

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

NEW CENTURY COMPANIES INC  
Form 10QSB  
November 14, 2006

SECURITIES EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

- 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:  
September 30, 2006

Commission File Number:  
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)

1

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  No

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock, par value \$ .10 per share, outstanding as of September 30, 2006 was 11,459,654.

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

2

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

ITEM 1. FINANCIAL STATEMENTS (Unaudited)	4
The condensed consolidated Financial Statements are set forth at the end of this document.	
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)	
Condensed Consolidated Balance Sheet	F-1
Condensed Consolidated Statements of Operations	F-2
Condensed Consolidated Statements of Cash Flows	F-3
Notes to Condensed Consolidated Financial Statements	F-4 - F-16
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS	4
ITEM 3. CONTROLS AND PROCEDURES	11
PART II OTHER INFORMATION	12
ITEM 1. LEGAL PROCEEDING	12
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	12
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	12
ITEM 4. SUBMISSION OF MATERS TO A VOTE OF SECURITY HOLDERS	12
ITEM 5. OTHER INFORMATION	12
ITEM 6. EXHIBITS	12

3

### 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 OR PLAN 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, and market and general policies, competition from other similar

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

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

The Company is engaged in acquiring, re-manufacturing and selling pre-owned Computer Numerically Controlled ("CNC") machine tools to manufacturing customers. The Company provides rebuilt, retrofit and remanufacturing services for numerous brands of machine tools. The remanufacturing of a machine tool, typically consisting of replacing all components, realigning the machine, adding updated CNC capability and electrical and mechanical enhancements, generally takes two to four months to complete. Once completed, a remanufactured machine is a "like new," state-of-the-art machine with a price ranging from \$275,000 to \$1,000,000, which is substantially less than the price of a new machine. The Company also manufactures original equipment CNC large turning lathes and attachments under the trade name Century Turn.

CNC machines use commands from onboard computers to control the movements of cutting tools and rotation speeds of the parts being produced. Computer controls enable operators to program operations such as part rotation, tooling selection and tooling movement for specific parts and then store the programs in memory for future use. The machines are able to produce parts while left unattended. Because of this ability, as well as superior speed of operation, a CNC machine is able to produce the same amount of work as several manually controlled machines, as well as reduce the number of operators required, generating higher profits with less re-work and scrap. Since the introduction of CNC tooling machines, continual advances in computer control technology have allowed for easier programming and additional machine capabilities.

4

A vertical turning machine permits the production of larger, heavier and more oddly shaped parts on a machine, which uses less floor space when compared to the traditional horizontal turning machine because the spindle and cam are aligned on a vertical plane, with the spindle on the bottom.

The primary industry segments in which the Company's machines are utilized to make component parts are in aerospace, power generation turbines, military, component parts for the energy sector for natural gas and oil exploration and medical fields. The Company sells its products to customers located in United States, Canada and Mexico.

Over the last four years, the Company has designed and developed a large horizontal CNC turning lathe with productivity features new to the metalworking industry. The Company believes that a potential market for the Century Turn Lathe, in addition to the markets mentioned above, is aircraft landing gear.

We provide our manufactured and remanufactured machines as part of the machine tool industry. The machine tool industry worldwide is approximately a 30 billion dollar business annually. The industry is sensitive to market conditions and generally trends downward prior to poor economic conditions, and improves prior to an improvement in economic conditions.

Our machines are utilized in a wide variety of industry segments as follows: aerospace, energy, valves, fittings, oil and gas, machinery and equipment, and transportation. With the recent downturn in the aerospace industry, we have seen an increase in orders from new industries such as defense and medical industries.

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

### PLAN OF OPERATIONS

The earnings of the Company for the three months ended September 30, 2006 were negative as a result of an increase in cost of goods sold.

The Company's current strategy is to expand its customer sales base with its present line of machine products. The Company's growth strategy also includes strategic acquisitions in addition to growing the current business. Plans for expansion will be funded through current working capital from ongoing sales and, to the extent available, additional funds in the form of debt or equity. Currently, the Company's management has attracted additional funding in the form of subordinated debt. However, there is no guarantee that the capital raised will be sufficient to execute the Company's business plan. To the extent that the capital raised is not sufficient, the Company's business plan will be required to be substantially modified and its operations curtailed.

5

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO SEPTEMBER 30, 2005.

**Revenues.** The Company generated revenues of \$1,996,131 for the three months ended September 30, 2006, which was a \$391,280 or a 24% increase from \$1,604,851 for the three months ended September 30, 2005. The increase is the result of a growth in customer orders, based on an increased demand in the market for machine tools and on the capability to sell the Company's product at higher contract amounts.

**Gross Profit.** Gross profit for the three months ended September 30, 2006, was \$368,900 or 18% of revenues, compared to \$596,216, or 37% of revenues for the three months ended September 30, 2005, a 38% decrease. The decrease of gross profit is the result of increased cost of goods sold. The increase in cost is determined by an increase of direct labor expense and the cost of direct material used. Due to expected increase in customer orders, the Company expanded its labor force. A short period of time is required to adequately train new hires to become productive.

**Operating Income.** Operating loss for the three months ended September 30, 2006, was \$(18,661) compared to an operating income of \$347,625 for the three months ended September 30, 2005. The decrease of \$366,286 or 105% in operating income is due to higher direct cost and \$128,799 increase in general and administration expense. This increase was primarily due to increases in legal and accounting expenses and lower gross margins.

**Interest Expense.** Interest expense for the three months ended September 30, 2006 was \$514,302 compared with \$63,369 for the three months ended September 30, 2005. The \$450,933 increase in interest expense is due primarily to \$291,667 amortization of beneficial conversion feature and discount on warrants associated with two convertible notes payable and amortization of deferred financing costs related to warrants and common stock granted to third parties in connection with the convertible notes financing.

**Liquidated damages expense.** The Company accrued \$420,000 of liquidated damages during the quarter ended September 30, 2006 on \$3.5 million convertible debt as a penalty for failure to have a registration statement declared effective as required by our previous financing. (See Note 5 to the condensed consolidated financial statements).

**Derivative liability expense.** As of September 30, 2006, a decrease in fair value of the derivative liability associated with the warrants to purchase common

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

stock, granted in connection with the \$3.5 million convertible debenture, was \$(834,285). The decrease in fair value was reversed to derivative liability expense (See Note 1 to the condensed consolidated financial statements).

6

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO SEPTEMBER 30, 2005.

**Revenues.** The Company generated revenues of \$5,993,751 for the nine months ended September 30, 2006, which was a \$1,749,032 or a 41% increase from \$4,244,719 for the nine months ended September 30, 2005. The increase is the result of an increase in customer orders, based on a better market for machine tools and on the capability to sell the Company's product at higher contract amounts.

**Gross Profit.** Gross profit for the nine months ended September 30, 2006, was \$1,578,860 or 26% of revenues, compared to \$1,354,403, or 31% of revenues for the nine months ended September 30, 2005, a 17% increase. The increase of gross profit is the result of increased sales.

**Operating Income.** Operating income for the nine months ended September 30, 2006, was \$276,027 compared to operating income of \$449,193 for the nine months ended September 30, 2005. The decrease of \$173,166 or 39% in operating income is due to \$229,303 increase in general and administration expense. This increase was primarily due to increases in legal and accounting expenses.

**Interest Expense.** Interest expense for the nine months ended September 30, 2006 was \$1,560,740 compared with \$182,654 for the nine months ended September 30, 2005. The \$1,378,086 increase in interest expense is due primarily to \$1,275,173 amortization of beneficial conversion feature and discount on warrants associated with two convertible notes payable and amortization of deferred financing costs related to warrants and common stock granted to third parties in connection with the convertible notes financing.

**Liquidated damages expense.** The Company accrued \$582,500 liquidated damages during the nine month ended September 30, 2006 on \$3.5 million convertible debt as a penalty for failure to have a registration statement declared effective as required by our previous financing. (See Note 5 to the condensed consolidated financial statements).

**Derivative liability expense.** As of September 30, 2006, a decrease in fair value of the derivative liability associated with the warrants to purchase common stock, granted in connection with the \$3.5 million convertible debenture, was \$(869,047). The decrease in fair value was reversed to derivative liability expense (See Note 1).

7

### FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

The net cash increase of the Company during the nine months ended September 30, 2006 was \$60,344. The increase is due to \$1,670,874 net cash provided by financing activities offset by \$1,590,530 net cash used in operating activities and \$20,000 net cash used in investing activities used to acquire new equipment. Currently, the Company's management attracted additional funding in the form of subordinated debt. However, there is no guarantee that the capital raised will be sufficient to execute its business plan. To the extent that the

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

capital raised is not sufficient, the Company's business plan will be required to be substantially modified and its operations curtailed.

The Company is currently improving its liquidity by the following actions:

- o The Company continues to implement plans to increase revenues.
- o The Company continues its program for selling inventory that has been produced or is currently in production.
- o The Company continues to implement plans to further reduce operating costs by improved process control and greater productivity.
- o 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 financial obligations for the foreseeable future.

### INFLATION AND CHANGING PRICES

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

### 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 consolidated financial statements and the accompanying notes. The amounts of assets and liabilities reported on our balance sheet and the amounts of revenues and expenses reported for each of our 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, inventories and derivative liabilities. 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:

8

#### 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.

Staff Accounting Bulletin 104 ("SAB 104"), "Revenue Recognition," 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

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

for services and product sales conforms to SAB 104. The Company recognizes revenue of long-term contracts pursuant to SOP 81-1.

### 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.

9

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.

### Estimates

Critical estimates made by management are, among others, deferred tax asset valuation allowances, realization of inventories, collectibility of contracts receivable, the estimating of costs for long-term construction contracts and the valuation of derivative liabilities. Actual results could materially differ from those estimates.

### Classification Of Warrant Obligation

In connection with the issuance of the 12% Senior Secured Convertible Notes (See Note 3), the Company has an obligation to file a registration statement covering the resale of 125% of the Registrable Securities, as defined in the Registration Rights Agreement. The obligation to file the registration statement meets the criteria of an embedded derivative to be bifurcated pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Under this transaction, the Company is obligated to register for resale the common shares underlying the warrants, and as a result, the embedded derivative associated with this warrant obligation does not meet the scope exception of paragraph 11(a) of SFAS No. 133. Specifically, at March 31, 2006, the Company did not have any uncommitted registered shares to settle the warrant obligation and accordingly, such obligation has been classified as a liability (outside of stockholders' deficit) in accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." The classification of the warrant obligation will be evaluated at each reporting date and as such, it will continue to be reported as a liability until such time all of the criteria necessary for equity

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

classification have been met.

### 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 our accounting policies, outcomes cannot be predicted with confidence. Also see Note 1 of Notes to Condensed Consolidated Financial Statements, Summary of Significant Accounting Policies, which discusses accounting policies that must be selected by management when there are acceptable alternatives.

10

### ITEM 3. CONTROLS AND PROCEDURES

#### EVALUATION OF CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act as of a date (the "Evaluation Date") within 90 days prior to filing the Company's September 30, 2006 Form 10-Q. Based upon that evaluation, the CEO and CFO concluded that, as of September 30, 2006, our disclosure controls and procedures were not effective in timely alerting management to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic filings with the SEC.

#### CHANGES IN CONTROLS AND PROCEDURES

There were no changes made in our internal controls over financial reporting during the quarter ended September 30, 2006 that have materially affected or are reasonably likely to materially affect these controls.

#### LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROL

The Company's management, including the CEO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate



## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

because of changes in circumstances, and/or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

11

### 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, 2006, the Company issued 100,000 shares of common stock to Insight Capital for consulting services. The shares were issued pursuant to an exemption from the registration rights of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof and are included in the current Registration Statement.

#### Item 3. Defaults Upon Senior Securities

None

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

None.

#### Item 5. Other Information

The Company is in process of filing a registration statement.

#### Item 6. Exhibits

##### Exhibits:

Exhibit 31.1 Section 302 Sarbanes Oxley Certification

Exhibit 31.2 Section 906 Sarbanes Oxley Certification

12

---

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEET  
September 30, 2006  
(Unaudited)

---

#### ASSETS

##### Current Assets

Cash	\$	60,344
Restricted cash		566,310
Contracts receivable		740,464

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Inventories, net	1,585,704
Costs and estimated earnings in excess of billings on uncompleted contracts	531,535
Deferred financing costs, net	335,067
Prepaid expenses and other current assets	33,005
	-----
Total current assets	3,852,429
Property and Equipment, net	319,914
Deferred Financing Costs, net	474,678
	-----
	\$ 4,647,021
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable and accrued expenses	1,706,804
Dividends payable	320,400
Billings in excess of costs and estimated earnings on uncompleted contracts	246,763
Warrant liability	1,320,953
Notes payable	84,000
Convertible notes payable, net of discounts	382,411
	-----
Total current liabilities	4,061,331
Convertible Notes Payable, net of discounts	329,250
Commitments and Contingencies	
Stockholders' Equity	
Cumulative, convertible, Series B preferred stock, \$1 par value, 15,000,000 shares authorized, no shares issued and outstanding (liquidation preference of \$25 per share)	--
Cumulative, convertible, Series C preferred stock, \$1 par value, 75,000 shares authorized, 27,780 shares issued and outstanding (liquidation preference of \$903,000)	27,780
Cumulative, convertible, Series D preferred stock, \$25 par value, 75,000 shares authorized, 11,640 shares issued and outstanding (liquidation preference of \$403,000)	291,000
Common stock, \$0.10 par value, 50,000,000 shares authorized; 11,459,654 shares issued and outstanding	1,145,966
Subscriptions receivable	(462,500)
Notes receivable from stockholders	(505,639)
Deferred consulting fees	(35,808)
Additional paid-in capital	7,500,575
Accumulated deficit	(7,704,934)
	-----
Total stockholders' equity	256,440
	-----
	\$ 4,647,021
	=====

-----  
See accompanying notes to the condensed consolidated financial statements.

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

F-1

-----  
 NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS For the  
 Three and Nine Months Ended September 30, 2006 and 2005  
 (Unaudited)  
 -----

	For the Three Months Ended September 30,		For the Ended
	2006	2005	2006
	-----	-----	-----
CONTRACT REVENUES	\$ 1,996,131	\$ 1,604,851	\$ 5,993,75
COST OF SALES	1,627,231	1,008,635	4,414,89
	-----	-----	-----
GROSS PROFIT	368,900	596,216	1,578,86
	-----	-----	-----
OPERATING EXPENSES			
Consulting and other compensation	104,464	153,418	432,42
Salaries and related	86,826	27,701	212,94
Selling, general and administrative	196,271	67,472	657,46
	-----	-----	-----
TOTAL OPERATING EXPENSES	387,561	248,591	1,302,83
	-----	-----	-----
OPERATING INCOME (LOSS)	(18,661)	347,625	276,02
	-----	-----	-----
OTHER (INCOME) EXPENSES			
Gain (loss) on forgiveness of debt	6,697	(50,760)	(7,20
Change in fair value of derivative liability	(834,285)	--	(869,04
Liquidated damages	420,000	--	582,50
Interest, including debt discount amortization	514,302	63,369	1,560,74
	-----	-----	-----
TOTAL OTHER (INCOME) EXPENSES	106,714	12,609	1,266,98
	-----	-----	-----
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(125,375)	335,016	(990,96
PROVISION FOR INCOME TAXES	--	--	--
	-----	-----	-----
NET INCOME (LOSS)	\$ (125,375)	\$ 335,016	\$ (990,96
	=====	=====	=====
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	\$ (125,375)	\$ 335,016	\$ (745,48
	=====	=====	=====
Basic net income (loss) applicable to common stockholders per common share	\$ (0.01)	\$ 0.04	\$ (0.0
	=====	=====	=====

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Diluted net income (loss) applicable to common stockholders per common share	\$ (0.01)	\$ 0.04	\$ (0.01)
Basic weighted average common shares outstanding	11,435,487	8,741,821	11,176,811
Diluted weighted average common shares outstanding	11,435,487	9,268,011	11,176,811

See accompanying notes to the condensed consolidated financial statements.

F-2

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the Nine Month Ended June 30, 2006 and 2005  
 (Unaudited)

	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ (990,962)	\$ 317,299
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	111,737	194,208
Net gain on forgiveness of debt	(7,204)	(50,760)
Amortization of deferred financing costs	254,545	--
Estimated fair market value of common stock and warrants issued for consulting services	244,909	122,833
Amortization of debt discounts	1,020,628	47,500
Estimated fair market value of common stock issued for penalties and settlement	--	110,000
Change in fair value of derivative liability	(869,047)	--
Changes in operating assets and liabilities:		
Contracts receivable	(452,895)	(47,920)
Inventories	(656,757)	14,824
Costs and estimated earnings in excess of billings on uncompleted contracts	(113,780)	(363,863)
Prepaid expenses and other current assets	(31,445)	(8,041)
Accounts payable and accrued expenses	154,362	236,445
Billings in excess of costs and estimated earnings on uncompleted contracts	(254,621)	(355,196)
Net cash provided by (used in) operating activities	(1,590,530)	217,329
Cash flows from investing activities:		
Purchases of property and equipment	(20,000)	--
Net cash used in investing activities	(20,000)	--

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Cash flows from financing activities:		
Restricted cash	(566,310)	--
Bank overdraft	(27,649)	--
Proceeds from issuance of convertible notes payable	3,800,000	--
Principal payments on notes payable	(846,000)	--
Principal payments on convertible notes payable	(266,667)	--
Deferred financing costs	(422,500)	--
Principal repayments on obligations under capital lease	--	(63,406)
	-----	-----
Net cash provided by (used in) financing activities	1,670,874	(63,406)
	-----	-----
Net increase in cash	60,344	153,923
Cash at beginning of period	--	129,087
	-----	-----
Cash at end of period	\$ 60,344	\$ 283,010
	=====	=====
Supplemental disclosure of non-cash activities:		
Common stock and warrants issued for deferred financing costs	\$ 641,790	\$ --
	=====	=====
Conversion of note payable interest to common stock	\$ 170,250	\$ --
	=====	=====
Debt discounts on convertible notes payable	\$ 3,823,400	\$ --
	=====	=====
Debt discount on notes payable for note extension	\$ 18,900	\$ 47,500
	=====	=====
Accrued cumulative dividends on preferred stock	\$ 42,400	\$ 105,525
	=====	=====
Cumulative preferred dividends waived	\$ 287,875	\$ --
	=====	=====
Conversion of preferred stock to common stock	\$ 2,000	\$ 331,800
	=====	=====

-----  
See accompanying notes to the condensed consolidated financial statements.

F-3

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
For The Nine Months Ended September 30, 2006 And 2005  
(Unaudited)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

New Century Companies, Inc. and Subsidiary (collectively, the "Company"), a

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

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 substantially less than the price 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 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 United States 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 ("GAAP") 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, 2005, filed with the SEC. In the opinion of management, all adjustments necessary to present fairly,

F-4

in accordance with GAAP, the Company's financial position as of September 30, 2006, 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 nine months ended September 30, 2006 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. The Company has negative working capital of \$208,902 and an accumulated deficit of \$7,704,934 at September 30, 2006, and had net cash used in operating activities of \$1,590,530 for the nine months ended September 30, 2006. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company funds 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, 2006. Therefore, the Company will be required to seek additional funds to

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

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 asset 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.

F-5

### 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.

Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" 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 on 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.

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

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) are classified as a current asset. Amounts billed in excess of costs and revenue earned (over billings) 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.

In accordance with Statements of Financial Accounting Standards ("SFAS") No. 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.

F-6

### BASIC AND DILUTED LOSS PER COMMON SHARE

Under SFAS No. 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 877,922 potentially dilutive and 13,372,330 potential common shares at September 30, 2006, which include common stock purchase warrants and shares underlying convertible preferred stock and convertible notes payable.

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, 2006 and 2005:

For the Three Months Ended September 30,

	2006	2005
	-----	-----
Net income (loss)	\$ (125,375)	\$ 335,000
Cumulative preferred dividends accrued	-	-
	-----	-----
Numerator for basic and diluted net income (loss) per common share:		
Net income (loss) applicable to common stockholders	(125,375)	335,000
Denominator for basic net income (loss) per common share:		
Basic weighted average common shares outstanding	11,435,487	8,741,800
	-----	-----
Denominator for diluted net income (loss) per common share:		
Diluted weighted average common shares outstanding	11,435,487	9,268,000
	-----	-----
Basic net income (loss) per common share	\$ (0.01)	\$ 0.04
	=====	=====



Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Diluted net income (loss) per common share	\$ (0.01)	\$ 0.
	=====	=====

F-7

For the Nine Months Ended September 30,

	2006	2005
	-----	-----
Net income (loss)	\$ (990,962)	\$ 317,29
Cumulative preferred dividends accrued	(42,400)	(105,52
Waiver of accrued cumulative preferred dividends	287,875	-
	-----	-----
Numerator for basic and diluted net income (loss) per common share:		
Net income (loss) available to common stockholders	(745,487)	211,77
Denominator for basic net income (loss) per common share:		
Basic weighted average common shares outstanding	11,176,819	7,912,87
	-----	-----
Denominator for diluted net income (loss) per common share:		
Diluted weighted average common shares outstanding	11,176,819	8,439,06
	-----	-----
Basic net income (loss) per common share	\$ (0.07)	\$ 0.0
	=====	=====
Diluted net income (loss) per common share	\$ (0.07)	\$ 0.0
	=====	=====

STOCK BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123-R, "Share-Based Payment," ("SFAS No. 123-R"). SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at the grant date, based on the fair value of the award. The Company previously accounted for awards granted under its equity incentive plan under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the Over-the-Counter Bulletin Board administered by Nasdaq) on the date of grant. Accordingly, no share-based compensation was recognized in the financial statements prior to January 1, 2006.

Under the modified prospective method of adoption for SFAS No. 123-R, the compensation cost recognized by the Company beginning January 1, 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

cost for all equity incentive awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

F-8

From time to time, the Company's Board of Directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of the Company's formal stock plans. The terms of these grants are individually negotiated and generally expire within five years from the grant date.

Under the terms of the Company's 2000 Stock Option Plan, options to purchase an aggregate of 5,000,000 shares of common stock may be issued to officers, key employees and consultants of the Company. The exercise price of any option generally may not be less than the fair market value of the shares on the date of grant. The term of each option generally may not be more than five years.

At September 30, 2006, the Company had 3,750,000 options available for future issuance under their equity compensation plans.

The effects of share-based compensation resulting from the application of SFAS No. 123-R to options granted outside of the Company's Stock Option Plan resulted in zero expense for the three and nine month periods ended September 30, 2006. Share-based compensation recognized as a result of the adoption of SFAS No. 123-R as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123-R use the Black Scholes option pricing model for estimating fair value of options granted.

In accordance with SFAS No. 123-R, the Company's policy is to adjust share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after December 31, 2006 is recognized in the period the forfeiture estimate is changed. Since the Company had no unvested options during the nine month period ended September 30, 2006, the effect of forfeiture adjustments in the three and nine month periods was not applicable.

Pro forma information required under SFAS No. 123 for periods prior to 2006 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under and outside of the Company's equity incentive plans was as follows:

F-9

	Three Months Ended September 30, 2006 -----	Nine Months Ended September 30, 2006 -----
Net income (loss) available as reported	(125,375)	(745,487)
Less: Total stock-based employee compensation expense determined under the Black Scholes		

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

option pricing model, net of tax	--	--
	-----	-----
Pro forma net loss	\$ (125,375)	\$ (745,487)
	=====	=====
Basic net income (loss) per common share :		
As reported	\$ (0.01)	\$ (0.07)
	=====	=====
Pro forma	\$ (0.01)	\$ (0.07)
	=====	=====
Diluted net income (loss) per common share		
As reported	\$ (0.01)	\$ (0.07)
	=====	=====
Pro forma	\$ (0.01)	\$ (0.07)
	=====	=====

Pro forma compensation expense reported in the above table is generally based on the vesting provisions in the related stock option grants. Since all options granted prior to January 1, 2005 had been completely vested prior to such date, there is no pro forma compensation expense to disclose for the three and nine months ended September 30, 2005, as reflected in the above table, nor any weighted average assumptions to disclose.

The expected volatility is based on the historical volatility. The expected life of options granted is based on the "simplified method" described in the SEC's Staff Accounting Bulletin No. 107 due to changes in the vesting terms and contractual life of current option grants compared to the Company's historical grants.

Options outstanding that have vested and are expected to vest as of September 30, 2006 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (1)
	-----	-----	-----	-----
Vested	1,255,000	\$ 0.34	1.87	\$ 149,500
Expected to vest	--	--	--	\$ --
	-----	-----	-----	-----
Total	1,255,000	--	--	\$ 149,500
	=====	=====	=====	=====

- (1) These amounts represent the difference between the exercise price and \$0.38, the closing market price of the Company's common stock on September 30, 2006 as quoted on the Over-the-Counter Bulletin Board under the symbol "NCNC.OB" for all in-the-money options outstanding.

F-10

The Company's policy for options outstanding that are expected to vest are net of estimated future forfeitures in accordance with the provisions of SFAS No. 123-R, which are estimated when compensation costs are recognized. Additional information with respect to stock option activity is as follows:

Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

	Outstanding Options			
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
December 31, 2005	3,600,000	1,413,500	\$ 0.40	\$ 481,000
Grants	--	--	--	
Exercises	--	--	--	
Cancellations	150,000	158,500	\$ 0.34	
September 30, 2006	3,750,000	1,255,000	\$ 0.34	\$ 149,000
Options exercisable at:				
December 31, 2005		1,413,500	\$ 0.40	
September 30, 2006		1,255,000	\$ 0.34	

(1) Represents the difference between the exercise price and the December 31, 2005 or September 30, 2006 market price of the Company's common stock, which was \$0.62 and \$0.38 respectively.

The Company follows SFAS No. 123 (R) (as interpreted by EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued To Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services") to account for transactions involving services provided by third parties where the Company issues equity instruments as part of the total consideration. Pursuant to paragraph 7 of SFAS No. 123 (R), the Company accounts for such transactions using the fair value of the consideration received (i.e. the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable. The Company applies EITF Issue No. 96-18, in transactions, when the value of the goods and/or services are not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, using the following methodology:

- a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance).
- b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.
- c) For any transactions not meeting the criteria in (a) or (b) above, the Company re-measures the consideration at each reporting date based on its then current stock value.

F-11

DEFERRED FINANCING COSTS

Direct costs of securing debt financing are capitalized and amortized over the term of the related debt using the straight-line method. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

charged to operations. During the three months ended September 30, 2006, the Company amortized approximately \$84,000.

### STOCK PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

The Company granted warrants in connection with the issuance of certain notes payable. Under Accounting Principles Board Opinion No. 14, "Accounting for Convertible Debt and Debt Issued With Stock Purchase Warrants," the relative estimated fair value of such warrants represents a discount from the face amount of the notes payable. Such discounts are amortized to interest expense over the term of the notes.

### BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). Pursuant to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and EITF No. 00-27, "Application of EITF Issue No. 98-5 To Certain Convertible Instruments," the estimated fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

### CLASSIFICATION OF WARRANT OBLIGATION

In connection with the issuance of the 12% Senior Secured Convertible Notes (See Note 3), the Company has an obligation to file a registration statement covering the resale of 125% of the Registrable Securities, as defined in the Registration Rights Agreement. The obligation to file the registration statement meets the criteria of an embedded derivative to be bifurcated pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Under this transaction, the Company is obligated to register for resale the common shares underlying the warrants, and as a result, the embedded derivative associated with this warrant obligation does not meet the scope exception of paragraph 11(a) of SFAS No. 133. Specifically, at the commitment date, the Company did not have any uncommitted registered shares to settle the warrant obligation and accordingly, such obligation has been classified as a liability (outside of stockholders' equity) in accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." The classification of the warrant obligation will be evaluated at each reporting date and as such, it will continue to be reported as a liability until such time all of the criteria necessary for equity classification have been met.

F-12

### NEW ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements discussed in the notes to the December 31, 2005 financial statements filed previously with the Securities and Exchange Commission in Form 10-KSB that are required to be adopted during the year ending December 31, 2006 did not or will not have a significant impact on the Company's financial statements.

### 2. CONTRACTS IN PROGRESS

Contracts in progress as of September 30, 2006 which include completed contracts not completely billed, approximate:

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Cumulative costs to date	\$ 5,081,000
Cumulative gross profit to date	4,700,000
	-----
Cumulative revenue earned	9,781,000
	-----
Less progress billings to date	(9,496,000)
	-----
Net under billings	\$ 285,000
	=====

The following is included in the accompanying condensed consolidated balance sheet under these captions as of September 30, 2006:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 532,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(247,000)
	-----
Net under billings	\$ 285,000
	=====

### 3. DEBT TRANSACTIONS

During the three months ended September 30, 2006, the Company amortized approximately \$313,000 of debt discounts, including beneficial conversion features, to interest expense.

During the three months ended September 30, 2006, the Company made cash payments of \$36,000 to reduce the principal balance on one of its outstanding secured notes payable. As of September 2006, the balance of the note is \$84,000.

F-13

During the quarter ended September 30, 2006, the Company settled two notes payable with a note holder with principal balances totaling approximately \$80,000 and recognized \$40,000 in forgiveness of debt.

During the three months ended September 30, 2006, the Company made cash payments of \$116,667 to reduce the principal balance on one of its outstanding secured convertible notes payable. As of September 2006, the principal balance is approximately \$3,383,000 which is presented net of debt discounts totaling approximately \$564,000.

Also, during the three months ended September 30, 2006, the Company made cash payments of \$150,000 to reduce the principal balance on one of its outstanding convertible notes payable. As of September 2006, the balance on such note is \$150,000. The balance is due on October 16, 2006, and is currently in default.

### 4. EQUITY TRANSACTIONS

On July 25, 2006, in connection with the Motivated Minds convertible note dated February 15, 2006, the Company issued 45,000 restricted shares of common stock to Motivated Minds for extension of the maturity date of \$150,000 of principal balance of the note until August 16, 2006, and the remaining principal balance of \$150,000 of the note until October 16, 2006. The common stock was recorded at the estimated fair value of the common stock on the date of the transaction totaling approximately \$23,000, which was recorded as interest expense for the quarter ended September 30, 2006.

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

In July 2006, the Company issued 100,000 shares of common stock valued at \$41,000 (based on the market price of the shares) to a third party for consulting services under one month contract.

F-14

### 5. CONTINGENCIES

On February 28, 2006, the Company entered into a Securities Purchase Agreement ("the Note") with CAMOFI whereby CAMOFI agreed to purchase, up to \$5,000,000 aggregate principal amount of 12% Senior Secured Convertible Notes, due February 28, 2009 (up to \$3,500,000 to be purchased at the closing and up to an additional \$1,500,000 to be purchased pursuant to an Additional Investment Right), secured by a first priority lien on all assets of the Company and its current and future subsidiaries (including a pledge of the shares of the Company's current and future Subsidiaries). The Note is convertible into shares of the Company's common stock at a fixed price of \$0.63 at any time at CAMOFI's option. Additionally, \$1,500,000 of the \$3,500,000 proceeds from the closing were placed into an escrow account, which was originally intended to be used for a potential private company business acquisition. Accordingly, such amount has been recorded as restricted cash in the accompanying condensed consolidated balance sheet at September 30, 2006. In connection with the Note, the Company issued 3,476,190 warrants at an exercise price of \$0.63 to CAMOFI. The warrants vested and became fully exercisable on their issuance date. Based upon changed circumstances and the immediate need of the Company for the funds for general working capital purposes, the parties decided to release the funds held in escrow to the Company as follows: (a) \$750,000 on July 10, 2006 and (b) \$750,000 on August 4, 2006. The Company utilized the first \$750,000 funds for general working capital purposes. The balance of \$750,000 is restricted solely for payment of the principal balance of the Note.

CAMOFI has not exercised its \$1,500,000 Additional Investment Right. Additionally, CAMOFI has certain registration rights for the common stock underlying both the warrants and the convertible debt. The related registration rights agreement includes financial penalties because the Company failed to meet the registration statement effectiveness deadline, which was June 28, 2006. Such penalties, which are 1.5% of the outstanding principal balance of the Note for the first 30 days and an additional 1.5% for each 30 day period thereafter, can be paid in common stock at the option of the Company.

As of September 30, 2006, the Company has accrued \$582,500 for such estimated liquidated damages, which are included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet. Of such amount, \$43,500 was accrued during the three months ended March 31, 2006, \$119,000 was accrued during the three months ended June 30, 2006, and \$420,000 was accrued during the three month ended September 30, 2006, based on the estimate that the registration statement will become effective at the current year end. As a result of not meeting these deadlines, this condition may be deemed an "Event of Default" if not cured to the satisfaction of CAMOFI prior to the expiration of thirty days from the Event Date, as defined in the registration rights agreement, and could possibly allow CAMOFI to call the debt or seek other remedy at such time.

F-15

### 6. SUBSEQUENT EVENTS

On October 23, 2006, the Company announced that its proposed acquisition of

## Edgar Filing: NEW CENTURY COMPANIES INC - Form 10QSB

Quilite International will be delayed for an indefinite period of time. The Company stated that negotiations for the acquisition have not moved forward as a result of the illness of Quilite's CEO. Assembly of Quilite products has also been suspended due to the illness.

F-16

### SIGNATURES

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

Date: November 14, 2006

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 Company and in the capacities and on the dates indicated.

Date: November 14, 2006

/s/ DAVID DUQUETTE

-----  
Name: David Duquette  
Title: Chairman, President and Director

Date: November 14, 2006

/s/ JOSEF CZIKMANTORI

-----  
Name: Josef Czikmantori  
Title: Secretary and Director