEET
December 31, 2001

ASSETS
(restated)

Current assets	
Cash	$ 43,764
Contracts receivable	306,176
Inventory	1,193,204
Costs and estimated earnings on contracts in progress in excess of billings	106,554
Prepaid expenses and other current assets	97,933
Total current assets	1,747,631
Property and equipment, net	700,865
Deposits	474,177
Total assets	$ 2,922,673

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

NEW CENTURY COMPANIES, INC.
BALANCE SHEET
December 31, 2001

LIABILITIES AND SHAREHOLDERS' DEFICIT

(restated)

Current liabilities
Book overdraft
Notes payable, net of discount of $106,000
Current portion of capital lease obligations
Accounts payable
Accrued expenses
Billings in excess of costs and estimated earnings on contracts in progress

Total current liabilities

Capital lease obligations, net of current portion

Total liabilities

Commitments and contingencies

Shareholders' deficit
Cumulative, convertible, Series B preferred stock, $1 par value
15,000,000 shares authorized
no shares issued and outstanding
Common stock issuable on conversion of Series B preferred stock
95,023 shares
Common stock, $0.10 par value
6,000,000 shares authorized
4,940,527 shares issued and outstanding
Additional paid-in capital
Treasury stock, at cost, 7,750 shares
Subscription receivable
Loans to shareholders
Deferred consulting fees
Accumulated deficit

Total shareholders' deficit

Total liabilities and shareholders' deficit

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

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NEW CENTURY COMPANIES, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31,

2001	2000
(restated)	

Net sales	$ 6,138,829	$ 7,074,147
Cost of sales	5,134,588	6,716,272
Gross profit	1,004,241	357,875
Operating expenses	1,437,918	819,350
Loss from operations	(433,677)	(461,475)
Other income (expense)		
Interest expense	(66,507)	(67,839)
Interest income	17,916	11,621
Other income	4,402	123,418
Total other income (expense)	(44,189)	67,200
Loss before provision for income taxes	(477,866)	(394,275)
Provision for income taxes	800	800
Net loss and net loss attributable to common shareholders	$ (478,666)	$ (395,075)
Basic and diluted loss per share	$ (0.14)	$ (0.26)
Basic and diluted weighted-average shares outstanding	3,451,109	1,500,000

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

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NEW CENTURY COMPANIES, INC.
STATEMENTS OF SHAREHOLDERS' DEFICIT
For the Years Ended December 31,

	Shares Issuable on Conversion of Series B Preferred Stock		Common Stock		Additional Paid-in	Treasu
	Shares	Amount	Shares	Amount	Capital	Stock
Balance, December 31, 1999	-	$ -	1,500,000	$ 150,000	$ (60,000)	$
Loan to shareholder						
Net loss						

Balance, December 31, 2000	-	-	1,500,000	150,000	(60,000)	
Merger with Internet-Mercado.com, Inc.	168,358	100,900	2,695,942	269,594	(275,244)	(7,7
Reclassification of "S" corporation retained earnings on termination of "S" corporation status					128,505	
Issuance of common stock for subscription receivable			400,000	40,000	960,000	
Issuance of common stock for cash			200,000	20,000	230,000	
Issuance of common stock for consulting services			71,250	7,125	285,000	
Amortization of deferred consulting fees						
Loan to shareholder						
Discount on debt attributable to stock purchase warrants					106,000	
Issuance of committed common stock	(73,335)	(44,000)	73,335	7,334	36,666	
Net loss						
Balance, December 31, 2001 (restated)	95,023	$ 56,900	4,940,527	$ 494,053	$ 1,410,927	$ (7,7

	Deferred Consulting Fees	Retained Earnings (Accumulated Deficit)	Total
Balance, December 31, 1999	$ -	$ 523,580	$ 507,080
Loan to shareholder			(251,824)
Net loss		(395,075)	(395,075)
Balance, December 31, 2000	-	128,505	(139,819)
Merger with Internet-Mercado.com, Inc.			-
Reclassification of "S" corporation retained earnings on termination of "S" corporation status		(128,505)	-
Issuance of common stock for subscription receivable			-
Issuance of common stock for cash			250,000

Issuance of common stock for consulting services	(292,125)		-
Amortization of deferred consulting fees	137,094		137,094
Loan to shareholder			(75,021)
Discount on debt attributable to stock purchase warrants			106,000
Issuance of committed common stock			-
Net loss		(478,666)	(478,666)
Balance, December 31, 2001 (restated)	$ (155,031)	$ (478,666)	$(200,412)

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

NEW CENTURY COMPANIES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

	2001 (restated)	20
Cash flows from operating activities		
Net loss	$ (478,666)	$ (
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	216,490	
Amortization of consulting fees	137,094	
Interest income	(17,916)	
Inventory reserves for obsolescence	-	
(Increase) decrease in		
Contracts receivable	(47,176)	(
Inventory	(503,365)	
Costs and estimated earnings on contracts in progress in excess of billings	(14,414)	
Prepaid expenses and other current assets	(52,085)	
Deposits	(250,000)	
Increase (decrease) in		
Accounts payable	223,531	(
Accrued expenses	230,873	
Billings in excess of costs and estimated earnings on contracts in progress	71,779	
Net cash provided by (used in) operating activities	(483,855)	
Cash flows from investing activities		

Purchase of property and equipment	(4,041)	
Loans to shareholders	(75,021)	(
Net cash used in investing activities	(79,062)	(
Cash flows from financing activities		
Book overdraft	88,079	
Proceeds from notes payable	250,000	
Principal payments on notes payable	(176,834)	(
Principal payments on capital lease obligations	(35,509)	
Issuance of common stock	250,000	
Net cash provided by (used in) financing activities	375,736	(

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

NEW CENTURY COMPANIES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

	2001 (restated)	2000
Net increase (decrease) in cash	$ (187,181)	$ 131,867
Cash, beginning of year	230,945	99,078
Cash, end of year	$ 43,764	$ 230,945
Supplemental disclosures of cash flow information		
Interest paid	$ 66,507	$ 67,839
Income taxes paid	$ 800	$ 800

Supplemental schedule of non-cash investing and financing activities
During the year ended December 31, 2001, the Company entered into the following non-cash transactions:

.. issued 2,695,942 shares of common stock in connection with the merger of InternetMercado.com.

.. issued 400,000 shares of common stock in exchange for a $1,000,000 subscription receivable.

.. issued 71,250 shares of common stock in exchange for $292,125 of consulting services.

.. converted 44,000 shares of preferred stock in exchange for 73,335 shares of common stock.

.. acquired $31,452 of property and equipment under capital lease obligations.

.. made a deposit on property in exchange for a $215,000 note payable.

During the year ended December 31, 2000, the Company entered into the following non-cash transactions:

.. acquired $88,000 of property and equipment under capital lease obligations.

.. transferred $730,710 of inventory to property and equipment.

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

NEW CENTURY COMPANIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

NOTE 1 - BUSINESS AND ORGANIZATION

General

New Century Companies, Inc. (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.

Stock Split

On November 26, 2001, the Company authorized a one-for-10 reverse stock split. All share and per share data have been retroactively restated to reflect the split.

Merger with InternetMercado.com, Inc.

On May 25, 2001, the Company entered into a merger agreement (the "Agreement") in which the Company was merged with InternetMercado.com, Inc. ("InternetMercado"). In accordance with the terms of the Agreement, the following conversions occurred:

. Each issued and outstanding share of common stock of the new entity's newly formed, wholly owned subsidiary was converted into one share of the Company's common stock.

- Each share of the Company's common stock was converted into shares of InternetMercado's common stock, par value $0.10 per share (the "InternetMercado Shares") at the rate of 83.33 InternetMercado Share for each of the Company's shares amounting to an aggregate 1,500,000 InternetMercado Shares.

The transaction has been accounted for as a reverse acquisition, whereby the Company is the accounting acquirer. The acquisition has been recorded at the value of the net assets of InternetMercado. The equity section has been restated to reflect the Company's current capital structure. Accordingly, the financial statements are the historical financial statements of New Century Companies, Inc. In addition, since the Company was an "S" Corporation prior to the merger, all retained earnings for the period prior to the merger have been reclassified to additional paid-in capital in accordance with rules promulgated by the Securities and Exchange Commission. Accumulated earnings between December 31, 2000 and May 25, 2001 were not material.

NOTE 1 - BUSINESS AND ORGANIZATION (Continued)

Name Change

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

NOTE 2 - GOING CONCERN AND RISKS AND UNCERTAINTIES

Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of December 31, 2001, the Company had high levels of inventory, its current liabilities exceeded its current assets, and it is not in compliance with loan terms, which caused the Company liquidity issues. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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 merged with a public company in May 2001 (see Note 1) and is in the process of issuing a private placement.
- The Company is seeking investment capital through the public markets.
- The Company has secured approximately $1,815,500 worth of new orders

from January 2002 through March 2002.

The financial statements do not include any adjustments that might be necessary should the Company be unable to implement any or all of these plans.

Listing and Maintenance Criteria for NASDAQ Securities

The Company intends to apply for listing of its common stock on NASDAQ for the Small-Cap Market. The initial listing standards for the NASDAQ Small-Cap Market require that the Company have total assets of at least $4,000,000, total shareholders' equity of at least $2,000,000, a public float of at least 100,000 shares with a market value of at least $1,000,000, at least 300 shareholders, a minimum bid price for its common stock of $3 per share, and at least two market makers.

NOTE 2 - GOING CONCERN AND RISKS AND UNCERTAINTIES (Continued)

Listing and Maintenance Criteria for NASDAQ Securities (Continued)

To maintain its listing on the NASDAQ Small-Cap Market, the Company must continue to be registered under Section 12(g) of the Securities and Exchange Act of 1934 and have total assets of at least $2,000,000, total shareholders' equity of at least $1,000,000, a public float of at least 100,000 shares with a market value of at least $200,000, at least 300 shareholders, a minimum bid price for its common stock of $1 per share, and at least two market makers. There is not any assurance that the Company will be able to obtain or maintain the standards for NASDAQ Small-Cap Market listing.

Concentrations of Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and contracts receivable. The Company places its cash with high credit, quality financial institutions. At times, such cash may be in excess of the Federal Deposit Insurance Corporation insurance limit of $100,000. At December 31, 2001, the uninsured portions held at the financial institutions aggregated to $118,573. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. With respect to contracts receivable, the Company routinely assesses the financial strength of its customers and, as a consequence, believes that the receivable credit risk exposure is limited.

Major Customers

During the year ended December 31, 2001, the Company conducted business with three customers whose sales comprised 28%, 22%, and 10% of net sales. As of December 31, 2001, three customers accounted for 44%, 36%, and 15% of total contracts receivable.

Major Suppliers

During the years ended December 31, 2001 and 2000, the Company conducted business with one supplier who accounted for 32% and 27% of total purchases, respectively. As of December 31, 2001, two suppliers accounted for 21% and 12% of total accounts payable.

NOTE 3 - RESTATEMENTS

The Company previously recorded its convertible, Series B preferred stock as issued and outstanding. However, in accordance with the conversion terms of the preferred stock, the shares were to automatically convert into shares of common stock with the effectiveness of the registration statement, registering the underlying shares which registration statement on Form SB-2 File 333-89335 was declared effective in November 1999. As such, the Company has restated its December 31, 2001 financial statements to correctly reflect the Series B preferred stock as committed common shares.

NOTE 3 - RESTATEMENTS (Continued)

The resulting impact of this restatement on net loss attributable to common shareholders is as follows:

	Amount	
Net loss attributable to common shareholders, as previously reported	$ (549,791)	$
Adjustment to correct dividends on preferred shares previously recorded	71,125	
Net loss attributable to common shareholders, as restated	$ (478,666)	$

On December 21, 2001, the Company signed a promissory note agreement for $215,000 for a deposit on the purchase of the building in which it operates (see Note 8). This note payable was incorrectly excluded from its previously filed financial statements. This transaction did not have any impact on the Company's reported net loss for the year ended December 31, 2001.

The effect on the Company's total assets and liabilities as of December 31, 2001 is as follows:

	As Reported	Amount	As Restated
Total assets	$ 2,707,673	$ 215,000	$ 2,922,673
Total liabilities	$ 2,908,085	$ 215,000	$ 3,123,085

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Service Revenue

Service revenues are billed and recognized in the period the services are rendered and earned and the collection of the related receivable is reasonably assured. Service revenues for the years ended December 31, 2001 and 2000 were not material.

Method of Accounting for Long-Term Contracts

In accordance with the American Institute of Certified Public Accountant's Statement of Position 81-1, "Accounting for Performance of Certain Construction-Type and Certain Product Type Contracts," the Company records its revenue on long-term, fixed priced contracts on the basis of the percentage-of-completion method applied to individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Method of Accounting for Long-Term Contracts (Continued)

That portion of the total contract price is accrued which is allocable, on the basis of the Company's estimates of the percentage of completion, to contract expenditures and work performed. Operating expenses, including indirect costs and administrative expenses, are charged to income as incurred and are not allocated to contract costs.

As these long-term contracts extend over one or more years, revisions in cost and profit estimates during the course of the work are recognized in the accounting period in which the facts which require the revision become known.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss on both short- and long-term contracts is accrued.

Substantially all of the Company's revenues were derived from long-term contracts for the years ended December 31, 2001 and 2000.

Comprehensive Income

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in the Company's financial statements since the Company did not have any of the items of comprehensive income in any period presented.

Inventory

Inventory is comprised primarily of work in process and is valued at the lower of cost (first-in, first-out method) or market. Cost components include material, direct labor, machinery, subcontracts, and allocations of indirect overhead.

Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the various classes of property and equipment as follows:

Machinery and equipment	5 years
Computer equipment	5 years
Capital lease equipment	5 years
Leasehold improvements	5 years

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Maintenance and repair costs are expensed as they are incurred while renewals and improvements of a significant nature are capitalized. At the time of retirement or disposal of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in the results of operations.

Fair Value of Financial Instruments

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.

Warranty Policy

The Company's warranty policy provides for varying years of coverage for its machines and labor. The Company's policy is to accrue the estimated cost of warranty coverage and returns as part of the production costs on fixed-priced contracts and at the time the product is shipped for any other product sales.

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation issued to employees.

The Company has elected to use the intrinsic value based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation. For stock-based compensation issued to non-employees, the Company uses the fair value method of accounting under the provisions of SFAS No. 123.

Advertising

Advertising expenses are charged to expense as incurred. For the years ended December 31, 2001 and 2000, total advertising expense was $83,812 and $204,832, respectively.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company provides for income taxes in accordance with 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.

As of April 30, 2001, the Company's federal filing status was changed from "S" corporation to "C" corporation status. Under its "S" corporation status, any profits or losses in the Company were passed on to its shareholders and were not taxed at the corporate level. Taxes recorded on the accompanying financial statements are only those for the period from May 1, 2001 through December 31, 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 years ended December 31, 2001 and 2000 would not have an effect on pro forma basic and diluted loss per share as a full valuation allowance was made on the deferred tax benefit.

Loss per Share

Loss per share is presented according to SFAS No. 128, "Earnings Per

Share." Basic loss per share excludes dilution and is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the years ended December 31, 2001 and 2000, because the Company incurred net losses, basic and diluted loss per share are the same. In addition, the Company had certain convertible preferred stock and common stock, including options and warrants, which were not included in diluted loss per share as their effects would have been anti-dilutive.

Reclassifications

Certain amounts included in the prior year financial statements have been reclassified to conform with the current year presentation. Such reclassification did not have any effect on reported net loss.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Recently 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. The Company does not expect adoption of SFAS No. 143 to have a material impact, if any, on its financial position or results of operations.

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 5 - CONTRACTS IN PROGRESS

Contracts in progress as of December 31, 2001 were as follows:

Cumulative costs to date	$ 1,023,205
Cumulative gross profit to date	481,684
Cumulative revenue earned	1,504,889
Less progress billings to date	2,319,919
Net overbillings	$ (815,030)

NOTE 5 - CONTRACTS IN PROGRESS (Continued)

The following is included in the accompanying balance sheet under these captions as of December 31, 2001:

Costs and estimated earnings on contracts in progress in excess of billings	$ 106,554
Billings in excess of costs and estimated earnings on contracts in progress	921,584
Net overbillings	$ (815,030)

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2001 consisted of the following:

Machinery and equipment	$ 876,781
Computer equipment	26,506
Capital lease equipment	159,652
Leasehold improvements	106,107
	1,169,046
Less accumulated depreciation and amortization	468,181
Total	$ 700,865

For the years ended December 31, 2001 and 2000, depreciation and amortization expense amounted to $216,490 and $129,500, respectively. Included in accumulated depreciation is $31,930 for capital lease equipment at December 31, 2001.

NOTE 7 - LOANS TO SHAREHOLDERS

As of December 31, 2001, the Company had loans to certain of its shareholders for $433,345, which bear interest at 5% per annum. There is not a specified maturity date, and it is the Company's and shareholders' intention not to reduce the balance before December 31, 2002. For the years ended December 31, 2001 and 2000, total interest income from loans to shareholders was $17,916 and $11,621, respectively.

NOTE 8 - NOTES PAYABLE

Notes payable at December 31, 2001 consisted of the following:

Notepayable - converted from line of credit, secured by all of the Company's assets and personal guarantees of the shareholders. Payable monthly at $8,500, plus interest at the Citibank, N.A.'s base rate (4.75% at December 31, 2001), plus 1%. Debt matured in February 2001, but was subsequently extended to June 2002.	$	170,624
Notepayable - secured by all of the Company's assets and personal guarantees of the shareholders. Payable monthly at $6,944, plus interest at the Citibank, N.A.'s base rate (4.75% at December 31, 2001), plus 1.25%. Debt matures in December 2002. The Company must maintain certain financial covenants of which the Company was not in compliance at December 31, 2001.		76,389
Notepayable - original principal of $250,000, unsecured, including warrants to purchase the Company's common stock at an exercise price of $0.20 per share. The note payable is personally guaranteed by a shareholder of the Company. Payable on or before June 21, 2002, accruing interest at 18% per annum. This amount is net of a discount applicable to detachable warrants of $106,000.		144,000
Notepayable - promissory note dated December 21, 2001, original principal balance of $215,000 due in 90 days. The note bears interest, in default, at the greater of 15% per annum or the highest allowable rate under California state law, subject to certain limitations. The note is jointly executed by the Company's President and another shareholder.		215,000
		606,013
Less current portion		606,013

Long-term portion	$ -

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Leases

The Company leases equipment under an operating lease requiring minimum monthly payments of $273 per month through August 2005. For the year ended December 31, 2001 and 2000, total equipment rent expense was $3,277 and $3,277, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Leases (Continued)

The Company leases a truck under an operating lease requiring minimum monthly payments of $538 per month through July 2005. For the years ended December 31, 2001 and 2000, truck lease expense was $6,460 and $2,690, respectively.

The Company leases office and factory space under an operating lease requiring minimum monthly payments of $6,800 through August 2003. The agreement calls for annual increases. For the years ended December 31, 2001 and 2000, rent expense was $83,150 and $79,200, respectively.

On November 30, 2001, the Company entered into an agreement with a real estate company to lease its office and warehouse facility, commencing December 31, 2001. The lease requires initial monthly payments of $28,515 and includes annual increases of 3% through December 2006. The lease is personally guaranteed by one of the shareholders. The agreement includes an option to purchase the land and building for $3,550,000. As of December 31, 2001, the Company had placed $250,000 in escrow to be used toward such purchase, which is included in deposits in the accompanying balance sheet. These monies are non-refundable, except for reasons specified in the agreement. In addition, on December 21, 2001, the Company executed a promissory note in the amount of $215,000 (see Note 8) toward the purchase of the property.

The Company also leases equipment under capital lease obligations that expire through December 2005. Monthly payments of $5,201 are due, including interest at rates ranging from 16% to 31%.

Future minimum lease payments under operating and capital lease agreements at December 31, 2001 were as follows:

Year Ending December 31,	Operating Leases	Capital Leases

2002	$ 435,911	$ 62,405
2003	418,176	34,805
2004	372,750	14,155
2005	378,499	10,033
2006	385,120	-
	$ 1,990,456	121,398
Less amount representing interest		26,847
		94,551
Less current portion		44,537
Long-term portion		$ 50,014

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Leases (Continued)

Interest expense related to capital lease obligations for the years ended December 31, 2001 and 2000 was $26,896 and $19,062, respectively.

Service Agreements

Periodically, the Company enters into various agreements for services including, but not limited to, public relations, financial consulting, and manufacturing consulting. Generally, the agreements are ongoing until such time they are terminated, as defined. Compensation for services is paid either at a fixed monthly rate or based on a percentage, as specified, and may be payable in shares of the Company's common stock. As of December 31, 2001, the Company was a party to two such agreements. During the years ended December 31, 2001 and 2000, the Company incurred $137,094 and $0, respectively, in connection with such arrangements. Such expense is included in operating expenses in the accompanying statements of operations. The Company's policy is that expenses related to these types of agreements are valued at the fair market value of the services or the shares granted, whichever is more realistically determinable. Such expenses are amortized over the period of the service (see Note 11).

NOTE 10 - SERIES B PREFERRED STOCK

The Company has 15,000,000 authorized shares of cumulative, convertible Series B preferred stock. The preferred shares have a cumulative dividend of $1.25 per share, which is payable on a semi-annual basis, are convertible into 1.67 shares of the Company's common stock, and do not have any voting rights. As of December 31, 2001, no shares were issued and outstanding. As of December 31, 2001, in accordance with the conversion terms of the convertible Series B preferred stock, 95,023 shares of common stock remained unissued and committed. During the year ended December 31, 2001, 73,335 shares of common stock were issued in relation to these committed shares.

NOTE 11 - COMMON STOCK

Common Stock Issued for Subscription Receivable

The Company received an $87,500 subscription receivable from a member of the Board of Directors in exchange for shares of the Company's common stock. The receivable bears interest at an annual rate of 6%. Principal and any unpaid interest is due on October 6, 2001. As of December 31, 2001, the receivable remained unpaid, and management expects full collection.

NOTE 11 - COMMON STOCK (Continued)

Common Stock Issued for Subscription Receivable (Continued)

On May 25, 2001, the Company received a $1,000,000 subscription receivable from five employees in exchange for 400,000 shares of the Company's common stock. The receivable bears 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.

Common Stock Issued for Cash

During the year ended December 31, 2001, the Company issued 200,000 shares of common stock to a shareholder, valued at $1.25 per share, for $250,000 in cash.

Common Stock Issued for Services

On November 15, 2001, the Company issued 31,250 restricted shares of common stock to a consultant for services in connection with a private placement. The shares were valued at the fair market value as of November 15, 2001, or $4.10 per share, totaling $128,125. The term of the agreement was two months, and the related expense is being amortized accordingly.

On November 15, 2001, the Company entered into a second agreement with a consulting firm. The agreement had a term of 18 months from the effective date and called for the issuance of 40,000 shares of common stock. The stock was valued at $4.10 per share, which was the trading value of the Company's common stock, or $164,000. This amount is being amortized over the term of the agreement.

Total amounts recognized and deferred in connection with these agreements are as follows:

	Shares	Total Amount	Amount Recognized

First agreement	31,250	$ 128,125	$ 96,094
Second agreement	40,000	164,000	41,000
Total	71,250	$ 292,125	$ 137,094

New Issuances of Common Stock

Generally, all new issuances of common stock made by the Company carry registration rights.

NOTE 12 - WARRANTS AND STOCK OPTIONS

Warrants

On December 21, 2001, the Company issued warrants to purchase 100,000 shares of common stock for $2 per share, which is exercisable for two years from the date of issuance. The warrants were issued in connection with a six-month, short-term note payable. In accordance with accounting principles generally accepted in the United States of America, the proceeds of the financing have been allocated to the debt and the warrants, based on their relative fair values. Accordingly, a discount of $106,000 has been recorded as a reduction in the debt balance, and the off-setting credit has been recorded as additional paid-in capital. The discount is being amortized and charged to expense over the life of the debt. During the year ended December 31, 2001, amortization of the discount was not material.

Employee Stock Options

In connection with the merger agreement with InternetMercado, the Company assumed the Incentive Stock Option Plan ("ISOP") granted by InternetMercado to its employees.

Under the terms of the Company's ISOP, options to purchase 1,000,000 shares of common stock may be issued to all key employees who are eligible to receive non-assignable and non-transferable options to purchase shares. The exercise price of any option may not be less than the fair market value of the shares on the date of grant. No options granted may be exercisable more than 10 years after the date of grant. The options granted generally vest evenly over a one-year period, beginning from the date of grant. During the year ended December 31, 2000, the Company assumed 233,250 stock options in connection with the merger agreement under the Company's ISOP.

Non-Employee Stock Options

The Company has also assumed a non-statutory stock option plan ("NSSO") to purchase an aggregate of 1,350,000 shares of common stock granted to three non-employees for services rendered. These options are non-assignable and non-transferable, are exercisable over a five-year period from the date of grant, and vested on the date of grant. During the year ended December 31, 2000, the Company assumed 308,333 stock options in connection with the merger agreement under the Company's NSSO plan.

NOTE 12 - WARRANTS AND STOCK OPTIONS (Continued)

Warrant and Stock Option Transactions

The following table summarizes all of the Company's warrant and stock option transactions:

	Number of Shares			Weighted-Average
	Employee	Non-Employee	Total	Exercise Price
Assumed in connection with merger agreement	233,250	308,333	541,583	$ 10
Granted	-	100,000	100,000	$ 2
Outstanding and exercisable, December 31, 2001	233,250	408,333	641,583	$ 9

The weighted-average remaining contractual life of the warrants and options outstanding at December 31, 2001 was 3.37 years. The exercise prices of the warrants and options outstanding at December 31, 2001 ranged from $2 to $12.50, and information relating to these options is as follows:

Range of Exercise Prices	Stock Options and Warrants Outstanding and Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price of Stock Options and Warrants Outstanding and Exercisable
$ 2.00 - 7.50	135,000	3.59 years	$ 3.30
$ 9.80	64,750	3.36 years	$ 9.80
$ 10.00	291,833	3.28 years	$ 10.00
$ 12.50	150,000	3.36 years	$ 12.50
	641,583		

All stock options issued to employees have an exercise price not less than the fair market value of the Company's common stock on the date of the grant. In accordance with accounting for such options utilizing the intrinsic value method, there is not any related compensation expense recorded in the Company's financial statements. Had compensation cost for stock-based compensation been determined based on the fair value of the grant dates consistent with the methods of SFAS No. 123, the Company's net loss and loss per share for the years ended December 31, 2001 and 2000 would be the same since employee options were not issued during those years. As such, no pro forma disclosure has been made.

NOTE 12 - WARRANTS AND STOCK OPTIONS (Continued)

Warrant and Stock Option Transactions (Continued)

The fair value of the warrants granted during the year ended December 31, 2001 for purposes of determining the discount to be applied to the note payable issued with detachable warrants is estimated on the date of grant utilizing the Black-Scholes option-pricing model with the following weighted-average assumptions for the year ended December 31, 2001: dividend yield of 0%, expected volatility of 175%, risk-free interest rate of 3.17%, and expected life of two years.

NOTE 13 - BACKLOG

The following schedule summarizes changes in backlog on contracts during the year ended December 31, 2001. Backlog represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at December 31, 2001 and from contractual agreements on which work has not yet begun:

Backlog balance at December 31, 2000	$ 2,438,165
New contracts and contract adjustments during the year	6,466,628
Sub-total	8,904,793
Less contract revenue earned during the year	6,138,829
Backlog balance at December 31, 2001	$ 2,765,964

NOTE 14 - INCOME TAXES

Significant components of the Company's deferred tax assets at December 31, 2001 were as follows:

Net operating loss carryforward	$ 133,000

Reserve for warranty	12,900
Accrued compensated absences	12,000
	157,900
Less valuation allowance	157,900
Total	$ -

NOTE 14 - INCOME TAXES (Continued)

A reconciliation of the expected income tax computed using the federal statutory income rate to the Company's effective rate for the year ended December 31, 2001 is as follows:

Income tax computed at federal statutory tax rate	34.0%
State taxes, net of federal benefit	5.8
Benefit from termination of "S" corporation status	(6.0)
Change in valuation allowance	(33.8)
Total	-%

A reconciliation of the expected income tax has not been provided for the year ended December 31, 2000 as the Company operated as an "S" corporation during that period.

Realization of the future tax benefits related to the deferred assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes.

As of December 31, 2001, the valuation allowance for deferred tax assets totaled $157,900. For the years ended December 31, 2001 and 2000, the net change in the valuation allowance was an increase of $157,900 and a change of $0, respectively.

As of December 31, 2001, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $426,900 and $212,900, respectively. The net operating loss carryforwards begin expiring in 2021 and 2011, respectively. The utilization of net operating loss carryforwards may be limited due to the ownership change under the provisions of Internal Revenue Code Section 382 and similar state provisions.

NOTE 15 - SUBSEQUENT EVENTS

Private Placement Memorandum

Subsequent to December 31, 2001, the Company authorized 60,000 shares of Series C 5% convertible preferred stock (the "Series C"). Effective March 20, 2002, the Company began the process of preparing for the public offering of the Series C at a price of $25 a share, with a minimum offering of 30,000 shares and a maximum of 60,000 shares. The Series C has a par value of $1 per share and is convertible into 16.667 shares of the Company's common stock with a par value of $0.10 per share, representing a purchase price of $1.50 per share.

NOTE 15 - SUBSEQUENT EVENTS (Continued)

Sublease Agreement

In January 2002, the Company entered into an agreement with an unrelated party to sublease its office and factory space, expiring in August 2003. The sublease agreement requires monthly rent of $8,200 and a security deposit equal to the monthly rent.