

NEW CENTURY COMPANIES INC
Form 10-Q
May 20, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

Commission file number: 000-09459

NEW CENTURY COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

061034587
(I.R.S. Employer
Identification Number)

9835 Romandel Ave.
Santa Fe Springs, CA 90670
(Address of principal executive offices)

(562) 906-8455
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company <input checked="" type="checkbox"/>

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

As of May 18, 2009, the Company had 15,344,654 shares of common stock, \$0.10 par value, issued and outstanding.

NEW CENTURY COMPANIES, INC.

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Part I - Financial Information

ITEM 1. FINANCIAL STATEMENTS

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2009 and December 31, 2008

	(Unaudited)	
	March 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash	\$ 268,082	\$ 31,889
Contract receivables, net	334,391	237,787
Inventories, net	412,889	564,022
Costs and estimated earnings in excess of billings on uncompleted contracts	15,551	416,664
Deferred financing costs	262,183	252,305
Prepaid expenses and other current assets	165,933	168,668
Total current assets	1,459,029	1,671,335
Property and Equipment, net	172,877	186,906
Deferred Financing Costs, net	173,803	233,702
Total Assets	\$ 1,805,709	\$ 2,091,943
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank Overdraft	\$ 32,152	\$ 15,329
Accounts payable and accrued liabilities	1,625,005	1,417,464
Dividends payable	459,275	459,275
Billings in excess of costs and estimated earnings on uncompleted contracts	823,478	1,388,348
Capital lease obligation, net of current portion	28,542	27,874
Derivative liability	4,885,000	1,975,298
CAMOFI Convertible note payable, net of discount of \$1,756,611 at March 31, 2009 and \$2,089,443 at December 31, 2008, respectively	1,070,669	737,838
CAMHZN Convertible note payable, net of discount of \$294,812 at March 31, 2009 and \$350,090 at December 31, 2008, respectively	455,188	399,910
CAMOFI Convertible Note, net of discount of \$248,439	452,761	-
CAMHZN Convertible Note, net of discount of \$61,577	112,223	-
Total current liabilities	9,912,229	6,414,272

Long Term Liabilities

Capital lease obligation, long term portion	2,482	9,804
Total liabilities	9,914,711	6,424,076

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, 26,880 shares issued and outstanding (liquidation preference of \$910,000)	26,880	26,880
Cumulative, convertible, Series D preferred stock, \$25 par value, 75,000 shares authorized, 11,640 shares issued and outstanding (liquidation preference of \$416,000)	291,000	291,000
Common stock, \$0.10 par value, 50,000,000 shares authorized; 15,344,654 shares issued and outstanding at March 31, 2009 and December 31, 2008	1,534,466	1,534,466
Notes receivable from stockholders	(564,928)	(564,928)
Deferred equity compensation	(81,667)	(101,667)
Additional paid-in capital	7,355,007	7,355,007
Accumulated deficit	(16,701,824)	(12,879,955)
Total stockholders' equity	(8,141,066)	(4,339,197)
Total Liabilities and Stockholders' equity	\$ 1,805,709	\$ 2,091,943
	-	-

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	2009	As Restated 2008
CONTRACT REVENUES	\$ 1,298,458	\$ 1,526,602
COST OF SALES	1,365,543	1,308,479
GROSS PROFIT	(67,085)	218,123
OPERATING EXPENSES		
Consulting and other compensation	62,615	271,384
Salaries and related	153,087	53,496
Selling, general and administrative	268,271	438,029
TOTAL OPERATING EXPENSES	483,973	762,909
OPERATING (LOSS)	(551,058)	(544,786)
OTHER INCOME (EXPENSES)		
Gain on writeoff of accounts payable	5,681	56,628
(Loss) / gain on derivative liabilities	(2,738,436)	1,300,762
Interest expense	(490,498)	(486,769)
TOTAL OTHER INCOME (EXPENSES)	(3,270,811)	870,621
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(3,821,869)	325,835
PROVISION FOR INCOME TAXES	-	-
NET INCOME (LOSS)	\$ (3,821,869)	\$ 325,835
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	\$ (3,821,869)	\$ 325,835
Basic net income (loss) available to common stockholders per common share	\$ (0.25)	\$ 0.02
Diluted net income (loss) available to common stockholders per common share	(0.25)	\$ 0.01
Basic weighted average common shares outstanding	15,344,654	14,033,089

Diluted weighted average common shares outstanding	15,344,654	41,981,711
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See accompanying notes to the condensed consolidated financial statements.

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	2009	As Restated 2008
Cash flows from operating activities:		
Net loss	\$ (3,821,869)	\$ 325,835
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	14,029	20,757
Bad debt expense (recovery)	-	-
Gain on write off of accounts payable	(5,681)	-
Gain on forgiveness of debt	-	(2,872,133)
Amortization of deferred financing cost	80,021	89,574
Amortization of stock-based consulting fees and employee compensation	20,000	125,345
Amortization of debt discount	339,160	251,894
Estimated fair market value of common stock issued for services	-	75,000
(Gain) loss on valuation of liabilities	2,738,436	(1,300,962)
Changes in operating assets and liabilities:		
Contracts receivable	(96,604)	(60,178)
Inventories	151,133	170,900
Costs and estimated earnings in excess of billings on uncompleted contracts	401,113	(22,635)
Prepaid expenses and other current assets	2,735	(222,867)
Accounts payable and accrued liabilities	238,419	(151,182)
Billings in excess of costs and estimated earnings on uncompleted contracts	(564,870)	410,089
Net cash (used in) provided by operating activities	(564,870)	(288,432)
Cash flows from investing activities:		
Purchases of property and equipment	-	-
Bank overdraft	16,823	12,899
Proceeds from issuance of convertible notes payable	730,000	-
Principal payments on notes payable and capital lease	(6,652)	(6,196)
Net cash provided by (used in) financing activities	740,171	448,052
Net (decrease) increase in cash	236,193	(281,729)
Cash at beginning of period	31,889	281,729
Cash at end of period	\$ 268,082	\$ 0
Derivative Liability from new Camhzn note	39,997	

Derivative Liability from new Camofi note	161,289
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See accompanying notes to the condensed consolidated financial statements.

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NEW CENTURY COMPANIES, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (As Restated)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization And Nature Of Operations

New Century Companies, Inc. and its wholly owned subsidiary, New Century Remanufacturing, Inc., (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 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, Inc.. 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-K for the year ended December 31, 2008, filed with the SEC. In the opinion of management, all adjustments necessary to present fairly, in accordance with GAAP, the Company's financial position as of March 31, 2009, and the results of operations and cash flows for the interim periods presented, have been made. Such adjustments consist only of normal recurring adjustments. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for the full year ending December 31, 2009. Amounts related to disclosure of December 31, 2008 balances within these interim condensed consolidated financial statements were derived from the audited 2008 consolidated financial statements and notes thereto.

The statement of operations and statement of cash flows for the three months ended March 31, 2008 included herein were restated to reflect the effect of changes to the original accounting for the 12% CAMOFI Note issued in February 2006. The original accounting did not record the separate derivative liability for the conversion option and warrants in accordance with FAS 133, "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock." For additional information regarding the restatement, see Note 6 of the condensed consolidated financial statements on Form 10-Q for the three months ended March 31, 2009 included herein and see Note 11 to our Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Reclassifications

The Company has reclassified the presentation of current prior-year information to conform to the current presentation.

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 March 31, 2009, the Company has an accumulated deficit of approximately \$16,701,824, had recurring losses, a working capital deficit of approximately \$8,485,264, and was also in default on two of its convertible notes. 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 anticipated increased sales along with renegotiated or new debt and equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the year ending December 31, 2009. Therefore, the Company will be required to seek additional funds to finance its long-term operations. The successful outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

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

- The Company continues its aggressive program for selling machines.
- The Company continues to implement plans to further reduce operating costs.
- The Company is seeking investment capital through the public and private 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. The Company had inventory reserves approximating \$577,000 and \$533,000 at March 31, 2009, and December 31, 2008, respectively.

	Inventory cost (thousands)	Direct Labor (thousands)	Direct Material (thousands)	Subcontractors (thousands)	Allocation of Indirect Overhead (thousands)
03/31/09	\$ 990	\$ 66	\$ 523	\$ 47	\$ 354
12/31/2008	\$ 1,097	\$ 107	\$ 568	\$ 45	\$ 377

Revenue Recognition

The Company's revenues consist primarily of contracts with customers. The Company uses the percentage-of-completion method of accounting to account for long-term contracts pursuant to Statements of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type 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 Company recognizes revenue on contracts.

For revenues from stock inventory the Company follows Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition", which outlines the basic criteria that must be met to recognize revenue other than revenue on contracts, and provides guidance for presentation of this revenue and for disclosure related to these revenue recognition policies in financial statements filed with the SEC.

For contracts, the amount of revenue recognized at the financial 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 financial statements.

Contracts that are substantially complete are considered closed for 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." Shipping and handling fees and costs incurred by the Company are immaterial to the operations of the Company and are included in cost of sales.

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 for markdowns, price concessions and warranty costs. Such reserve is based on management's evaluation of historical experience, current industry trends and estimated costs. As of March 31, 2009, the Company estimated the markdowns, price concessions and warranty costs and concluded amounts are immaterial and did not record any adjustment to revenues.

Basic And Diluted Loss Per Common Share

Basic net earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net loss by the weighted average number of common shares and dilutive common stock equivalents outstanding for each respective period.

Common stock equivalents, representing convertible Preferred Stock, convertible debt, options and warrants totaling approximately 53,887,000 at March 31, 2009 are not included in the diluted loss per share as they would be anti-dilutive. Common stock equivalents, representing convertible Preferred Stock, convertible debt, options and warrants totaling approximately 41,982,000 are included in the diluted loss per share at March 31, 2008.

Stock Based Compensation

Effective January 1, 2006, we adopted the fair value method of accounting for employee stock compensation cost pursuant to SFAS No. 123(R), "Share-Based Payments". Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures. The Company had no equity incentive awards granted prior to January 1, 2006 that were not yet vested. For the three months ended March 31, 2009 and 2008, no share-based compensation expense was recognized in the accompanying condensed consolidated statements of operations.

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.

There are no share-based compensation resulting from the application of SFAS No. 123-R to options granted outside of the Company's Stock Option Plan for the three months ended March 31, 2009 and 2008. Share-based compensation recognized as a result of 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, 2007 is recognized in the period the forfeiture estimate is changed.

At March 31, 2009, the Company estimated (using the Black Scholes pricing model) the fair value of options granted and no variance has been found. Therefore, the effect of forfeiture adjustments at the period ended March 31, 2009 was not applicable.

Options outstanding that have vested and are expected to vest as of March 31, 2009 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (1)
Vested	3,450,000	\$ 0.17	1.74	\$ —
Expected to vest (2)	650,000	\$ 0.08	0.16	\$ —
Total	4,100,000			\$ —

(1) Represents the added value as difference between the exercise price and the closing market price of the Company's common stock at the end of the reporting period (as of March 31, 2009 and December 31, 2008, the market price of the Company's common stock was \$0.08 and \$0.05, respectively).

(2) The 650,000 options become fully vested on April 8, 2009 and are valued at \$35,014 based on the stock market price of the shares at the contract date.

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:

	Outstanding Options			
	Shares Available	Number of	Weighted Average	Aggregate Intrinsic
	for Grant	Shares	Exercise Price	Value (1)
December 31, 2008	900,000	4,100,000	\$ 0.15	\$ —
Grants	—	—	—	—
Exercises	—	—	—	—
Cancellations	—	—	—	—
March 31, 2009	900,000	4,100,000	\$ 0.15	\$ —
Options exercisable at:				
March 31, 2009		3,450,000	\$ 0.17	
December 31, 2008		3,450,000	\$ 0.17	

(1) Represents the added value as difference between the exercise price and the closing market price of the Company's common stock at the end of the reporting period (as of March 31, 2009 and December 31, 2008, the market price of the Company's common stock was \$0.08 and \$0.05, 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 the fair value of the equity instruments is more reliably measurable and 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.

The following table summarizes information related to stock options outstanding and exercisable at March 31, 2009:

Exercise Price	Number of Option outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable at March 31, 2009 (1)
\$ 0.075-0.0825	1,300,000	0.40	\$ 0.08	650,000
\$ 0.15-0.20	2,800,000	0.19	\$ 0.19	2,800,000
	4,100,000		\$ 0.15	3,450,000

(1) 650,000 options become fully vested on April 8, 2009 and are valued at \$35,014 based on the stock market price of the shares at the contract date.

From time to time, the Company issues warrants to employees and to third parties pursuant to various agreements, which are not approved by the shareholders.

The following is a status of the warrants outstanding at March 31, 2009 and December 31, 2008:

	Outstanding Warrants		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
December 31, 2008	5,586,824	\$ 0.21	\$ —
Grants	—	—	—
Replaced	—	—	—
Exercises	—	—	—
Cancellations/ Terminated	—	—	—
Outstanding and Exercisable at March 31, 2009	5,586,824	\$ 0.21	—

1) Represents the added value as difference between the exercise price and the closing market price of the Company's common stock at the end of the reporting period (as of March 31, 2009 and December 31, 2008, the market price of the Company's common stock was \$0.08 and \$0.05, respectively).

The following table summarizes information related to warrants outstanding and exercisable at December 31, 2009:

Exercise Price	Number of Warrants outstanding	Weighted Average Remaining Contractual Life (Years)		Weighted Average Exercise Price	Exercisable at March 31, 2009
\$ 0.60-0.70	1,372,538	0.84	\$	0.64	1,372,538
\$ 0.07	4,214,286	3.76	\$	0.07	4,214,286
	5,586,824		\$	0.21	5,586,824

Deferred Financing Costs

Direct costs of securing debt financing are capitalized and amortized over the term of the related debt. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations. During the three months ended March 31, 2009 and 2008, the Company amortized approximately \$80,000 and \$90,000, respectively, to interest expense.

Income Taxes

We adopted the provisions of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes ("FIN 48") an interpretation of FASB Statement No. 109 ("SFAS 109") on January 1, 2007. The implementation of FIN 48 did not result in any adjustment to the Company's beginning tax positions. The Company continues to fully recognize its tax benefits which are offset by a valuation allowance to the extent that it is more likely than not that the deferred tax assets will not be realized. As of March 31, 2009, the Company did not have any unrecognized tax benefits. The Company files a Consolidated Federal income tax return in the U.S. The Company files a separate income tax return in the State of California. The Company is no longer subject to U.S. Federal tax examinations for the years before 2005, and to the State of California for the years before 2004.

Fair Value Measurements

The Company adopted SFAS No. 157, "Fair Value Measurements", in the first quarter of fiscal 2008. SFAS 157 was amended in February 2008 by the Financial Accounting Standards Board ("FASB") Staff Position ("FSP") FAS No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions", and by FSP FAS 157-2, "Effective Date of FASB Statement No. 157", which delayed the Company's application of SFAS 157 for nonrecurring nonfinancial assets and liabilities until January 1, 2009. FAS 157 was further amended in October 2008 by FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", which clarifies the application of SFAS 157 to assets participating in inactive markets.

Implementation of SFAS 157 did not have a material effect on the Company's results of operations or financial position and had no effect on the Company's existing fair-value measurement practices. However, SFAS 157 requires disclosure of a fair-value hierarchy of inputs the Company uses to value an asset or a liability. The three levels of the fair-value hierarchy are described as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. For the Company, Level 1 inputs include quoted prices on the Company's securities that are actively traded.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly. For the Company, Level 2 inputs include assumptions such as estimated life, risk free rate and volatility estimates used in determining the fair values of the Company's option and warrant securities issued.

Level 3: Unobservable inputs for the asset or liability. Beginning January 1, 2009, Level 3 inputs may be required for the determination of fair value associated with certain nonrecurring measurements of nonfinancial assets and liabilities. The Company does not currently present any nonfinancial assets or liabilities at fair value.

Significant Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R, "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer in a business combination: 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations beginning the first annual reporting period on or after December 15, 2008. Therefore, the Company expects to adopt SFAS 141R for any business combinations entered into beginning in 2009.

In May 2008, the FASB issued SFAS No. 162, "Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendment to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The adoption of this Statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In April 2009, the FASB Staff Position ("FSP") 107-1 ("FSP 107-1") amended SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 also amended Accounting Principals Board ("APB") Opinion No. 28, "Interim financial Reporting" to require disclosures in summarized financial information at interim reporting periods. FSP 107-1 becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 if a company also elects to FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", and FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments". Management is evaluating the impact this FSP will have on the Company's financial statement disclosures.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force, or "EITF"), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

2. CONTRACTS IN PROGRESS

Contracts in progress which include completed contracts not completely billed approximate the following as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Cumulative costs to date	\$ 2,029,000	\$ 6,756,000
Cumulative gross profit to date	1,327,000	5,768,000
Cumulative revenue earned	3,356,000	12,524,000
Less progress billings to date	(4,081,000)	(13,495,000)
Net under billings	\$ (725,000)	\$ (971,000)

The following approximate amounts are included in the accompanying condensed consolidated balance sheets under these captions:

	March 31, 2009	December 31, 2008
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 16,000	\$ 417,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(741,000)	(1,388,000)
Net under billings	\$ (725,000)	\$ (971,000)

3. CONVERTIBLE DEBT

CAMOFI AND CAMHZN 12% AND 15% Senior Secured Convertible Debt

The Company's convertible debt financing, Amended 12% CAMOFI Convertible Note ("Amended 12% CAMOFI Note") and 15% CAMHZN Convertible Note ("15% CAMHZN Note"), are in default. The last monthly contractual payment on the CAMOFI note was made in October 2008 and no payments have made on the CAMHZN Note which were scheduled to begin on September 1, 2008. The Convertible Notes aggregate to \$3,784,271 principal and interest. As of March 31, 2009 and December 31, 2008, the principal balances, accrued interest and the debt discounts are presented in the Convertible Debt Table, below.

CONV NOTES	March 31, 2009		December 31, 2008	
	CAMOFI	CAMHZN	CAMOFI	CAMHZN
Principal	\$ 2,827,281	\$ 750,000	\$ 2,827,281	\$ 750,000
Discount related to warrants liability	\$ (100,355)	\$ (41,170)	\$ (119,369)	\$ (48,890)
Discount related to convertible option liability	\$ (1,605,749)		\$ (1,909,996)	
Discount related to stock issued with notes	\$ (50,508)		\$ (60,078)	
Notes presented net of debt discounts	\$ 1,070,669	\$ 708,830	\$ 737,838	\$ 701,110
Accrued Interest	\$ 141,364	\$ 65,626	\$ 56,546	\$ 37,500

During the three months ended March 31, 2009 and 2008, the Company amortized debt discounts of approximately \$333,000 and \$252,000, respectively, to interest expense related to the 12% and 15% Convertible Notes.

The Convertible Debt and Warrant Agreements include an anti-dilution feature and a buy-in clause which cause the embedded conversion option and the warrants to be treated as derivative liabilities. which are fair valued on a quarterly basis and the resulting change in fair value of the derivative liabilities are recorded as a gain or loss upon valuation in the statement of operations.

In connection with the Amended 12% CAMOFI Note, the Company issued 725,000 five year warrants with an exercise price of \$0.10 and 725,000 five year warrants with an exercise price of \$0.20. Due to the anti-dilution feature in the warrant agreements, the warrants have a reduced exercise price of \$.07 and adjusted total warrants of 3,214,286 at March 31, 2009 and December 31, 2008. As of March 31, 2009 and December 31, 2008, the fair value of the warrant derivative liability was determined to be \$257,143 and 119,369 respectively. A loss upon valuation of \$105,743 was recorded for the three months ended March 31, 2009.

In connection with the 15% CAMHZN Note, the Company issued 1,000,000 seven year warrants with an exercise price of \$.07. As of March 31, 2008 and December 31, 2008, the fair value of the warrant derivative liability was determined to be \$80,000 and 50,000 respectively. A loss upon valuation of \$30,000 was recorded for the three months ended March 31, 2009.

The Amended 12% CAMOFI and 15% CAMHZN Notes are both convertible into shares of common stock at a conversion price of \$0.07. At March 31, 2009 and December 31, 2008, the aggregate fair value of the conversion option derivative liabilities was \$3,330,977 and 1,515,634, respectively. A loss upon valuation of \$1,815,343 was recorded for the three months ended March 31, 2009.

During the three months ended March 31, 2008, the Company recorded a loss upon valuation of 1,921,086 in connection with the change in fair values of the warrant and conversion option derivative liabilities related to the 12% CAMOFI Note.

CAMOFI AND CAMHZN Senior Secured Convertible Debt 83.42857% of face amount.

On February 18, 2009, the Company entered into an agreement with CAMOFI Master LDC for the issuance of a Senior Secured Convertible Note for \$701,200, maturing on August 18, 2009. The Note can be converted at \$0.07 per share at any time during the term of the convertible note. The Note was issued at a discount of 83.42857% of the face amount. The note is secured by all of the assets of the Company.

On February 18, 2009, New Century Companies, Inc. (the "Company") entered into an agreement with CAMHZN Master LDC for the issuance of a Senior Secured Convertible Note for \$173,800 maturing on August 18, 2009. The Note can be converted at \$0.07 per share at any time during the term of the convertible note. The Note was issued at a discount of 83.42857% of the face amount.

The Notes are convertible into shares of common stock with a conversion price of \$0.07. Per FAS 133 "Accounting for Derivative Instruments and Hedging Activities", the conversion option is a derivative liability. The Company recorded at issuance a \$161,289 derivative liability for the CAMOFI Note, and a \$39,977 derivative liability for the CAMHZN Note. The conversion option liability is revalued each quarter. At March 31, 2009 the fair value was \$632,931 for the CAMOFI Note, and \$156,879 for CAMHZN Note and a loss of \$471,643 for the CAMOFI Note and \$116,902 for the CAMHZN Note was recorded from the increase in the fair values of these derivative liabilities.

The Company recorded at issuance a \$116,200 discount on the CAMOFI Note and a \$28,800 discount on the CAMHZN Note for the difference between the face amount of the notes and the proceeds received. In addition, the discounts resulting from the conversion options of \$161,289 on the CAMOFI Note and \$39,977 on the CAMHZN Note are amortized into interest expense ratably over the life of the Notes. As of March 31, 2009, the Company recorded amortization expense on the debt discounts of \$29,050 on the CAMOFI Note and \$7,200 on the CAMHZN Note.

4. EQUITY TRANSACTIONS

Equity Compensation

In February 2008, the Company entered into a year contract with a third party for public relations services valued at \$30,000. The fee was paid in the form of 150,000 shares of the Company's common stock based on the stock market price of the shares at the contract date. The value of the common stock on the date of the transaction was recorded as a deferred charge and is amortized to operating expense over the life of the agreement. Consulting fees under this contract of \$2,500 and \$5,000 were amortized to expense during the quarter ended March 31, 2009 and March 31, 2008, respectively. As of March 31, 2009 the balance of deferred consulting fees was fully amortized.

In February 2008, the Company entered into a three month contract with a third party for public relations services valued at \$20,000. The fee was paid in the form of 100,000 shares of the Company's common stock based on the stock market price of the shares at the contract date. The value of the common stock on the date of the transaction was recorded as a deferred charge and is amortized to operating expense over the life of the agreement. Consulting fees under this contract were amortized to expense during the year ended December 31, 2008 and at March 31, 2009 the balance of deferred consulting fees was fully amortized.

In March 2008, the Company entered into a one month contract with a third party for public and financial communication services valued at \$25,000. The fee was paid in the form of 125,000 shares of the Company's common stock based on the stock market price of the shares at the contract date. The value of the common stock on the date of the transaction was recorded as a deferred charge and is amortized to operating expense over the life of the agreement. Consulting fees under this contract were amortized to expense during the year ended December 31, 2008 and at March 31, 2009 the balance of deferred consulting fees was fully amortized.

In June 2007, the Company entered into a three year contract with a third party for internet public investor relations services valued at \$210,000. The fee was paid in the form of 300,000 shares of the Company's common stock and valued based on the stock market price of the shares at the contract date. The value of the common stock on the date of the transaction was recorded as a deferred charge and \$17,000 was amortized to operating expense during the quarter ended March 31, 2009. At March 31, 2009 and December 31, 2008, the remaining deferred consulting fees totaled \$81,667 and \$204,167, respectively.

During the three months ended March 31, 2009 and 2008, the Company amortized approximately \$20,000 and \$125,000, respectively, of consulting expense related to deferred consulting fees on equity based compensation arrangements discussed above.

As of March 31, 2009 and December 31, 2008, the unamortized portion of consulting fees on such equity based compensation arrangements approximate \$82,000 and \$102,000, respectively.

Dividends on preferred stock

The preferred shares Series C and preferred shares Series D shares have a mandatory cumulative dividend of \$1.25 per share, which is payable on a semi-annual basis in September and December each year to holders of record on November 30 and May 31. The preferred shareholders have certain liquidation preferences and do not have voting rights.

At March 31, 2009 and December 31, 2008, the Company had a total of 26,680 preferred shares Series C and 11,640 preferred shares Series D issued and outstanding. As of March 31, 2009 and December 31, 2008, the Company's accumulated dividends payable is \$459,275. The Company did not declare any dividends during the three months ended March 31, 2009.

5. EARNINGS (LOSS) PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per share computations for the three months ended March 31, 2009 and 2008:

	2009			2008		
	Income (Loss)	Shares	Per Share Amount	Income (Loss)	Shares	Per Share Amount
Net income	\$ (3,575,506)			\$ 325,835		
Less: Preferred stock dividends	-			-		
Basic income available to common shareholders	\$ (3,575,506)	15,344,654	\$ (0.23)	\$ 325,835	14,033,089	\$ 0.02
Add: Preferred dividends	-	-		-		
Add: Interest on convertible debt	-	-		254,100	-	
Add: Dilutive impact of convertible preferred stock	-	-		-	1,026,676	
Add: Dilutive impact of convertible debt	-	-		-	23,333,333	
Add: Dilutive impact of options and warrants	-	-		-	3,588,614	
Diluted income available to common shareholders	\$ (3,575,506)	15,344,654	\$ (0.23)	\$ 579,935	41,981,711	\$ 0.01

The computation of diluted earnings per share does not assume conversion or exercise of securities that may have an anti-dilutive effect on earnings per share. Convertible preferred stock, convertible debt, stock options and warrants that have not been included in the diluted income per share computation totaled 59,025,025 and 3,490,792 shares of common stock for the three months ended March 31, 2009, and 2008, respectively.

6. RESTATEMENT

The statement of operations and statement of cash flows for the three months ended March 31, 2008 included herein were restated to reflect the effect of changes to the original accounting for the CAMOFI Note issued in February 2006. The original accounting did not record the separate derivative for the conversion option and the warrants in accordance with FAS 133, "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock".

The effect of these changes impacted the balance sheet and the statement of operations from February 2006 through December 31, 2008. The balance sheet effect is due to recording the conversion option and warrant liabilities and the effect on the statement of operations is due to the gains and losses from the quarterly fair value adjustments and an increase in interest expense. Accordingly, the statement of operations for the three months ended March 31, 2008 has been restated as summarized below:

Effect of Correction	As Previously Reported	Adjustment	As Restated
Balance Sheet as of March 31, 2009			
Conversion Option Liability	0	2,737,709	2,737,709
Warrant Liability	0	1,713,023	1,713,023
Accumulated Deficit	12,207,494	2,418,144	14,625,638
Total Stockholders' Deficit (equity)	1,908,610	4,899,674	6,808,284
Statement of Operations for the three months ended March 31, 2009			
Marked-to-Market Gain (Loss)	0	1,300,762	1,300,762
Net Income (Loss)	(974,927)	1,300,762	325,835
EPS - Basic	(0.07)	0.09	0.02
EPS - Diluted	(0.07)	0.03	0.008

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

The following discussion should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-Q. 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 businesses, and market and general economic factors. All forward-looking statements contained in this Form 10-Q 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 an equivalent 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.

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.

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 are funded through current working capital from ongoing sales. A significant acquisition will require additional financing.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2009 COMPARED TO MARCH 31, 2008.

Revenues. The Company generated revenues of \$1,298,458 for the three months ended March 31, 2009, which was a \$228,144 or 15% decrease from \$1,526,602 for the three months ended March 31, 2008. The decrease is the result of lower than usual sales and a tighter credit market.

Gross Profit. Gross profit for the three months ended March 31, 2009, was \$(67,085) or 5% of revenues, compared to \$218,123 or 14% of revenues for the three months ended March 31, 2008, a 131% decrease. The decrease in gross profit is due to certain fixed overhead expenses applied to lower revenues.

Operating Loss. Operating loss for the three months ended March 31, 2009, was \$551,058 compared to \$544,786 for the three months ended March 31, 2008. The increase in loss of \$6,272 is primarily due to decreased revenues and lower gross profit on jobs in progress for the quarter ended March 31, 2009.

Interest Expense and Debt Discount Amortization. Interest expense for the three months ended March 31, 2009, was \$490,498 compared with \$486,769 for the three months ended March 31, 2008. The increase of \$3,729 in interest expenses is due to additional interest on new convertible loans.

The Company incurred total operating expenses of \$483,973 for the three months ended March 31, 2009, which was a \$278,936 or 37% decrease from \$762,909 for the three months ended March 31, 2008. In the three months ended March 31, 2009, compared with the three months ended March 31, 2008, all the operating expenses increased (decreased) as follow:

	Increase/(Decrease) %
Consulting and other compensation	(77)
Salaries and related	186
Selling, general and administrative	(39)

The decrease in consulting and other compensation is due to the reduction in the number of consulting contracts and the expiration of the existing contracts. The increase in salaries and related costs is due to the reclassification of certain costs to compensation and selling, general and administrative expenses decreased due to the increase in public company costs.

Change in Fair Value of Derivative Liabilities. In connection with its convertible notes, the Company recorded conversion options and warrant derivative liabilities. The derivative liabilities are reevaluated each reporting period. For the three months ended March 31, 2009, a \$1,815,343 loss from increase in fair value of the conversion option liability and a \$105,743 loss from increase in fair value of the warrant liability was recorded on the CAMOFI 12% Convertible Note. Also, there was a \$30,000 gain from the increase in fair value associated with the warrants to purchase common stock, granted in connection with the \$600,000 convertible debenture.

As of March 31, 2009, there was a \$471,643 loss from increase in fair value of the February 2009 CAMOFI conversion option liability and a \$116,902 loss from increase in the fair value of the February 2009 CAMHZN conversion option liability.

The decrease in fair value was recorded as a gain in the Company Statement of Operation. (See Note 3 to the condensed consolidated financial statements).

FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

The net increase during the three months ended March 31, 2009 was \$236,193. The increase is due to \$730,000 proceeds from issuance of 730,000 convertible note payable.

For the three months ended March 31, 2009, the cash provided by financing activities was \$719,715, compared with \$448,052 in the three months ended March 31, 2008. For the three months ended March 31, 2008, cash was used by operating activities.

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 an accumulated deficit of approximately \$16,701,824, a net loss of approximately \$3,821,869, a working capital deficit of approximately \$8,485,264 and was also in default on two of its convertible debt. These factors, among others, raises substantial doubt about the Company's ability to continue as a going concern. The Company intends to fund operations through anticipated increased sales along with renegotiated or new debt and equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the year ending December 31, 2009. Therefore, the Company will be required to seek additional funds to finance its long-term operations. The successful

outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

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

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

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 our 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 and inventories. Actual results could differ from these estimates. The accounting policies stated below are significantly affected by judgments, assumptions and estimates used in the preparation of the financial statements:

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 recorded to cost of goods sold and are immaterial to the operations of the Company.

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

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition," as amended by SAB No. 104 which outlines the basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. Management believes that the Company's revenue recognition policy for services and product sales conforms to SAB 101 amended by 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.

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 (over billings) are classified as a current liability.

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. The Company had inventory reserves approximating \$578,000 and \$533,000 at March 31, 2009, and December 31, 2008, respectively.

	Inventory cost (thousands)	Direct Labor (thousands)	Direct Material (thousands)	Subcontractors (thousands)	Allocation of Indirect Overhead (thousands)
03/31/09	\$ 990	\$ 66	\$ 523	\$ 47	\$ 354
12/31/2008	\$ 1,097	\$ 107	\$ 568	\$ 45	\$ 377

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer, who is also our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer concluded as of March 31, 2009 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses discussed immediately below.

Material Weaknesses

(1) We had not effectively implemented comprehensive entity-level internal controls, as evidenced by the following deficiencies:

We did not establish an independent Audit Committee who are responsible for the oversight of the financial reporting process, nor was an Audit Committee Charter defined. At the current time we do not have any independent members of the Board who could comprise this committee.

We did not establish an adequate Whistle Blower program for the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters to the Audit Committee and Board of Directors.

We did not have an individual on our Board, nor on the Audit Committee, who meets the “Financial Expert” criteria.

We did not maintain documentation evidencing quarterly or other meetings between the Board, senior financial managers and our outside general counsel. Such meetings include reviewing and approving quarterly and annual filings with the Securities and Exchange Commission and reviewing on-going activities to determine if there are any potential audit related issues which may warrant involvement and follow-up action by the Board.

We did not follow a formal fraud assessment process to identify and design adequate internal controls to mitigate those risks not deemed to be acceptable.

We did not conduct annual performance reviews or evaluations of our management and staff employees.

(2) We did not have a sufficient complement of personnel with appropriate training and experience in GAAP, as evidenced by the following deficiencies:

We do not have a formally trained Chief Financial Officer who is responsible for the oversight of the accounting function. Currently the CEO is responsible for this function, but has not had formal accounting or auditing experience.

The Controller is the only individual with technical accounting experience in our company but is limited in the exposure to SEC filings and disclosures and is not a full-time employee of the company.

We have not consulted with other outside parties with accounting experience to assist us in the SEC filings and disclosures prior to the December 31, 2008 10-K filing during 2009.

(3) We did not adequately segregate the duties of different personnel within our accounting group due to an insufficient complement of staff and inadequate management oversight.

(4) We did not adequately design internal controls as follows:

- The controls identified in the process documentation were not designed effectively and had no evidence of operating effectiveness for testing purposes.
 - The controls identified in the process documentation did not cover all the risks for the specific process
- The controls identified in the process documentation did not cover all applicable assertions for the significant accounts.

(5) Due to the material weaknesses identified at our entity level we did not test whether our financial activity level controls or our information technology general controls were operating sufficiently to identify a deficiency, or combination of deficiencies, that may result in a reasonable possibility that a material misstatement of the financial statements would not be prevented or detected on a timely basis.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Inherent limitations exist in any system of internal control including the possibility of human error and the potential of overriding controls. Even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. The effectiveness of an internal control system may also be affected by changes in conditions.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

None.

Item 3. Defaults Upon Senior Securities

Starting October 2008, the Company has been in default with all monthly payments on the 12% CAMOFI and 15% CAMHZN Convertible Note payable. As of March 31, 2009, the Company's default principal and interest aggregate to \$510,000.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1 Certification required by Rule 13a-14(a) or Rule 15d-14(d) and under Section 302 of the Sarbanes-Oxley act of 2002

Exhibit 32.1 Certification required by Rule 13a-14(a) or Rule 15d-14(d) and under Section 906 of the Sarbanes-Oxley act of 2002

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.

May 20, 2009

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.

May 20, 2009

/s/ DAVID DUQUETTE

Name: David Duquette

Title: Chairman, President and Director

May 20, 2009

/s/ JOSEF CZIKMANTORI

Name: Josef Czikmantori

Title: Secretary and Director