NEW CENTURY COMPANIES INC
Form 10QSB
November 14, 2005

SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

( ) TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended:	Commission File Number:
September 30, 2005	0-7722

NEW CENTURY COMPANIES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	061034587
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification Number)

9835 Santa Fe Springs Road
Santa Fe Springs, CA 90670

(Address of Principal Executive Offices) (Zip Code)

(562) 906-8455

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during

the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to filing requirements for the past 90 days.

Yes _X_ No___

The number of shares of Common Stock, par value $ .10 per share, outstanding as of November 9, 2005 was 10,197,334 .

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.

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The condensed consolidated financial statements are set forth at the end of this document.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's condensed consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-QSB. Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Company's business strategy and objectives, future financial position, expectations about pending litigation and estimated cost savings, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") and involve risks and uncertainties. Although the Company believes that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory

policies, competition from other similar businesses, and market and general
policies, competition from other similar businesses, and market and general
economic factors. All forward-looking statements contained in this Form 10-QSB are qualified in their entirety by this statement.

Plan of Operations

For the three months ended September 30, 2005, the Company experienced an increase in sales due to continuing growth in demand of our machine tools. We see several significant factors in the economy that should keep sales of large metal-working machines such as vertical turning machines very robust. The recently enacted federal highway and energy bills is expected to stimulate demand for machine tools, such as ours, used in the manufacturing of equipment for oil and gas production, power generation, and road and transit construction. Meanwhile, the construction industry is entering a new boom with the massive cleanup and reconstruction after hurricanes Katrina and Rita. This is expected to create additional need for our vertical turning machines.

The Company's current strategy is to expand its customer sales base with its present line of machine products.

Results Of Operations For the Three Months Ended September 30, 2005 Compared to September 30, 2004.

Revenues. The Company generated revenues of $1,604,851 for the three months ended September 30, 2005, which was a $437,904 or 38% increase from $1,166,947 for

4

the three months ended September 30, 2004. The increase is the result of a growth in customer orders, based on the overall enlarged market for machine tools and on capability to sell the Company's product at higher contact amounts.

Another indicator of increasing interest on the Company's machine-tool, is the expanded volume of request for quotes.

Gross Profit. Gross profit for the three months ended September 30, 2005, was $596,216 or 37% of revenues, compared to a gross loss of $205,924 or 17% for the three months ended September 30, 2004. The $802,140 increase in gross profit was generated by a decrease in cost of sales of $364,236, due to the increased productivity. Additionally, management increased their effort in cutting material losses and increased efficiency of labor.

Operating Income. Operating income increased to $347,625 for the three months ended September 30, 2005 compared to an operating loss of $798,368 for the three months ended September 30, 2004, an $849,128 increase. The increase is as a result of reducing expenses, such us salaries and general and administrative, based on the continued struggle of management to increase operational productivity.

Net Income. Net income increased to $335,016 for the three months ended September 30, 2005 compared to a net loss of $492,030 for the three months ended September 30, 2004, an increase of $827,046. The increase is based on the increase in operating income.

Interest Expense. Interest expense for the three months ended September 30, 2005, increased to $63,369 compared to $46,099, for the three months ended September 30, 2004, primarily due to the accrual of interest on four default notes payable due to the inability of the Company to pay off their notes payable. The Company used these funds to pay old debt to vendors, in the operation process.

Results Of Operations For the Nine Months Ended September 30, 2005 Compared to September 30, 2004.

Revenues. The Company generated revenues of $4,244,719 for the nine months ended September 30, 2005, which was a $516,703 or 14% increase from $3,728,016 for the nine months ended September 30, 2004. The increase is the result of improved market conditions with impact in the Company`s sales prices and increased ability to sale larger machines.

Gross Profit. Gross profit for the nine months ended September 30, 2005, was $1,354,403 or 32% of revenues, compared to a gross loss of $179,407 or 5% for the nine months ended September 30, 2004. The $1,533,810 increase in gross profit was generated by a decrease in cost of sales of $1,017,107, due to the increased productivity. Management increased their effort in cutting material losses and increased efficiency of labor.

5

Operating Income. Operating income increased to $449,193 for the nine months ended September 30, 2005 from a loss of $1,610,044 for the nine months ended September 30, 2004, a $1,660,804 increase. The increase is primarily as a result of increased gross profit, and secondarily as a result of reducing expenses, such us salaries and general and administrative, based on the continue struggle of the management to increase the operations productivity.

Net Income. Net income increased to $317,299 for the nine months ended September 30, 2005 compared to a net loss of $743,882 for the nine months ended September 30, 2004, an increase of $1,061,181. The increase is a result of 143% increase in operating income for the analyzed period.

Interest Expense. Interest expense for the nine months ended September 30, 2005, increased to $182,654 compared to $132,901, for the nine months ended September 30, 2004, primarily due to the accrual of interest on four default notes payable due to the inability of the Company to pay off their notes payable. The Company used these funds in operating activities.

FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

The net cash increase of the Company during the nine months ended September 30, 2005 was $153,923. The increase is due to $217,329 cash provided by operating activities, based on the overall increase in sales. If the Company`s increase in sales remains at the same levels with 2005 sales, the Company predicts that its capital needs will be met internally, eliminating the high cost of long term debt.

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

In the fiscal year 2005, the Company realized a significant increase in its net income. However, The Company has incurred operating losses in the previous years, and still has a working capital deficit and a significant stockholders' deficit. These conditions, among others, 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

Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" 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 noted no indicators requiring review for impairment 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,", as amended and superceded by SAB 104, 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 104. 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) 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 September 30, 2005, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures over financial reports are not 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.

9

(b) Changes in Internal Controls

There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2005 that are likely to affect those controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended September 30, 2005, the Company issued 300,000 shares to Investor Relations International Inc., for consulting services The shares were issued pursuant to Section 4(2) of the Act.

On August 2005, a shareholder converted 12,000 Preferred Shares Series D into 600,000 shares of common stock.

On September 2005, a shareholder converted 31,800 Preferred Shares Series C into 530,010 shares of common stock.

On July 14, 2005, the Company issued 3000,000 shares of restricted common stock to a consultant for corporate finance and investor relations services under a one year consulting agreement. The Company recorded the fair value of the common stock (based on the trading price of the Company's stock on the date of issuance) totaling $75,000 as deferred consulting fees and is amortizing such amount over the six month term of the agreement. Due to a significant increase of the company stock price from issuance to the ending of reported period, in accordance with the EITF 96-18, the company did a recalculation of the deferred consulting fees based on September 30, 2005 fair value stock price, and evaluate the fees at $180,000. The additional $105,000 difference was recorded as deferred consulting fees and the quarterly amortization has been adjusted correspondingly. The remaining deferred consulting fees under this contract totaled $142,500 at September 30, 2005.

Item 3. Defaults Upon Senior Securities

During the year ended December 31, 2001, the Company entered into an unsecured note payable ("Note A") with a third party for $250,000. Note A accrues interest at a fixed rate

10

of 18% per annum and matured in December 2003, as amended. Note A is personally guaranteed by a stockholder and is in default at December 31, 2004. At September 30, 2005, the total outstanding principal balance on Note A was $250,000.

During the year ended December 31, 2001, the Company entered into a note payable ("Note B") with a third party for $215,000. Note B accrues interest at a fixed rate of 15% per annum and matured in March 2002. Note B is secured by certain assets of the Company, as defined, and is in default at December 31, 2004. At September 30, 2005, the total outstanding principal balance on Note B was $215,000.

In January 2003, the Company entered into a note payable agreement ("Note C") with two individuals in the amount of $500,000 with an interest rate of 11% per annum, which matured in April 2003 and is in default at December 31, 2004. The note was issued with a discount of $45,000, which the Company amortized to interest expense in the accompanying consolidated statement of operation for 2003. In connection with Note C, the Company issued warrants to purchase 25,000 shares of common stock. Note C is secured by certain assets of the Company. At September 30, 2005, the total outstanding principal balance on Note C was $500,000.

In December 2002, the Company entered into a note payable agreement ("Note D") with two individuals in the amount of $250,000 with an interest rate of 11% per annum, which matured in February 2003. The note was issued with a discount of $15,000, which the Company amortized to interest expense in the accompanying consolidated statement of operations for 2003. In connection with Note D, the Company issued warrants to purchase 5,000 shares of common stock related to the extension of the maturity date of Note D to April 2004. On April 12, 2005, Note D was extended through August 13, 2005 and had a total outstanding principal balance of $250,000. For the consideration of the extension, the Company issued 250,000 common stock with a fair value of $47,500. The cost of the extension has been amortized over 4 month. As of September 30, 2005, the Company amortized $29,687 of the cost.

During November 2004, the Company borrowed $80,816 on two notes payable ("Note E") to one individual. Note E in unsecured, matured in January 2005, has an interest rate of 6% and is currently in default. At September 30, 2005 the total outstanding principal balance on Note E was $80,816.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

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

32.1 906 Sarbanes Oxley Certification

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.

November 14, 2005

/s/ David Duquette

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

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2005
(unaudited)

ASSETS	
Current Assets	
Cash	$ 283,01
Contracts receivable	50,78
Inventories, net	965,41
Costs and estimated earnings in excess of billings on uncompleted contracts	615,69
Prepaid expenses and other current assets	9,60
Total current assets	1,924,51
Property and Equipment, net	136,74
	$ 2,061,25
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable and accrued expenses	$ 2,330,35
Dividends payable	515,10
Billings in excess of costs and estimated earnings on uncompleted contracts	405,19
Notes payable	1,295,81
Current portion of obligations under capital lease	8,97
Total current liabilities	4,555,42
Commitments and Contingencies	
Stockholders' Deficit	
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, 28,980 shares issued and outstanding (liquidation preference of $1,151,000)	28,98
Cumulative, convertible, Series D preferred stock, $25 par value, 75,000 shares authorized, 11,640 shares issued and outstanding (liquidation preference of $380,000)	291,00
Common stock, $0.10 par value, 50,000,000 shares authorized; 9,622,266 shares issued and outstanding	962,22
Subscriptions receivable	(462,50
Notes receivable from stockholders	(485,92
Deferred consulting fees	(142,50
Additional paid-in capital	4,574,27
Accumulated deficit	(7,259,73
Total stockholders' deficit	(2,494,17
	$ 2,061,25

See accompanying notes to the condensed consolidated financial statements.

14

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2005 and 2004
(unaudited)

	Three Months Ended September 2005	Three Months Ended September 2004	Nine Month Ended September 2005
NET SALES	$ 1,604,851	$ 1,166,947	$ 4,244,71
COST OF SALES	1,008,635	1,372,871	2,890,31
GROSS PROFIT (LOSS)	596,216	(205,924)	1,354,40
OPERATING EXPENSES			
Consulting and other compensation	153,418	16,306	351,79
Salaries and related	27,701	78,689	125,25
Selling, general and administrative	64,472	149,824	428,16
TOTAL OPERATING EXPENSES	248,591	244,819	905,21
OPERATING INCOME (LOSS)	347,625	(450,743)	449,19
OTHER INCOME (EXPENSE)			
Gain on forgiveness of accounts payable	50,760	4,812	50,76
Interest expense	(63,369)	(46,099)	(182,65
TOTAL OTHER INCOME (EXPENSE)	(12,609)	(41,287)	(131,89
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	335,016	(492,030)	317,29
PROVISION FOR INCOME TAXES	--	--	--
NET INCOME (LOSS)	$ 335,016	$ (492,030)	$ 317,29
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 335,016	$ (531,780)	$ 211,77
Basic and diluted net income (loss) available to common stockholders per common share	$ 0.04	$ (0.08)	$ 0.0
Basic weighted average common shares outstanding	8,741,821	7,018,765	7,912,87

Diluted weighted average common shares outstanding	9,268,011	7,018,765	8,439,06

See accompanying notes to the condensed consolidated financial statements.

15

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND SEPTEMBER 30, 2004
(unaudited)

	2005	2004
Cash flows from operating activities:		
Net income (loss)	$ 317,299	$(743,88
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	194,208	207,21
Gain on forgiveness of accounts payable	50,760	545,05
Amortization of deferred consulting fees	122,833	109,81
Amortization of debt discount	47,500	--
Estimated fair market value of common stock issued for consulting services	--	50,00
Estimated fair market value of common stock issued for partial legal settlement	20,000	--
Estimated fair market value of common stock issued for penalty on failure to register convertible preferred stock	90,000	--
Changes in operating assets and liabilities:		
Contracts receivable	(47,920)	21,43
Inventories	14,824	(67,72
Costs and estimated earnings in excess of billings on uncompleted contracts	(363,863)	37,34
Prepaid expenses and other current assets	(8,041)	5,38
Accounts payable and accrued expenses	134,925	(834,68
Billings in excess of costs and estimated earnings on uncompleted contracts	(355,196)	69,80
Net cash provided by (used in) operating activities	217,329	(600,23
Cash flows from investing activities:		
Purchases of property and equipment	--	(1,39
Net cash used in investing activities	--	(1,39
Cash flows from financing activities:		
Bank overdraft	--	(9,51
Proceeds from issuance of preferred stock	521,000	
Principal repayments on obligations under capital lease	(63,406)	(62,60
Net cash (used in) provided by financing activities	(63,406)	448,87
Net increase (decrease) in cash	153,923	(152,75

Cash at beginning of period	129,087	155,96
Cash at end of period	$ 283,010	$ 3,21
Supplemental disclosure of non-cash activities:		
Debt discount on note payable extension	$ 47,500	$ --
Accrued cumulative dividends on preferred stock	$ 105,525	$ 79,50
Conversion of preferred stock to common stock	$ 331,800	$ 4,70
Preferred stock issued in lieu of accounts payable	$ --	$ 40,00

See accompanying notes to the condensed consolidated financial statements.

16

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes hereto should be read in conjunction with the financial statements, accounting policies and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, filed with the SEC. In the opinion of management, all adjustments necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the Company's financial position as of September 30, 2005, and the results of operations and cash flows for the interim periods presented, have been made. Such adjustments consist only of normal recurring adjustments. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results for the full year.

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 September 30, 2005, the Company has negative working capital $2,630,918 and an accumulated deficit of $7,259,732, and recurring losses. 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, 2005. 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.

In response to these problems, management has taken the following actions:

o The Company continues its aggressive program for selling inventory.

o The Company continues to implement plans to further reduce operating costs.

o The Company is seeking investment capital through the public markets.

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.

INVENTORY

Inventories are stated at the lower of cost or net realizable value. Cost is determined under the first-in, first-out method. Inventories represent cost of work in process on units not yet under contract. Cost includes all direct material and labor, machinery, subcontractors and allocations of indirect overhead.

REVENUE RECOGNITION

The Company's revenues consist of contracts with vendors. 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.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," as amended and superseded by SAB No. 104, 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 SEC. Management believes that the Company's revenue recognition policy conforms to SAB No. 104. The Company recognizes revenue of contracts pursuant to SOP 81-1.

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 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. Costs incurred and revenue earned on contracts in progress in excess of billings (under billings) is classified as a current asset. Amounts billed in excess of costs and revenue earned (overbillings) are classified as a current liability.

The Company accounts for shipping and handling fees and costs in accordance with Emerging Issues Task Force ("EITF") Issue No. 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.

18

In accordance with Statement of Financial Accounting Standards ("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.

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 526,190 and 1,821,583 additional potential common shares as of September 30, 2005 and 2004, respectively). In 2004, the Company incurred net losses and basic and diluted loss per share are equal because additional potential common shares would be anti-dilutive.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three and nine month periods ended September 30, 2005 and 2004:

For the Three Months Ended
September 30,

	2005	2004
Net income (loss)	$ 335,016	$ (492,030)
Current cumulative preferred dividends	-	(39,750)
Numerator for basic income (loss) per share:		
Net income (loss) available to common stockholders	335,016	(531,780)
Denominator for basic income (loss) per share:		
Weighted average shares	8,741,821	7,018,765
Denominator for diluted income (loss) per share:		
Weighted average shares	9,268,011	7,018,765
Basic and diluted income (loss) per share	$ 0.04	$ (0.08)

For the Nine Months Ended
September 30,

	2005	2004
Net income (loss)	$ 317,299	$ (743,882)
Current cumulative preferred dividends	(105,525)	(119,250)
Numerator for basic income (loss) per share:		
Net income (loss) available to common stockholders	211,774	(863,132)
Denominator for basic (income) loss per share:		
Weighted average shares	7,912,876	6,975,321
Denominator for diluted (income) loss per share:		
Weighted average shares	8,439,066	6,975,321
Basic and diluted income (loss) per share	$ 0.03	$ (0.12)

STOCK BASED COMPENSATION

At September 30, 2005, 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 Accounting Principles Board Opinion No. ("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 the nine month periods ended September 30, 2005 and 2004. Hence, the disclosure requirements under SFAS 148 are not required. However, the above pro forma non-effects of applying SFAS 123 are not necessarily representative of the impact on reported net loss for future periods.

The Company accounts for stock-based compensation to non-employees in accordance with the fair value recognition requirements of SFAS No. 123 and Emerging Issues Task Force 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18").

NEW ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements discussed in the notes to the December 31, 2004 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, 2005 did not have a significant impact on the Company's financial statements.

RECLASSIFICATIONS

No reclassification has been made from the prior period presentation.

2. CONTRACTS IN PROGRESS

Contracts in progress as of September 30, 2005, which include completed contracts that have not been completely billed, were as follows:

Cumulative costs to date	$ 4,111,835
Cumulative gross profit to date	3,672,064
Cumulative revenue earned	7,783,899
Less progress billings to date	(7,573,394)
Net underbillings	$ 210,505

20

The following is included in the accompanying condensed consolidated balance sheet under these captions as of September 30, 2005:

Costs and estimated earnings on contracts in progress in excess of billings	$ 615,695
Billings in excess of costs and estimated earnings on contracts in progress	(405,190)
Net underbillings	$ 210,505

3. EQUITY TRANSACTIONS

On July 14, 2005, the Company entered into a retail investor marketing campaign under a one year consulting agreement. The Company issued 300,000 shares of restricted common stock in accordance with the contract. Additionally, the contract requires the Company to pay the consultant $25,000 per month for the first two months and $15,000 per month thereafter through completion. The contract does not contain a "performance commitment" as defined in EITF 96-18 and, therefore, a measurement date will not exist until the services have been completed. As a result, the fair value of the 300,000 shares was recorded as deferred consulting fees on the date of grant, based on the then-current fair value, and was adjusted to the fair value of the common stock on September 30, 2005 totaling $180,000. Such deferred consulting fees are being amortized to consulting expense over the one year term of the agreement. The remaining deferred consulting fees under this contract totaled $142,500 at September 30, 2005.

In July, 2005 the Company issued 530,000 shares of restricted common stock upon conversion of 31,800 shares of Series C preferred stock at a conversion rate of 16.667-to-1.

In July, 2005 the Company issued 600,000 shares of restricted common stock upon conversion of 12,000 shares of Series D preferred stock at a conversion rate of 50-to-1.

4. SUBSEQUENT EVENTS

In October 2005, the Company issued 500,000 shares of common stock in exchange of services.