NEW CENTURY COMPANIES INC
Form 10QSB
November 22, 2004

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, 2004	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 18, 2004 was 7,042,265.

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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ITEM 1. FINANCIAL STATEMENTS

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

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

The following discussion should be read in conjunction with the Company's condensed consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-QSB. Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Company's business strategy and objectives, future financial position, expectations about pending litigation and estimated cost savings, are forward-looking statements and involve risks and uncertainties. Although the Company believes that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, and market and general policies, competition from other similar businesses, and market and general economic factors. All forward-looking statements contained in this Form 10-QSB are qualified in their entirety by this statement.

OVERVIEW

On May 25, 2001, the Company entered into a plan of Reorganization and Merger with New Century Remanufacturing, Inc. ("NCR"). Immediately prior to the merger, the Company had 50,000,000 shares authorized and 2,695,942 shares issued and outstanding. Pursuant to the merger, all of the 1,800 outstanding shares of NCR were exchanged for shares of the Company on a 1 to 833.33 basis or into 1,500,000 shares of common stock of the Company for a total of 4,195,942 shares of common stock issued and outstanding. Immediately after the merger, all then existing officers and directors of the Company resigned and the management of NCR was elected and appointed to such positions; thereby effecting a change of control. Although NCR became a wholly owned subsidiary of the Company following the transaction, because the transaction resulted in a change of control, the transaction was recorded as a "reverse merger" whereby NCR was considered to be the accounting acquirer of the Company.

After the reverse merger the Company changed its name to New Century Companies, Inc. The results of the Company previously filed in the past years are not included herein. The related financial statements are the results of operations for NCR.

PLAN OF OPERATIONS

The earnings of the Company for the three months ended September 30, 2004 were negative as a result of management's strategy of continued investment in research and development of new projects and of the corporate expenses related to compliance with the regulatory requirements of being a public company and the inability to manufacture and ship products as a result of the Company's lack of working capital. The goal of these expenditures in research and development was

to position the Company as a leading manufacturer and remanufacturer of large horizontal and vertical turning machines. The Company has completed the majority of this current development effort and expects limited resources to be devoted to this area in the next fiscal year. The Company's current strategy is to expand its customer sales base with its present line of machine products. As stated below, the Company's ability to continue operations and implement its business plan depends on the raising of additional capital. No assurance can be given that funds will be available, or if available, the terms thereof.

RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2004 COMPARED TO THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2003

REVENUE AND GROSS PROFIT MARGIN

The Company generated revenues of $1,166,947 for the three-month period ended September 30, 2004, which was a $942,017 or 44.67 % decrease from $2,108,964 in the corresponding period in 2003. The decrease is the result of a deficiency in working capital which has limited our ability to fulfill customer orders. Additionally, the overall market for machine tools is cyclical, reflecting economic conditions, production capacity utilization, changes in tax and fiscal policies, corporate profitability and financial condition as well as the general level of business confidence. The Company anticipates an increase in customer orders for next quarter, based on the growth of the overall market, but there can be no assurance of such orders.

There was a 160.15% decrease in gross profit for the three-month period ended September 30, 2004, due to lower revenues. Gross profit (loss) was $(205,924), compared to a gross profit of $342,346 from the corresponding period in 2003. This decrease is a result of the weak economy in the United States and competitive market conditions that have dampened the demand for the Company's products.

Interest expense for the three-month period ended September 30, 2004 decreased to $46,099, compared to $78,454 for the period ended September 30, 2003. For the three-month period ended September 30, 2003, the Company accumulated extra interest of approximately $32,355, for the recapture of interest unaccrued for the previous periods, on loans from three individuals, initiated on 12/24/01, 12/03/02 and 1/30/03.

OPERATING EXPENSES

Operating expenses decreased by $118,931 or 32.70%, from $363,750 for the three-month period ended September 30, 2003 to $244,819 for the corresponding period in 2004. This decrease is a result of cutting off all the expenses, such as consulting, and salaries and general and administrative, based on the continued struggle of the management to increase operational productivity.

NET INCOME/LOSS AND EARNING/LOSS PER SHARE

Net loss was $492,030 for the three-month period ended September 30, 2004, compared to a loss of $100,725 for the corresponding period in 2003. The increase in net loss is attributable to cash flow problems which affected the Company's ability to complete timely the manufacture and shipment of machines.

Loss per share for the three-month period ended September 30, 2004 increased to $(0.08) for the three-month period ended September 30, 2004, from $(0.02) for the corresponding period in 2003.

NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2004 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2003.

REVENUE AND GROSS PROFIT MARGIN

For the nine-month period ended September 30, 2004, total revenues were $3,728,016, which was a $2,036,920 or 35.33 % decrease from $5,764,936 in the corresponding period in 2003. The decrease is the result of a decrease in customer's orders and a deficiency in working capital that has limited our ability to fulfill customer orders.

For the nine-month period ended September 30, 2004, gross profit (loss) was $(179,407) or (5)% of revenue, compared to $214,746 or 4% of revenue in the corresponding period in 2003. This decrease is a result of competitive market conditions that have caused the Company to sell products at lower costs.

Interest expense decreased from $220,671 for the nine months ended September 30, 2003 to $132,901 for the nine-month period ended September 30, 2004. For the nine-month period ended September 30, 2003, the Company accumulated extra interest of approximately $32,355, for the recapture of interest unaccrued for the previous periods, on loans from three individuals, initiated on 12/24/01, 12/03/02 and 1/30/03.

OPERATING EXPENSES

For the nine-month period ended September 30, 2004, operating expenses decreased by $616,945 or 38.60% from $1,598,389 for the nine month period ended September 30, 2003, to $981,444 for the nine month period ended September 30,

2004. This decrease is a result of cutting off all the expenses, such as consulting, and salaries and general and administrative, based on the continued struggle of the management to increase operational productivity.

NET LOSS AND LOSS PER SHARE

For the nine-month period ended September 30, 2004, we had a net loss of $743,882 compared to a net loss of $1,606,781 for the corresponding period in 2003. The decrease in net loss is primarily attributable to a $87,770 decrease in interest expenses, a loss of deposit of $465,428 in 2003, and a $549,870 gain on forgiveness of accounts payable from a negotiation between the Company's management and its vendors.

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For the nine-month period ended September 30, 2004, loss per share decreased by $0.16 from $(0.28) for the nine-month period ended September 30, 2003 to $(0.12) for the corresponding period in 2003.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our working capital requirements through a combination of internally generated cash and short-term loans.

Cash was $3,212 as of September 30, 2004.

At September 30, 2004, we had a stockholder's deficit of $1,832,222 (excluding notes receivable from stockholders) and an accumulated deficit of $6,696,703. Our primary liquidity need is for working capital. To date, we have financed our working capital requirements through a combination of internally generated cash and short-term loans. We intend to continue funding our current operations through sales and debt and equity financing arrangements that may be insufficient to fund our capital expenditures, working capital and other cash requirements. In order to continue operations, we must obtain financing. We are currently addressing our liquidity issue by the following actions:

- Continue our aggressive program for selling inventory.
- Continue to implement plans to further reduce operating costs.
- Continue seeking investment capital through the public or private markets.
- Secure new customer orders. Since January 2004, we have secured $4,500,000 of new orders.

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

We intend to pursue external financing sources to meet the cash requirement of ongoing operations. Management is currently seeking to raise additional funds in the form of an equity or debt securities offering, or a combination thereof. However, there can be no guarantee that we will raise sufficient capital to execute our business plan. To the extent that we are unable to raise sufficient capital, our business plan will require substantial modifications and our operations may be curtailed. These conditions raise substantial doubt about our ability to continue as a going concern. Continuation as a going concern is dependent upon our ability to ultimately attain profitable operations, generate sufficient cash flow to meet obligations, and obtain additional financing as may be required.

INFLATION AND CHANGING PRICES

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

GOING CONCERN

The Company has incurred operating losses in the last two years, has a working capital deficit and a significant stockholders' deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

CRITICAL ACCOUNT POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. The amounts of assets and liabilities reported on the balance sheet and the amounts of revenues and expenses reported for each of the fiscal periods are affected by estimates and assumptions, which are used for, but not limited to, the accounting for revenue recognition, accounts receivable, doubtful accounts and inventories. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements:

Concentration of Credit Risk

The Company sells products to customers throughout the United States. The Company's ability to collect receivables is affected by economic fluctuations in the geographic areas served by the Company. Although the Company does not obtain collateral with which to secure its contracts receivable, management periodically reviews contracts receivable and assesses the financial strength of its customers and, as a consequence, believes that the receivable credit risk exposure is limited.

Long-Lived Assets

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discounted operations and extends that reporting to a component of an entity that either has been disposed of (by sales, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company adopted SFAS 144 on January 1, 2002. The provision of this statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated commitments to plan to sell such assets, as defined, by management. As a result, management cannot determine the potential effects that adoption of SFAS 144 will have on the Company's financial statements with respect to future disposal decision, if any. To date, management has determined that no such impairment exists and therefore, no adjustments have been made to the carrying values of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products or services will continue which could result in impairment of long-lived assets in the future.

Revenue Recognition

Service revenues are billed and recognized in the period the services are rendered.

The Company accounts for shipping and handling fees and costs in accordance with EITF 00-10 "Accounting for Shipping and Handling Fees and Costs." Such fees and costs incurred by the Company are immaterial to the operations of the Company.

In accordance with SFAS 48, "Revenue Recognition when Right of Return Exists," revenue is recorded net of an estimate of markdowns, price concessions and warranty costs. Such reserve is based on management's evaluation of historical experience, current industry trends and estimated costs.

The Securities and Exchange Commission issued Staff Accounting Bulletin 104 ("SAB 104"), "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 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

Our Chief Executive Officer who is also our Chief Financial Officer has evaluated the effectiveness of the design and operation of our disclosure controls and procedures in accordance with Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based on his evaluation, he concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in enabling us to record, process, summarize and report in a timely manner the information required to be disclosed in reports we file under the Exchange Act.

No change in our internal control over financial reporting occurred during the three months ended September 30, 2004 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

On August 2004, a shareholder converted 2,820 Preferred Shares Series C in to 47,000 shares of common stock. The shares were issued pursuant to an exemption provided by Section 3(a)(10).

Item 3. Defaults Upon Senior Securities

1. A note payable to an unaffiliated third party in the amount of $500,000 with an interest of 10% per annum, matured in May 2003 and is currently in default. The interest rate increased to 12% after the maturity date.

2. A note payable to an unaffiliated third party in the amount of $250,000 with an interest of 8% per annum, matured in May 2003 and is currently in default. The interest rate increased to 12% after the maturity due date.

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

4. A promissory note to an unaffiliated third party in the amount of $215,000 with an interest of 15% per annum, matured in March 2002 and is currently in default.

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 19, 2004

/s/ David Duquette

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

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2004 (unaudited)

ASSETS

Current Assets	
Cash	$ 3,212
Contracts receivable	129,017
Inventories, net	1,224,671
Costs in excess net of billings on uncompleted contracts	283,183
Prepaid expenses and other current assets	20,310
Total current assets	1,660,393
Property and Equipment, net	400,038
	$ 2,060,431

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Bank overdraft	$ 115,042
Accounts payable and accrued expenses	1,993,060
Dividends payable	314,250
Billings in excess of costs on uncompleted contracts	637,418
Notes payable	1,215,000
Current portion of obligations under capital lease	79,575
Total current liabilities	4,354,345
Obligations Under Capital Lease, net of current portion	4,467
Total Liabilities	4,358,812
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, 60,780 shares issued and outstanding	

(liquidation preference of $1,904,000)	60,780
Cumulative, convertible, Series D preferred stock, $25 par value, 75,000 shares authorized, 23,640 shares issued and outstanding (liquidation preference of $591,000)	591,000
Common stock, $0.10 par value, 50,000,000 shares authorized; 7,042,265 shares issued and outstanding	704,227
Subscriptions receivable	(462,500)
Notes receivable from stockholders	(466,159)
Additional paid-in capital	3,970,974
Accumulated deficit	(6,696,703)
Total stockholders' deficit	(2,298,381)
	$ 2,060,431

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2004 and 2003

	For the Three Months Ended September 30, 2004		For the N Ended Septem
	2004	2003	2004
	(unaudited)	(unaudited)	(unaudited)
NET SALES	$ 1,166,947	$ 2,108,964	$ 3,728,016
COST OF SALES	1,372,871	1,766,618	3,907,423
GROSS PROFIT (LOSS)	(205,924)	342,346	(179,407)
OPERATING EXPENSES			
Consulting and other compensation	16,306	--	202,819
Salaries and related	78,689	--	207,437
Selling, general and administrative	149,824	363,750	571,188
Loss of deposit	--	--	--
TOTAL OPERATING EXPENSES	244,819	363,750	981,444

OPERATING LOSS	(450,743)	(21,404)	(1,160,851)
OTHER INCOME (EXPENSE)			
Gain on forgiveness of accounts payable	4,812	--	549,870
Interest Expense	(46,099)	(78,454)	(132,901)
TOTAL OTHER INCOME (EXPENSE)	(41,287)	(78,454)	416,969
LOSS BEFORE PROVISION FOR INCOME TAXES	(492,030)	(99,858)	(743,882)
PROVISION FOR INCOME TAXES	--	867	--
NET LOSS	$ (492,030)	$ (100,725)	$ (743,882)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (531,780)	$ (140,475)	$ (863,132)
Basic and diluted net loss available to common stockholders per common share	$ (0.08)	$ (0.02)	$ (0.12)
Basic and diluted weighted average common shares outstanding	7,018,765	6,150,828	6,975,321

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Nine Months Ended September 30, 2004 and 2003

	2004	200
	(unaudited)	(unaud
Cash flows from operating activities:		
Net loss	$ (743,882)	$ (1,60
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	207,215	22
Gain on forgiveness of accounts payable	545,058	
Amortization of consulting fees	109,813	5

Amortization of debt discount on notes payable	--	4
Estimated fair market value of common stock issued for consulting services	50,000	11
Estimated fair market value of warrants issued in connection with notes payable	--	1
Changes in operating assets and liabilities:		
Contracts receivable	21,434	87
Inventories	(67,728)	15
Costs in excess of billings on uncompleted contracts	37,349	
Prepaid expenses and other current assets	5,381	(2
Deposits	--	47
Accounts payable and accrued expenses	(834,682)	(1
Billings in excess of costs on uncompleted contracts	69,804	16
Net cash (used in) provided by operating activities	(600,238)	49
Cash flows from investing activities:		
Purchases of property and equipment	(1,396)	(1
Net cash used in investing activities	(1,396)	(1
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	521,000	
Bank overdraft	(9,516)	
Proceeds from the issuance of notes payable	--	45
Principal repayments on notes payable	--	(90
Principal repayments on obligations under capital lease	(62,607)	(6
Net cash provided by (used in) financing activities	448,877	(50
Net decrease in cash	(152,757)	(2
Cash at beginning of period	155,969	8
Cash at end of period	$ 3,212	$ 5

Supplemental disclosure of non-cash investing and financing activities:

Dividends payable	$ 79,500	$ 2
Conversion of preferred stock to common stock	$ 4,700	$
Preferred stock issued in lieu of accounts payable	$ 40,000	$

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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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."

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, 2003, filed with the SEC. In the opinion of the Company, all adjustments, including normal recurring adjustments necessary of the Company for the interim periods have been included. The results of operations for the interim period are not necessarily indicative of the results for the full year.

PRINCIPLES OF CONSOLIDATION

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

GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. As of September 30, 2004, the Company has negative working capital of $2,693,952, an accumulated deficit of $6,696,703 and recurring

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

GOING CONCERN (continued)

losses from operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company intends to fund operations through increased sales and debt and equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the 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:

- The Company continues its aggressive program for selling inventory.
- The Company continues to implement plans to further reduce operating costs.
- The Company is seeking investment capital through the public markets.

The 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

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.

The Securities and Exchange Commission issued Staff Accounting Bulletin 104 ("SAB 104"), "Revenue

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 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" (see below).

METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

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

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

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

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

BASIC AND DILUTED LOSS PER COMMON SHARE

Under SFAS 128, "Earnings Per Share," basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIC AND DILUTED LOSS PER COMMON SHARE (continued)

the additional common shares were dilutive (there were 1,821,583 and 871,853 additional potential common shares of September 30, 2004 and 2003, respectively). Because the Company has incurred net losses, basic and diluted loss per share are the same as additional potential common shares would be anti-dilutive.

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
Net loss	$ (492,030)	$ (100,725)
Current cumulative preferred dividends	(39,750)	(39,750)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(531,780)	(140,475)
Denominator for basic and diluted loss per share:		
Weighted average shares	7,018,765	6,150,828
Basic and diluted loss per share	$ (0.08)	$ (0.02)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
Net loss	$ (743,882)	$ (1,606,781)
Current cumulative preferred dividends	(119,250)	(97,500)

Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(863,132)	(1,704,281)
Denominator for basic and diluted loss per share:		
Weighted average shares	6,975,321	6,007,231
Basic and diluted loss per share	$ (0.12)	$ (0.28)

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

STOCK BASED COMPENSATION

At September 30, 2004, the Company has one stock-based employee compensation plan and one stock-based non-employee compensation plan. The Company accounts for the employee compensation plan under the recognition and measurement principles of APB 25, and related interpretation. The Company accounts for the non-employee compensation plan under the recognition measurement principles of SFAS 123. There was no employee stock-based compensation cost recognized in net loss for the nine- month period ended September 30, 2004 and 2003. All options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004	2003
Net loss applicable to common stockholders:		
As reported	$ (863,132)	$ (1,704,781)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	--	--
Pro forma	$ (863,132)	$ (1,704,781)
Basic and diluted net loss per share:		
As reported	$ (0.12)	$ (0.28)
Pro forma	$ (0.12)	$ (0.28)

The above pro forma effects of applying SFAS 123 are not necessarily representative of the impact on reported net loss for future years.

NEW ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements discussed in the notes to the December 31, 2003 and 2002 financial statements filed previously with the Securities and Exchange Commission in Form 10-KSB that were required to be adopted during the year ending December 31, 2004 did not have a significant impact on the Company's financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 condensed consolidated financial statements to conform to the 2004 presentation.

2. CONTRACTS IN PROGRESS

Contracts in progress as of September 30, 2004 were as follows:

Cumulative costs to date	$ 6,137,881
Cumulative gross profit to date	3,744,336
Cumulative revenue earned	9,882,217
Less progress billings to date	(10,236,452)
Net overbillings	$ (354,235)

The following is included in the accompanying condensed consolidated balance sheet under these captions as of September 30, 2004:

Costs and estimated earnings on contracts in progress in excess of billings	$ 283,183
Billings in excess of costs and estimated earnings on contracts in progress	(637,418)
Net overbillings	$ (354,235)

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3. EQUITY TRANSACTIONS

During the quarter ended September 30, 2004, the Company issued 47,000 shares of restricted common stock upon conversion of 2,820 shares of Series C preferred stock at a conversion rate of 16.667.