NEW CENTURY COMPANIES INC
Form 10QSB
August 16, 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:
June 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 August 13, 2004 was 6,995,265.

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.

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

PLAN OF OPERATIONS

The earnings of the Company for the three months ended June 30, 2004 were positive as a result of a decrease in operating expenses and a gain on forgiveness of accounts payable. The Company's current strategy is to expand its customer sales base with its present line of machine products. Plans for expansion are expected to be funded through current working capital from ongoing sales. However, significant growth will require additional funds in the form of debt or equity, or a combination thereof. However, there can be no assurance these funds will be available.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO JUNE 30, 2003.

Revenues. The Company generated revenues of $1,581,761 for the three months ended June 30, 2004, which was a $356,071 or 18% decrease from $1,937,832 for the three months ended June 30, 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 cannot predict for what period of time the decreased level of customer purchases will continue, whether the level of customer purchases will decline further, or the level at which incoming orders will be.

Gross Profit. Gross profit for the three months ended June 30, 2004, was $61,210 or 4% of revenues, compared to $(42,012) or negative 2% for the three months ended June 30, 2003. The $103,222 increase in gross profit was generated by a decrease in cost of sales of $459,293, due to the increased productivity. The Company's management increased their effort in cutting material losses and increased efficiency of labor.

Net Operating Loss. Net operating loss decreased to ($217,020) for the three months ended June 30, 2004 compared to $(407,450) for the three months ended June 30, 2003 as a result of management efforts to dramatically reduce operating expenses, such us consulting, salaries and general and administrative expenses, thereby increasing operational productivity.

Net Income. Net income increased to $283,034 for the three months ended June 30, 2004 compared to a net loss of $(436,234) for the three months ended June 30, 2003 as a result of a $545,058 gain on forgiveness of accounts payable.

Interest Expense. Interest expense for the three months ended June 30, 2004, increase to $45,004 compared to $28,784, for the three months ended June 30, 2003, primarily due to the accrual of interest on four default notes payable due to the inability of the Company to pay off its notes payable. The Company used these funds for the continuation of the operating activities.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO JUNE 30, 2003.

Revenues. The Company generated revenues of $2,561,069 for the six months ended June 30, 2004, which was a $1,094,903 or 30% decrease from $3,655,972 for the six months ended June 30, 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 cannot predict for what period of time the decreased level of customer purchases will continue, whether the level of customer purchases will decline further, or the level at which incoming orders will be.

Gross Profit. Gross profit for the six months ended June 30, 2004, was $26,517 or 1% of revenues, compared to $(127,600) or negative 3% for the six months ended June 30, 2003. The $154,117 increase in gross profit was generated by a decrease in cost of sales of $1,249,020, due to the increased productivity. The Company's management increased their effort in cutting material losses and increased efficiency of labor.

Net Loss. Net loss decreased to ($251,852) for the six months ended June 30, 2004 compared to $(1,504,456) for the six months ended June 30, 2003 as a result of management efforts to dramatically reduce operating expenses, such as consulting, salaries and general and administrative expenses, thereby increasing operational productivity and the $545,058 gain on vendors' forgiveness.

Interest Expense. Interest expense for the six months ended June 30, 2004, decrease to $86,802 compared to $142,217, for the six months ended June 30, 2003, primarily due to the repayment of $900,000 short-term loan in January 2003. In January 2003, the Company paid $60,000 additional interest for $900, 000 and $500,000 short-term loans.

FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

At June 30, 2004, cash was $0 as compared to $20,660 at June 30, 2003. The decrease is due to net cash used in operating activities of ($648,043). The Company has a substantial working capital deficit and requires an infusion of funds in the form of equity and/or debt. However, there is no guarantee that the Company will raise sufficient funds to execute its business plan. To the extent that the Company is unable to raise sufficient funds, the Company's business plan will be required to be substantially modified, its operations curtailed or protection under bankruptcy/reorganization laws sought.

The Company is currently addressing its liquidity issue by the following actions: The Company continues its aggressive program for selling inventory that has been produced or is currently in production. The Company continues to implement plans to further reduce operating costs. The Company is continually seeking investment capital through the public markets. However, there is no guarantee that any of these strategies will enable the Company to meet its obligations for the foreseeable future.

INFLATION AND CHANGING PRICES

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

GOING CONCERN

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

CRITICAL ACCOUNTING POLICIES

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

Concentration of Credit Risk

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

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Long-Lived Assets

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

Revenue Recognition

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

The Company accounts for shipping and handling fees and costs in accordance with EITF 00-10 "Accounting for Shipping and Handling Fees and

Costs." Such fees and costs incurred by the Company are immaterial to the operations of the Company.

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

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 101. The Company recognizes revenue on 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 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 June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

During the quarter ended June 30, 2004, we issued 23,640 shares of Series D Convertible Preferred Stock in a private placement to three accredited investors. The shares were issued pursuant to an exemption provided by Section 4(2) of the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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

2. A note payable to an unaffiliated third party in the amount of $250,000 that 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 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 expired in December 2003.

3. A note payable to an unaffiliated third party in the amount of $250,000 that was extended until May 2, 2003. As part of an extension agreement, the Company issued warrants to purchase 5,000 shares of common stock at an exercise price of $1.25, which vested upon grant and expire in March 2008.

4. A promissory note to an unaffiliated third party in the amount of $215,000 with an interest rate 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 AND REPORTS ON FORM 8-K

(a) Exhibits:

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

32.1 906 Sarbanes Oxley Certification

(b) Reports on Form 8-K:

None.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 16, 2004

/s/ David Duquette

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

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

ASSETS

Current Assets

Cash	$ --
Contracts receivable	39,767
Inventories, net	1,171,640
Costs in excess of billings on uncompleted contracts	493,182
Prepaid expenses and other current assets	20,310
Total current assets	1,724,899
Property and Equipment, net	469,125
	$ 2,194,024

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Bank overdraft	$ 138,237
Accounts payable and accrued expenses	1,930,752
Dividends payable	274,500
Billings in excess of costs on uncompleted contracts	303,259
Notes payable	1,215,000
Current portion of obligations under capital lease	79,575
Total current liabilities	3,941,323
Obligations Under Capital Lease, net of current portion	25,865
Total Liabilities	3,967,188
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, 63,600 shares issued and outstanding (liquidation preference of $1,865,000)	63,600
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; 6,995,265 shares issued and outstanding	699,527
Subscriptions receivable	(462,500)
Notes receivable from stockholders	(466,159)
Deferred consulting fees	(6,563)
Additional paid-in capital	3,972,854
Accumulated deficit	(6,164,923)
Total stockholders' deficit	(1,773,164)
	$ 2,194,024

See accompanying notes to the condensed consolidated financial statements.

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

	For the Three Months Ended June 30, 2004		For th Ended
	2004	2003	2004
	(unaudited)	(unaudited)	(unaudited
NET SALES	$ 1,581,761	$ 1,937,832	$ 2,561,06
COST OF SALES	1,520,551	1,979,844	2,534,55
GROSS PROFIT (LOSS)	61,210	(42,012)	26,51
OPERATING EXPENSES			
Consulting and other compensation	18,654	86,781	186,51
Salaries and related	73,784	99,214	128,74
Selling, general and administrative	185,792	179,015	421,36
Loss of deposit	--	428	-
TOTAL OPERATING EXPENSES	278,230	365,438	736,62
OPERATING LOSS	(217,020)	(407,450)	(710,10
OTHER INCOME (EXPENSE)			
Gain on forgiveness of accounts payable	545,058	--	545,05
Interest Income	--	--	-
Interest Expense	(45,004)	(28,784)	(86,80
TOTAL OTHER INCOME (EXPENSE)	500,054	(28,784)	458,25
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	283,034	(436,234)	(251,85
PROVISION FOR INCOME TAXES	--	--	-
NET INCOME (LOSS)	$ 283,034	$ (436,234)	$ (251,85

NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ 243,284	$ (465,109)	$ (331,35
Basic net income (loss) available to common stockholders per common share	$ 0.03	$ (0.08)	$ (0.0
Diluted net income (loss) available to common stockholders per common share	$ 0.03	$ (0.08)	$ (0.0
Basic weighted average common shares outstanding	6,995,265	5,946,383	6,953,59
Diluted weighted average common shares outstanding	8,816,848	5,946,383	6,953,59

See accompanying notes to the condensed consolidated financial statements.

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

	2004 (unaudited)	(u
Cash flows from operating activities:		
Net loss	$ (251,852)	$(
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	138,128	
Gain on forgiveness of accounts payable	545,058	
Amortization of consulting fees	103,250	
Amortization of debt discount on notes payable	--	
Estimated fair market value of common stock issued for consulting services	50,000	
Estimated fair market value of warrants issued in connection with notes payable	--	
Changes in operating assets and liabilities:		
Contracts receivable	110,684	
Inventories	(14,697)	
Costs in excess of billings on uncompleted contracts	(172,650)	
Prepaid expenses and other current assets	5,381	
Deposits	--	
Accounts payable and accrued expenses	(896,990)	
Billings in excess of costs on uncompleted contracts	(264,355)	
Net cash (used in) provided by operating activities	(648,043)	

Cash flows from investing activities:		
Purchases of property and equipment	(1,396)	
Net cash used in investing activities	(1,396)	
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	521,000	
Bank overdraft	13,679	
Proceeds from the issuance of notes payable	--	
Principal repayments on notes payable	--	
Principal repayments on obligations under capital lease	(41,209)	
Net cash provided by (used in) financing activities	493,470	
Net decrease in cash	(155,969)	
Cash at beginning of period	155,969	
Cash at end of period	$ --	$
Supplemental disclosure of non-cash activities - Dividends payable	$ 79,500	$

See accompanying notes to the condensed consolidated financial statements.

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

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 aunaudited 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 June 30, 2004, the Company has negative working capital of approximately $2,200,000, an accumulated deficit of $6,100,000 and recurring losses from operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company intends to fund operations through increased sales and debt and equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the fiscal year ending December 31, 2004. Therefore, the Company will be required to seek additional funds to finance its long-term operations. The successful outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

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

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

GOING CONCERN (continued)

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

- The Company continues its aggressive program for selling inventory.
- The Company continues to implement plans to further reduce operating costs.
- The Company is seeking investment capital through the public markets.
- The Company has secured approximately $4,100,000 of new orders from January 2004 through June 2004.

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.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 101. The Company recognizes revenue of long-term contracts pursuant to Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" (see below).

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

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

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

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

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

BASIC AND DILUTED LOSS PER COMMON SHARE

Under SFAS 128, "Earnings Per Share," basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive (there were 1,821,583 and 871,853 additional potential common shares of June 30, 2004 and 2003, respectively). With the exception of the three months ended June 30, 2004, the Company has incurred net losses and basic and diluted loss per share are equal because additional potential common shares would be anti-dilutive.

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIC AND DILUTED LOSS PER COMMON SHARE (continued)

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

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
Net income (loss)	$ 283,034	$ (436,234)
Current cumulative preferred dividends	(39,750)	(28,875)
Numerator for basic and diluted loss per share:		
Net income (loss) applicable to common stockholders	243,284	(465,109)
Denominator for basic and diluted loss per share:		
Weighted average shares	6,995,265	5,946,383
Basic income (loss) per share	$ 0.03	$ (0.08)
Diluted income (loss) per share	$ 0.03	$ (0.08)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2004	2003
Net loss	$ (251,852)	$(1,506,056)
Current cumulative preferred dividends	(79,500)	(57,750)
Numerator for basic and diluted loss per share:		
Net loss applicable to common stockholders	(331,352)	(1,563,806)
Denominator for basic and diluted loss per share:		
Weighted average shares	6,953,598	5,935,433
Basic and diluted loss per share	$ (0.05)	$ (0.26)

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

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1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

STOCK BASED COMPENSATION

At June 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 six month periods ended June 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. There was no stock based compenstation under SFAS 123 for any of the periods included in these interim financial statements. Hence, the disclosure requirements under SFAS 148 are not required.

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 ended December 31, 2004 did not have a significant impact on the Company's financial statements.

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JUNE 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 June 30, 2004 were as follows:

Cumulative costs to date	$ 5,281,395
Cumulative gross profit to date	3,444,003
Cumulative revenue earned	8,725,398
Less progress billings to date	(8,535,475)
Net overbillings	$ 189,923

The following is included in the accompanying condensed consolidated balance sheet as of June 30, 2004:

Costs and estimated earnings on contracts in progress in excess of billings	$ 493,182
Billings in excess of costs and estimated earnings on contracts in progress	(303,259)
Net overbillings	$ 189,923

3. EQUITY TRANSACTIONS

During the quarter ended June 30, 2004, 23,640 shares of convertible Series D preferred stock were issued in exchange for $521,000 in cash in connection with a Private Placement Memorandum ("PPM"), net of $30,000 paid to the broker/dealer and $40,000 of advances which were exchanged for shares. Such offering costs were included as an offset to additional paid-in capital in the accompanying condensed consolidated balance sheet. Since the related conversion rate is 50:1, the effective conversion rate of $0.50 resulted in a deemed discount of $153,660, which was included in accumulated deficit. Additionally, the broker/dealer was granted Three-Year Placement Warrants, as defined in the PPM, with a cashless exercise feature to purchase 25,000 shares of the Company's common stock at prices ranging from $0.50 to $1.00. No expense was recorded related to the granting of such warrants as they are considered an offering cost.