

NEW CENTURY COMPANIES INC

Form 10-Q/A

November 19, 2009

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

FORM 10-Q/A  
Amendment no. 2

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)

9831 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 ☒

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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 x

As of August 17, 2009, the Company had 15,344,654 shares of common stock, \$0.10 par value, issued and outstanding.

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### Explanatory Note

We are filing this Amendment No. 2 to Form 10-Q for the three-month period ended March 31, 2009, to include the review report of our independent registered public accounting firm. We have not updated any other information included in this report, except to currently date our certifications, as required by Sections 302 and 906 of the Sarbanes Oxley Act.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q/A contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. For example, statements regarding the Company’s financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. These statements are generally accompanied by words such as “intend,” “anticipate,” “believe,” “estimate,” “potential(ly),” “continue,” “forecast,” “predict,” “plan,” “may,” “will,” “could,” “would,” “should,” “expect,” “may expect,” or other comparable terminology. The Company believes that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to it on the date hereof, but the Company cannot provide assurances that these assumptions and expectations will prove to have been correct or that the Company will take any action that the Company may presently be planning. However, these forward-looking statements are inherently subject to known and unknown risks and uncertainties. Actual results or experience may differ materially from those expected or anticipated in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, available cash, research results, competition from other similar businesses, and market and general economic factors. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q/A.

NEW CENTURY COMPANIES, INC.

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Part I - Financial Information

ITEM 1. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of New Century Companies, Inc. and Subsidiary

We have reviewed the accompanying condensed consolidated balance sheet of New Centuries Companies, Inc. and Subsidiary (the "Company") as of March 31, 2009, and the related condensed consolidated statements of operations and cash flows for the three-month period ended March 31, 2009. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the condensed consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ KMJ Corbin & Company LLP  
Costa Mesa, CA  
August 31, 2009

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

	(Unaudited) March 31, 2009 (Restated - See Note 6)	December 31, 2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 268,095	\$ 31,889
Contract receivables, net of allowance of \$0 and \$24,000 for March 31, 2009 and December 31, 2008, respectively	334,391	237,787
Inventories	412,889	564,022
Costs and estimated earnings in excess of billings on uncompleted contracts	102,028	416,664
Deferred financing costs	370,933	252,305
Prepaid expenses and other current assets	165,933	168,668
<b>Total current assets</b>	<b>1,654,269</b>	<b>1,671,335</b>
<b>Property and Equipment, net</b>	<b>172,876</b>	<b>186,906</b>
<b>Deferred Financing Costs, net</b>	<b>173,803</b>	<b>233,702</b>
<b>Total Assets</b>	<b>\$ 2,000,948</b>	<b>\$ 2,091,943</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Bank overdraft	\$ 32,152	\$ 15,329
Accounts payable and accrued liabilities	1,519,171	1,417,464
Dividends payable	459,275	459,275
Billings in excess of costs and estimated earnings on uncompleted contracts	607,061	1,388,348
Capital lease obligation, current portion	28,542	27,874
Derivative liability	4,306,028	1,975,298
CAMOFI Convertible note payable, net of discount of \$1,756,612 at March 31, 2009 and \$2,089,443 at December 31, 2008, respectively	1,070,670	737,838
CAMHZN Convertible note payable, net of discount of \$294,813 at March 31, 2009 and \$350,090 at December 31, 2008, respectively	455,187	399,910
CAMOFI Convertible Note, net of discount of \$288,039	413,161	-
CAMHZN Convertible Note, net of discount of \$71,778	102,022	-
<b>Total current liabilities</b>	<b>8,993,269</b>	<b>6,421,336</b>

## Long Term Liabilities

Capital lease obligation, long term portion	2,482	9,804
Total liabilities	8,995,751	6,431,140

## Commitments and Contingencies

## Stockholders' Deficit

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 \$672,000)	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 \$291,000)	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	(15,555,561)	(12,879,955)
Total stockholders' deficit	(6,994,803)	(4,339,197)
Total Liabilities and Stockholders' deficit	\$ 2,000,948	\$ 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)

	For the Three Months Ended March 31, (Restated - See Note 6)	
	2009	2008
CONTRACT REVENUES	\$ 1,054,702	\$ 1,526,602
COST OF SALES	818,893	1,308,479
GROSS PROFIT	235,809	218,123
OPERATING EXPENSES		
Consulting and other compensation	62,615	271,384
Salaries and related	153,087	53,496
Selling, general and administrative	232,021	438,029
TOTAL OPERATING EXPENSES	447,723	762,909
OPERATING LOSS	(211,914)	(544,786)
OTHER INCOME (EXPENSES)		
Gain on writeoff of accounts payable	5,681	56,628
(Loss) / gain on valuation of derivative liabilities	(1,800,978)	1,300,762
Interest expense	(668,395)	(486,769)
TOTAL OTHER INCOME (EXPENSES)	(2,463,692)	870,621
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(2,675,606)	325,835
PROVISION FOR INCOME TAXES	-	-
NET INCOME ( LOSS)	\$ (2,675,606)	\$ 325,835
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	\$ (2,675,606)	\$ 325,835
Basic net income (loss) available to common stockholders per common share	\$ (0.17)	\$ 0.02
Diluted net income (loss) available to common stockholders per common share	\$ (0.17)	\$ 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)

	(Restated - See Note 6)	
	2009	2008
Cash flows from operating activities:		
Net (loss) income	\$ (2,675,606)	\$ 325,835
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization of property and equipment	14,030	20,757
Gain on write off of accounts payable	(5,681)	(56,628)
Amortization of deferred financing costs	116,271	89,574
Amortization of stock-based consulting fees and employee compensation	20,000	125,343
Amortization of BCF and debt discount	508,044	251,894
Estimated fair value of common stock issued for services	-	75,000
(Gain) / loss on valuation of derivatives liabilities	1,800,978	(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	314,636	(22,635)
Prepaid expenses and other current assets	2,735	(222,867)
Accounts payable and accrued liabilities	157,388	(94,354)
Billings in excess of costs and estimated earnings on uncompleted contracts	(781,287)	410,089
Net cash used in operating activities	(473,963)	(288,232)
Cash flows from financing activities:		
Bank overdraft	16,823	12,699
Proceeds from issuance of convertible notes payable, net of financing costs	700,000	-
Principal payments on notes payable and capital lease	(6,654)	(6,196)
Net cash provided by financing activities	710,169	6,503
Net change in cash	236,206	(281,729)
Cash at beginning of period	31,889	281,729
Cash at end of period	\$ 268,095	\$ -
Supplemental disclosure of non-cash financing and investing activities:		
Debt discount recorded on convertible notes payable	\$ 479,752	\$ 923,610

See accompanying notes to the condensed consolidated financial statements.

NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

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## 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 primarily in 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."

### 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.

### Restatements

The accompanying balance sheet as of March 31, 2009 and the statements of operations and cash flows for the three months ended March 31, 2009 and 2008 have been restated – see Note 6.

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## Reclassifications

The Company has reclassified the presentation of 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 \$15,556,000, had recurring losses, a working capital deficit of approximately \$7,339,000, and was also in default on two of its convertible notes. These factors 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 Company is seeking strategic acquisition candidates.

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.

## Inventories

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. At each balance sheet date, the Company evaluates its ending inventories for excess quantities and obsolescence. Among other factors, the Company considers historical demand and forecasted demand in relation to the inventory on hand and market conditions when determining obsolescence and net realizable value. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable values. Once established, write-downs are considered permanent adjustments to the cost basis of the excess or obsolete inventories.

## 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.

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. Contract costs include all materials, direct labor, machinery, subcontract costs and allocations of indirect overhead.

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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.

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.

The Company accounts for shipping and handling fees and costs in accordance with 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.

#### Warranty

The Company provides a warranty on certain products sold. Estimated future warranty obligations related to certain products and services are provided by charges to operations in the period in which the related revenue is recognized. At March 31, 2009 and December 31, 2008, the warranty obligation balance was \$15,160 and \$50,000, respectively. There were no amounts charged to warranty expense in the accompanying consolidated statements of operations during the three months ended March 31, 2009.

#### Concentrations of Credit Risks

Cash is maintained at various financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at each financial institution for up to \$250,000 for March 31, 2009 and December 31, 2008. At times, cash may be in excess of the FDIC insured limit of \$250,000. The Company did not have any significant uninsured bank balances at March 31, 2009 and December 31, 2008.

During the period ended March 31, 2009, sales to two customers accounted for approximately 46% of net sales. Further, there were no customers that accounted for a significant amount of receivables at March 31, 2009.

During the period ended March 31, 2008, sales to two customers accounted for approximately 64% of net sales.

Management reviews the collectability of contract receivables periodically and believes that the allowance for doubtful accounts for period ended March 31, 2009 and the year ended December 31, 2008 is adequate. There was no allowance for doubtful accounts at March 31, 2009 and \$24,000 at December 31, 2008.





## Use of Estimates

In the opinion of management, the accompanying balance sheets and related statements of operations and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management are, among others, deferred tax asset valuation allowances, realization of inventories, collectability of contracts receivable, the estimation of costs for long-term construction contracts and the valuation of conversion options, stock options and warrants. Actual results could differ from those estimates.

## 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 61,821,000 shares at March 31, 2009 (restated) 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 27,949,000 shares 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 Payment." Under the fair value recognition provisions of SFAS 123(R), 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. 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 is no share-based compensation resulting from the application of SFAS No. 123R 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. 123R use the Black Scholes option pricing model for estimating fair value of options granted.

In accordance with SFAS No. 123R, 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.

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The fair value of stock-based awards to employees and directors is calculated using the Black-Scholes option pricing model, even though the model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restriction, which differ significantly from the Company's stock options. The Black-Scholes model also requires subjective assumptions regarding future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of our common stock. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

There were no options granted, exercised or cancelled during the period ended March 31, 2009.

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 became 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 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.

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

Exercise Price	Number of Options outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 0.075-0.083	1,300,000	0.32	\$ 0.08
\$ 0.15-0.20	2,800,000	1.42	\$ 0.19
	4,100,000		\$ 0.15

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	—	—	—
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 March 31, 2009:

Exercise Price	Number of Warrants outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 0.60-0.70	1,372,538	0.78	\$ 0.64
\$ 0.07	4,214,286	3.58	\$ 0.07
	5,586,824		\$ 0.21

#### 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 interest expense. During the three months ended March 31, 2009 and 2008, the Company amortized deferred financing costs in addition to amounts described in Note 3 of approximately \$3,000 and \$6,000, respectively, to interest expense.

#### 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.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. Liabilities measured at fair value on a recurring basis are

summarized as follows (unaudited) (restated):

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	Level 1	Level 2	Level 3	March 31, 2009
Fair Value of derivative liability		—\$	—\$ 4,306,028	\$ 4,306,028

The Company has no assets that are measured at fair value on a recurring basis. There were no assets or liabilities measured at fair value on a non-recurring basis during the three months ended March 31, 2009.

#### Accounting for Derivative Instruments

In connection with the issuance of certain convertible notes payable (see Note 3), the notes provided for a conversion into shares of the Company's common stock at a rate which was determined to be variable. The Company determined that the variable conversion feature was an embedded derivative instrument pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The accounting treatment of derivative financial instruments requires that the Company record the derivatives and related warrants at their fair values as of the inception date of the note agreements and at fair value as of each subsequent balance sheet date. In addition, under the provisions of Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," as a result of entering into the debenture agreements, the Company was required to classify all other non-employee options and warrants as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense at each balance sheet date. If the fair value of the derivatives was higher at the subsequent balance sheet date, the Company recorded a non-operating, non-cash charge. If the fair value of the derivatives was lower at the subsequent balance sheet date, the Company recorded non-operating, non-cash income.

During the three months ended March 31, 2009 and 2008, the Company recognized other expense of \$1,800,978 (restated) and other income of \$1,300,762 (restated), respectively, related to recording the derivative liability at fair value. At March 31, 2009 and December 31, 2008, the derivative liability balance was \$4,306,028 (restated) and \$2,025,298, respectively.

Warrant-related and conversion-related derivatives were valued using the Black-Scholes Option Pricing Model with the following assumptions during the three months ended March 31, 2009 and 2008: dividend yield of 0%; volatility ranging from 178% to 670%(2009) and 160% to 187% (2008), respectively; and risk free interest rates ranging from 0.19% to 2.54% (2009) and 0.10% to 2.21% (2008).

The following table summarizes the activity related to the derivative liability during the three months ended March 31, 2009:

Derivative liability - December 31, 2008	\$ 2,025,298
Derivative liability added during the year	479,752
Increase in fair value of derivative liability	1,800,978
Total derivative liability - March 31, 2009	\$ 4,306,028

### Significant Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a Replacement of FASB Statement No. 162 ("SFAS No. 168"). The Codification will become the source of authoritative U.S. GAAP. The statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company expects to adopt this standard with the filing of its Quarterly Report on Form 10-Q for the period ended September 30, 2009 and does not expect the standard to have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued 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 ("FSP FAS 157-4"), which provides additional guidance for estimating fair value in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ("SFAS 157"). FSP FAS 157-4 states that a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity is an indication that transactions or quoted prices may not be determinative of fair value because there may be increased instances of transactions that are not orderly in such market conditions. The adoption of FSP FAS 157-4 did not have a material impact on the Company's consolidated financial position, results of operations or liquidity.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments ("FSP FAS 107-1 and APB 28-1"), which requires disclosures about the fair value of the Company's financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheets, in the interim reporting periods as well as in the annual reporting periods. In addition, FSP FAS 107-1 and APB 28-1 requires disclosures of the methods and significant assumptions used to estimate the fair value of those financial instruments. FSP FAS 107-1 and APB 28-1 became effective for the Company in its second quarter of fiscal 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on the Company's consolidated financial position, results of operations or liquidity.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ("FSP FAS 115-2 and FAS 124-2"), which establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities and requires additional disclosures related to debt and equity securities. FSP FAS 115-2 and FAS 124-2 does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 became effective for the Company in its second quarter of fiscal 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the Company's consolidated financial position, results of operations or liquidity.

Other recent accounting pronouncements issued by the FASB (including the EITF) and the American Institute of Certified Public Accountants 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:

	(Restated) March 31, 2009	December 31, 2008
Cumulative costs to date	\$ 2,029,000	\$ 6,756,000
Cumulative gross profit to date	1,547,000	5,768,000
Cumulative revenue earned	3,576,000	12,524,000
Less progress billings to date	(4,081,000)	(13,495,000)
Net over billings	\$ (505,000)	\$ (971,000)

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

	(Restated) March 31, 2009	December 31, 2008
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 102,000	\$ 417,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(607,000)	(1,388,000)
Net over billings	\$ (505,000)	\$ (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") (together, the "Convertible Notes"), 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 table below.

CONV NOTES	(Restated)			
	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)	(253,643)	(1,909,996)	(301,200)
Discount related to stock issued with notes	(50,508)		(60,078)	
Notes presented net of debt discounts	\$ 1,070,669	\$ 455,187	\$ 737,838	\$ 399,910
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 \$388,000 (restated) and \$252,000, respectively, to interest expense related to the Convertible Notes.

The Convertible Notes 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 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 (see Note 2).

In connection with the Amended 12% CAMOFI Note, the Company issued 725,000 five year warrants with an exercise price of \$0.10 per share and 725,000 five year warrants with an exercise price of \$0.20 per share. Due to the anti-dilution feature in the warrant agreements, the warrants have a reduced exercise price of \$0.07 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 \$210,178 (restated) and \$151,400 respectively. Upon valuation, a loss of \$58,778 (restated) 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 \$0.07 per share. As of March 31, 2009 and December 31, 2008, the fair value of the warrant derivative liability was determined to be \$68,376 (restated) and \$50,000 respectively. Upon valuation, a loss of \$18,376 (restated) 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 per share (subject to adjustment based on the anti-dilution feature). At March 31, 2009 and December 31, 2008, the aggregate fair value CAMOFI conversion option derivative liabilities was \$2,522,820 (restated) and \$1,515,634, respectively. Upon valuation, a loss of \$1,007,186 (restated) was recorded for the three months ended March 31, 2009. At March 31, 2009 and December 31, 2008, the aggregate fair value of the CAMHZN conversion option derivative liabilities was \$669,235 (restated) and \$308,264, respectively. Upon valuation, a loss of \$360,971 (restated) was recorded for the three months ended March 31, 2009.

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#### CAMOFI AND CAMHZN Senior Secured Convertible Debt

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, matured on August 18, 2009 at 83.42857% of face amount. The Note can be converted at \$0.07 per share at any time during the term of the convertible note, subject to certain anti-dilution adjustments. The note is secured by all of the assets of the Company.

On February 18, 2009, the Company entered into an agreement with CAMHZN Master LDC for the issuance of a Senior Secured Convertible Note for \$173,800 matured on August 18, 2009 at 83.42857% of face amount. The Note can be converted at \$0.07 per share at any time during the term of the convertible note, subject to certain anti-dilution adjustments.

The Notes are convertible into shares of common stock with a conversion price of \$0.07, subject to certain anti-dilution adjustments. Per FAS 133 "Accounting for Derivative Instruments and Hedging Activities", the conversion option is a derivative liability. The Company recorded at issuance a \$384,460 (restated) derivative liability for the CAMOFI Note, and a \$95,292 (restated) derivative liability for the CAMHZN Note. The conversion option liability is revalued each quarter. At March 31, 2009 the fair value was \$669,480 (restated) for the CAMOFI Note, and \$165,938 for CAMHZN Note. Upon valuation, a loss of \$285,020 (restated) and \$70,646 (restated), respectively, was recorded for the CAMOFI and CAMHZN notes for the three months ended March 31, 2009.

The Company recorded deferred financing costs at issuance of \$116,200 on the CAMOFI Note and \$28,800 on the CAMHZN Note for the difference between the face amount of the notes and the net proceeds received. In addition, the discounts resulting from the conversion options of \$384,460 (restated) on the CAMOFI Note and \$95,292 (restated) on the CAMHZN Note are being amortized into interest expense ratably over the life of the Notes. For the three months ended March 31, 2009, the Company recorded amortization expense on the conversion option and issuance costs of \$96,421 (restated) and \$29,050, respectively, on the CAMOFI Note and \$23,514 (restated) and \$7,200, respectively, on the CAMHZN Note.

The Company paid an additional \$30,000 in financing costs in connection with the February 2009 financing, which has been capitalized in the accompanying condensed consolidated financial statements and is being amortized over the life of the notes. During the three months ended March 31, 2009, the Company recorded approximately \$7,500 to interest expense.

#### 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 approximately \$2,000 and \$5,000 were amortized to expense during the three months 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 of \$20,000 were amortized to expense during the three months ended March 31, 2008 and at March 31, 2008 the balance of deferred consulting fees was fully amortized.

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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 of \$25,000 were amortized to expense during the three months ended March 31, 2008 and at March 31, 2008 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. \$18,000 was amortized to operating expense during the three months ended March 31, 2009 and 2008. At March 31, 2009 and December 31, 2008, the remaining deferred consulting fees approximated \$84,000 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.

#### 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, 2008:

	Three months ended March 31, 2008		
	Income	Shares	Per Share Amount
Net income	\$ 325,835		
Less: Preferred stock dividends	-		
Basic income available to common shareholders	\$ 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	\$ 579,935	41,981,711	\$ 0.01



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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 approximated 61,821,000 for the period ended March 31, 2009.

## 6. RESTATEMENTS

March 31, 2008

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
<b>Balance Sheet as of March 31, 2008</b>			
Conversion Option Liability	-	2,737,709	2,737,709
Warrant Liability	-	1,713,023	1,713,023
Accumulated Deficit	12,207,494	2,445,694	14,653,188
<b>Total Stockholders' Deficit (equity)</b>	<b>1,908,610</b>	<b>4,651,075</b>	<b>6,559,685</b>
<b>Statement of Operations for the three months ended March 31, 2008</b>			
Marked-to-Market Gain (Loss)	-	1,300,762	1,300,762
Net Income (Loss)	(974,927)	1,300,762	325,835
<b>Net Income (Loss) Available to common shareholders</b>	<b>(974,927)</b>	<b>1,300,762</b>	<b>325,835</b>
EPS - Basic	(0.07)	0.09	0.02
EPS - Diluted	(0.07)	0.08	0.01

March 31, 2009

The balance sheet at March 31, 2009 and the statement of operations and statement of cash flows for the three months ended March 31, 2009 included herein reflect the effect of changes to the original accounting for the CAMOFI and CAMZHN notes issued in February 2009, certain adjustments related to the Company's contract accounting, a misclassification error and the valuation of the related derivative liabilities at March 31, 2009. Accordingly, the effect of the restatements on the balance sheet at March 31, 2009 and statement of operations for the three months ended March 31, 2009 has been summarized below:

Effect of Correction	As Previously Reported	Adjustment	As Restated
Balance Sheet as of March 31, 2009			
(1) Costs in Excess of Billings	15,551	86,477	102,028
(2) Deferred financing costs	435,986	108,750	544,736
(3) Accounts payable and accrued liabilities	1,625,005	(105,834)	1,519,171
(4) Billings in Excess of Costs	823,478	(216,417)	607,061
(5) February 2009 Convertible Notes	564,984	(49,801)	515,183
(6) Derivative Liability	4,885,000	(578,972)	4,306,028
(7) Accumulated Deficit	16,701,824	(1,146,263)	15,555,561
Statement of Operations for the three months ended March 31, 2009			
(8) Sales	1,298,458	(243,756)	1,054,702
(9) Cost of sales	1,365,543	(546,650)	818,893
(10) Selling, general and administrative	268,271	(36,250)	232,021
(11) Marked-to-Market Gain (Loss)	(2,738,436)	937,458	(1,800,978)
(12) Interest expense	(490,498)	(177,897)	(668,395)
(13) Net Loss	(3,821,869)	1,146,263	(2,675,606)
Net Loss Available to common shareholders	(3,821,869)	1,146,263	(2,675,606)
EPS – Basic	(0.25)	0.08	(0.17)
EPS - Diluted	(0.25)	0.08	(0.17)



- (1) Adjustment in order to reconcile the Company's balance sheet account to the Company's contract accounting worksheets.
- (2) Represents the reclassification of \$145,000 of financing costs in connection with the February 2009 notes, less amortization of \$36,250.
- (3) Adjustment primarily reflects a classification error of \$80,000 related to derivative liabilities.
- (4) Adjustment in order to reconcile the Company's balance sheet account to the Company's contract accounting worksheets.
- (5) Adjustment reflects an increase of \$278,486 of debt discount related to the valuation of the conversion options and an increase of \$119,935 of amortization of such options, net of reclassification of financing costs of \$108,750 noted in (2) above.
- (6) Adjustment reflects an increase of \$278,486 related to the valuation of the conversion options of the February 2009 notes and a decrease in the loss on fair value of \$937,458 and corrections of \$80,000 of misclassifications between the change in fair value and interest expense.
- (7) and (13) The cumulative effect of adjustments (8) through (12).
- (8) and (9) Adjustment in order to reconcile the Company's P&L accounts to the Company's contract accounting worksheets.
- (10) Adjustment relates to the reclassification of deferred financing costs to interest expense.
- (11) Adjustment primarily relates to an increase of \$278,486 in the original valuation of the conversion options in connection with the February 2009 notes, misclassification of derivative liabilities noted in (3) above and an overall decrease in the valuation of all derivatives of \$578,972.
- (12) Adjustment relates to proper classification and recording of interest expense.

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

The following discussion should be read in conjunction with the Company's condensed consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-Q/A. 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 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 \$1,054,702 for the three months ended March 31, 2009, which was a \$471,900 or 31% decrease from \$1,526,602 for the three months ended March 31, 2008. The decrease is the result of lower than usual sales due to a tighter credit market and less availability of funds for companies to make capital equipment purchases.

**Gross Profit.** Gross profit for the three months ended March 31, 2009, was \$235,809 or 22% of revenues, compared to \$218,123 or 14% of revenues for the three months ended March 31, 2008, a 8% increase. The increase in gross profit is due to management strategy to lower cost of sales through reduction of overhead expenses and cost of materials.

**Operating Expenses.** The Company incurred total operating expenses of \$447,723 for the three months ended March 31, 2009, which was a \$315,186 or 41% 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	(57)

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. Selling, general and administrative expenses decreased due to management strategy to reduce operating expenses.

**Operating Loss.** Operating loss for the three months ended March 31, 2009, was \$211,914 compared to \$544,786 for the three months ended March 31, 2008. The decrease in loss of \$332,872 is primarily due to decreased cost of sales and decreased selling, general and administrative expenses for the quarter ended March 31, 2009.

**Interest Expense and Debt Discount Amortization.** Interest expense for the three months ended March 31, 2009, was \$668,395 compared with \$486,769 for the three months ended March 31, 2008. The increase of \$181,626 in interest expenses is due to additional interest on new convertible loans.



**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. During the three months ended March 31, 2009, we recorded a loss of \$1,800,978 on the change in fair value due to the increase in our stock price from December 31, 2008.

#### FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

The net increase in cash during the three months ended March 31, 2009 was \$236,206. The increase is due to proceeds from issuance of convertible notes payable in which we received net proceeds of \$700,000.

For the three months ended March 31, 2009, the cash provided by financing activities was \$710,169, compared with \$6,503 in the three months ended March 31, 2008. For the three months ended March 31, 2009, \$473,976 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 \$15,556,000, a net loss of approximately \$2,677,000, a working capital deficit of approximately \$7,339,000 and was also in default on two of its convertible notes. These factors 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 Company is seeking strategic acquisition candidates.

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.

#### 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 Accountant is the only individual with technical accounting experience in our company but is limited in the exposure to SEC filings and disclosures.

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 \$530,000.

### 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.

November 19, 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.

November 19, 2009

/s/ DAVID DUQUETTE

Name: David Duquette

Title: Chairman, President and Director

November 19, 2009

/s/ JOSEF CZIKMANTORI

Name: Josef Czikmantori

Title: Secretary and Director