

NEW CENTURY COMPANIES INC  
Form 10KSB  
April 15, 2005

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON DC 20549

**FORM 10-KSB**

(MARK ONE)

**ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**FOR THE TRANSITION PERIOD FROM TO**

*COMMISSION FILE NUMBER 000-09459*

**NEW CENTURY COMPANIES, INC.**

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF INCORPORATION)

0610345787  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

9835 SANTA FE SPRINGS RD.  
SANTA FE SPRINGS, CA  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

90670  
(ZIP CODE)

(562) 906-8455  
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

**SECURITIES REGISTERED UNDER SECTION 12(B) OF THE EXCHANGE ACT:**

<u>TITLE OF EACH CLASS</u>	<u>NAME OF EACH EXCHANGE ON WHICH REGISTERED</u>
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**SECURITIES REGISTERED UNDER SECTION 12(G) OF THE EXCHANGE ACT:**

**COMMON STOCK, PAR VALUE \$0.10**  
(TITLE OF CLASS)

(TITLE OF CLASS)

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-SKB.

State issuer's revenue for its most recent fiscal year: \$4,605,813.

The aggregate market value of the voting and non-voting common equity held by non-affiliates on March 31, 2005 was approximately 5,208,987 based on the average bid and ask price on March 31, 2005. As of March 31, 2005 there were 7,292,321 shares of common stock issued and outstanding.

**ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PAST FIVE YEARS**

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

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

NEW CENTURY COMPANIES, INC.  
FORM 10-KSB  
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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS.

This Annual Report on Form 10-KSB contains 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. These statements relate to future events or the Company's future financial performance. The Company has attempted to identify forward-looking statements by terminology including "anticipates," "believes," "expects," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The Company expectations are as of the date this Form 10-KSB is filed, and the Company does not intend to update any of the forward-looking statements after the date this Annual Report on Form 10-KSB is filed to confirm these statements to actual results, unless required by law.

### OVERVIEW

#### Corporate History and Operations

The common stock of New Century Companies, Inc. ("New Century" or the "Company") (previously InternetMercado.Com) is quoted on the OTC Bulletin Board under the symbol "NCNC". Prior to May 25, 2001, the Company was engaged in the business of marketing services to other companies wanting to reach the Hispanic market. However, due to difficulty in raising additional working capital to execute the business plan, the Company ceased its operations and completed a reverse merger.

On May 25, 2001, the Company entered into a plan of Reorganization and Merger with New Century Remanufacturing, Inc. Pursuant to the merger, all of the outstanding shares of New Century Remanufacturing, Inc., a California corporation, incorporated on March 12, 1996 ("NCR"), were exchanged for shares of the Company on a 1 to 833.33 basis. The Company issued a total of 4,195,942 shares of common stock issued and outstanding. Immediately after the merger, all then existing officers and directors of the Company resigned and the management of NCR was elected and appointed to such positions; thereby effecting a change of control. Although NCR became a wholly-owned subsidiary of the Company following the transaction, because the transaction resulted in a change of control, the transaction was recorded as a "reverse merger" whereby NCR was considered to be the accounting acquirer of the Company.

After the reverse merger, the Company changed its name to New Century Companies, Inc. The results of operations and the related financial statements are the results of operations for NCR.

Since the merger, the Company has been 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 approximately 40%-50% of the price of a new machine. The Company manufactures original equipment, CNC large turning lathes and attachments under the trade name Century Turn. In turn, NCR is principally engaged in acquiring, remanufacturing and selling pre-owned CNC machine tools to manufacturing customers across the United States of

America.

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.

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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 NCR 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 the products in the 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 has applied for a patent for the Century Turn Lathe. The Company believes that a potential market for the Century Turn Lathe, in addition to the markets mentioned above, is aircraft landing gear.

## **INDUSTRY OVERVIEW**

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.

## **CUSTOMERS**

Each year we have approximately 50% new customers and 50% repeat customers.

## **SUPPLIERS**

Our three largest suppliers are GE Fanuc Automation, TCI Precision Metals and Sandvik Coromat.

## **MARKETING**

We market our CNC turning lathes primarily through direct sales and independent representatives throughout the United States. We also market our lathes through advertising in industrial trade publications. We have recently engaged the services of three independent sales representatives who have had a key impact on the amount of direct sales.

We market our CNC vertical boring mills by advertising in regional and national trade publications and distribute product literature explaining the differences between used and remanufactured machinery.

## **BUSINESS STRATEGY AND MARKET DEVELOPMENT**

Our business strategy is to capitalize on the opportunities for growth in our core businesses by increasing our penetration of existing markets through acquisitions and expanding into new markets by introducing new products and services.

## **SEASONALITY**

Our business is subject to certain seasonal fluctuations in sales, with a pattern of net sales being lower in the second fiscal quarter, due to plant closings in the summer months and vacations. The market for machine tools is also sensitive to economic conditions, production capacity utilization and the general level of business confidence.

## **COMPETITION**

The market for remanufacturing services for the machine tools is competitive, with competition from numerous independent rebuild suppliers with various sales and resource levels. We believe that we have a competitive advantage because we employ skilled personnel who have been trained for and have experience with these products. Principal competitive factors for our products and services are proprietary technology, customer service, technical support, delivery and price.

## **SOURCES AND AVAILABILITY OF RAW MATERIALS**

Our products are manufactured from various raw materials, including cast iron, sheet metal, bar steel and bearings. Although our operations are highly integrated, we purchase a number of components from outside suppliers, including the computer and electronic components for our CNC turning lathes. There are multiple suppliers for virtually all of our raw material and components and we have not experienced a supply interruption.

## **RESEARCH AND DEVELOPMENT**

Our ongoing research and development program involves creating new products and modifying existing products to meet market demands and redesigning existing products to reduce the cost of manufacturing. The research and development department is staffed with experienced design engineers. The cost of research and development, all of which has been charged to operations, amounted to approximately \$1,500,000 over the last three years.

## **PATENTS AND TRADEMARKS**

The Company has applied for patents, trademarks and copyrights relating to its manufactured products. However, the Company's business generally is not dependent upon the protection of any patent, patent application or patent license agreement, or group thereof, and would not be materially affected by the expiration thereof.

## **EMPLOYEES**

At December 31, 2004, we had 26 full-time employees. The Company believes its relationships with its employees are good. The Company's employees are not represented by a collective bargaining organization and the Company has not experienced a work stoppage.

## **ENVIRONMENTAL MATTERS**

The industry in which we compete is subject to environmental laws and regulations concerning emissions to the air, discharges to waterways, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws and regulations are constantly evolving and we cannot predict accurately the effect they will have on our business in the future. It is our policy to comply with all applicable environmental, health and safety laws and regulations. In many instances, the regulations have not been finalized. Even where regulations have been adopted, they are subject to varying and conflicting interpretations and implementation. In some cases, compliance can only be achieved by capital expenditures. We cannot accurately predict what capital expenditures, if any, may be required. We believe that our operations are in compliance with all applicable laws and regulations relating to environmental matters.



**AVAILABLE INFORMATION**

The Company files annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and proxy and information statements and amendments to reports files or furnished pursuant to Sections 13(a) and 15(d) of the Security Exchange Act of 1934, as amended. The public may read and copy this materials at the SEC's Public Reference Room at 450 Fifth St. NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintain a website ([HTTP://WWW.SEC.GOV](http://www.sec.gov)) that contains reports, proxy and information statements and other information regarding the Company and other companies that file materials with the SEC electronically.

**ITEM 2. DESCRIPTION OF PROPERTY.**

We lease our headquarters in Santa Fe Springs, California, which expires in 2006, and conduct our operations at such facilities. We believe that our facilities are in good condition and provide adequate capacity to meet our needs for the foreseeable future.

The following table sets forth certain information relating to the Company's principal facilities:

LOCATION	PRINCIPAL USES	APPROX SQ. FT.
9835 Santa Fe Springs Rd. Santa Fe Springs, CA 90670	Manufacturing	44,000

**ITEM 3. LEGAL PROCEEDINGS.**

The Company may be involved from time to time in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination or breach of contract actions incidental in the normal course of business operations. The Company is currently not involved in any such litigation or any pending legal proceedings that management believes could have a material adverse effect on the Company's financial position or results of operations.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

There were no matters submitted to security holder for the quarter ended December 31, 2004.

**PART II**

**ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

Our common stock trades on the NASDAQ Over-The-Counter Bulletin Board under the symbol "NCNC". The following table sets forth the high and low bid prices for the shares of common stock as reported on the Over-The-Counter Bulletin Board for each quarterly period of the last two fiscal years. The bid prices listed below represent prices, adjusted for stock splits, between dealers without adjustments for retail markups, breakdowns or commissions and may not represent actual transactions.

**For Year Ended December 31, 2004**

<u>Quarter Ended</u>		<b>HIGH</b>	<b>LOW</b>
December 31	\$	0.29	0.06
September 30		0.32	0.15
June 30		0.65	0.18
March 31		0.85	0.40

**For Year Ended December 31, 2003**

<u>Quarter Ended</u>		<b>HIGH</b>	<b>LOW</b>
December 31	\$	0.83	0.69
September 30		0.34	0.31
June 30		0.62	0.56
March 31		0.98	0.89

We have not declared any cash dividends on our common stock since inception. Declaration of dividends with respect to the common stock is at the discretion of the Board of Directors. Any determination to pay dividends will depend upon the financial condition, capital requirements, results of operations and other factors deemed relevant by the Board of Directors.

At December 31, 2004 we had 352 holders of record of our common stock representing approximately 1,200 individual participants. This figure does not include beneficial holders or common stockholder's nominee co-trust name, as we cannot accurately estimate the number of these beneficial holders.

The transfer agent and registrar for our common stock is U.S. Stock Transfer located in Los Angeles.

**PENNY STOCK**

Until the Company's shares qualify for inclusion in the NASDAQ system, the public trading, if any, of the Company's common stock will be on the OTC Bulletin Board. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the price of, the common stock offered. The Company's common stock is subject to provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock rule." Section 15(g) sets forth certain requirements for transactions in penny stocks, and Rule 15g-9(d) incorporates the definition of "penny stock" that is found in Rule 3a51-1 of the Exchange Act. The SEC generally defines "penny stock" to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. If the Company's common stock is deemed to be a penny stock, trading in the shares will be subject to additional sales practice requirements on broker-dealers who sell penny stock to persons other than established customers and accredited investors. "Accredited investors" are persons with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such security and must have the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document, prepared by the SEC, relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information for the penny stocks held in an account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of a broker-dealer to trade and/or maintain a market in the Company's common stock and may affect the ability of the Company's shareholders to sell their shares.

## **RECENT SALES OF UNREGISTERED SECURITIES**

### **PREFERRED STOCK**

During the year ended December 31, 2004, the Company issued a PPM in which the Company offered to eligible investors, as defined, a maximum of 30,000 shares of Series D Preferred Stock ("Series D"), with a required minimum offering of 1,000 shares of Series D to be sold at \$25 per share. During the year ended December 31, 2004 and pursuant to the PPM, the Company sold 23,640 shares of Series D to eligible investors for proceeds totaling \$521,000, net of \$30,000 paid to the broker/dealer and \$40,000 of accounts payable which were exchanged for shares. Such offering costs were included as an offset to additional paid-in capital. Since the related conversion rate is 50:1, the effective conversion rate of \$0.50 resulted in a deemed dividend of \$153,660, which was included in accumulated deficit. The deemed dividend is also reflected as an increase in the net loss available to common shareholders. Additionally, the broker/dealer was granted Three-Year Placement Warrants, as defined in the PPM, with a cashless exercise feature to purchase 25,000 shares of the Company's common stock at prices ranging from \$0.50 to \$1.00. No expense was recorded related to the granting of such warrants as they were considered an offering cost. The warrants vested immediately and expire in February 2007.

In September 2004, holders of the Company's Preferred C converted 2,820 shares into 47,000 shares of common stock.

## **COMMON STOCK**

In January 2004, the Company issued 150,000 shares of restricted common stock valued at \$105,000 (estimated based on the market price on the date of grant) to a consultant for services to be rendered during 2004. In March 2004, due to some disagreements between the consultant and the Company in relation to the services, the Company requested the cancellation of the shares. In December 2004, the Company and the consultant reached an agreement, and the shares were reissued. The \$105,000 value of the transaction, based on the value on the measurement date in January 2003 (above), was recorded as consulting expense during the year ended December 31, 2004.

In March 2004, the Company issued 100,000 shares of restricted common stock value at \$50,000 (estimated based on the market price on the date of grant) to a consulting firm for services rendered in relation to corporate finance and investor relations. Such amount was recorded as consulting expense during the year ended December 31, 2004.

In December 2004, the Company issued 100,000 shares of restricted common stock valued at \$10,000 (estimated based on the market price on the date of grant) to a consultant for services to be rendered through May 2005. The Company recorded the entire value to deferred consulting fees and is amortizing the amount to consulting expense over the period of service. As of December 31, 2004, the total unamortized consulting fees approximated \$8,300, which is recorded as an increase to stockholders equity (deficit).

## **STOCK OPTIONS AND WARRANTS**

Under the terms of the Company's Incentive Stock Option Plan ("ISOP"), options to purchase an aggregate of 1,000,000 shares of common stock may be issued to key employees, as defined. The exercise price of any option may not be less than the fair market value of the shares on the date of grant. No options granted may be exercisable more than 10 years after the date of grant. The options granted generally vest evenly over a one-year period, beginning from the date of grant.

Under the terms of the Company's non-statutory stock option plan ("NSSO"), options to purchase an aggregate of 1,350,000 shares of common stock may be issued to non-employees for services rendered. These options are non-assignable and non-transferable, are exercisable over a five-year period from the date of grant, and vest on the date of grant.

During the year ended December 31, 2004, the Company did not grant any stock options or warrants.

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The following is a status of the stock options and warrants outstanding at December 31, 2004 and the changes during the two years then ended:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Options and Warrants		
Weighted Average Price		
Options and Warrants		
Weighted Average Price		
Outstanding, beginning of year		1,821,583
\$		2.34
		741,583
\$		8.06
Granted		-
		-
		1,530,000
		0.36
Exercised		-
		-
Cancelled/Terminated		(135,000)

)	
)	(9.54
)	(450,000
)	(5.06
Outstanding and exercisable, end of year	
	1,686,583
\$	1.77
	1,821,583
\$	2.34
Weighted average fair value of options granted	
\$	-
\$ 0.17	
10	

The following table summarizes information related to stock options outstanding at December 31, 2004:

EQUITY COMPENSATION PLAN INFORMATION

	NUMBER OF SECURITIES REMAINING AVAILABLE FOR NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN(A)) (C)
Equity compensation plans approved by security holders	1,656,583	1.78	11,753,616
Equity compensation plans not approved by security holders	30,000	1.12	33,600
Total	1,686,583	--	11,787,216

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

**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN 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-KSB. Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Company's business strategy and objectives, future financial position, expectations about pending litigation and estimated cost savings, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") and involve risks and uncertainties. Although the Company believes that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, and market and general policies, competition from other similar businesses, and market and general economic factors. All forward-looking statements

contained in this Form 10-KSB are qualified in their entirety by this statement.

## **OVERVIEW**

The earnings of New Century for the year ended 2004 were negative as a result of a decrease in sales and increased losses on contracts, management's strategy of continued investment in research and development of new projects and of the corporate expenses related to compliance with the regulatory requirements of being a public company. The goal of these expenditures was to position New Century as a leading manufacturer and remanufacturer of large horizontal and vertical turning machines. New Century has completed the majority of this current development effort and expects limited resources to be devoted to this area in the next fiscal year. The Company's current strategy is to expand its customer sales base with its present line of machine products. However, the Company is in need of significant debt and/or equity financing. There can be no assurance that the Company can obtain such financing for the period ended December 31, 2005.

**RESULTS OF OPERATIONS FOR THE PERIOD ENDED DECEMBER 31, 2004 COMPARED TO DECEMBER 31, 2003.**

Revenues. New Century generated revenues of \$4,605,813 for the fiscal year ended December 31, 2004, which was a 33% decrease from \$6,908,087 for the fiscal year ending December 31, 2003. The decrease is the result of a deficiency in working capital which has limited our ability to fulfill customer orders. Additionally, the overall market for machine tools is cyclical, reflecting economic conditions, production capacity utilization, changes in tax and fiscal policies, corporate profitability and financial condition as well as the general level of business confidence.

Gross Profit. There was a 32% decrease in gross profit for the fiscal year ending December 31, 2004, due to lower revenues. Gross profit (loss) was \$(456,986), compared to \$(667,657) from the corresponding period in 2004. This decrease is a general result of reduced labor and material costs due to the decrease in sales.

Net Loss . Net loss decreased to \$1,423,359 for the fiscal year ended December 31, 2004 compared to a net loss of \$2,937,616 for the fiscal year ended December 31, 2003. The decrease in net loss is primarily attributed to the fact that, in 2003, the Company recorded a loss on a deposit of \$465,000, a \$544,318 gain on forgiveness of accounts payable from negotiations with vendors in 2004, and increased cash flow problems which affected the Company's ability to complete timely the remanufacture and shipment of machines.

Interest Expenses. Interest expense for the fiscal year ending December 31, 2004 decreased to \$181,468, compared to \$295,338 for the year ended December 31, 2003. The decrease of 39% is primarily the result of the repayment of a short term loan of \$900,000 during the first quarter of 2003.

**FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES**

Net cash decreased during the fiscal year ended 2004 was \$26,882. The net cash provided by financing activities of \$402,988 increased from \$(459,223) cash used in financing activities in the prior year. The \$862,211 cash provided by financing activities increase is primarily due to repayment of \$900,000 of notes payable during 2003 and the issuance of preferred stock for net proceeds totaling \$521,000 during 2004. The cash used in investing activities decreased from \$(10,407) to \$(1,396), due to reducing purchases of property and equipment. The Company plans to continue to rely upon external financing sources to meet the cash requirement of its ongoing operations. Management is currently seeking to raise additional funding in the form of subordinated debt and equity financing. However, there is no guarantee that the Company will raise sufficient capital to execute its business plan. To the extent that the Company is unable to raise sufficient capital, the Company's business plan will be required to be substantially modified and its operations curtailed. The Company's auditors have issued their report which contains an explanatory paragraph as to the Company's ability to continue as a going concern.

The Company is currently addressing its liquidity issue by the following actions:

- o The Company continues its aggressive program for selling inventory that has been produced or is currently in production.
- o The Company continues to implement plans to further reduce operating costs.
- o The Company is continually seeking investment capital through the public and private markets.

However, there is no guarantee that any of these strategies will enable the Company to meet its obligations for the foreseeable future.

## **INFLATION AND CHANGING PRICES**

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

We have no off-balance sheet arrangements, as defined in Regulation S-B Section 303.

## **GOING CONCERN**

The Company's independent registered public accounting firm has stated in its report included in this Form 10-KSB, that the Company has incurred recurring operating losses, has a working capital deficit and a significant accumulated deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the 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 following critical accounting policies 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 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 and superseded by SAB 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 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.

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

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

### **Estimates**

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

### **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 Consolidated Financial Statements, Organization and Summary of Significant Accounting Policies, which discusses accounting policies that must be selected by management when there are acceptable alternatives.

## **ITEM 7. FINANCIAL STATEMENTS.**

The Financial Statements of the Company are set forth at the end of this document hereof.

**PART III**

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 8A. EVALUATION OF CONTROLS AND PROCEDURES**

**EVALUATION OF CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act as of a date (the "Evaluation Date") within 90 days prior to filing the Company's December 31, 2004 Form 10-KSB. Based upon that evaluation, the CEO and CFO concluded that, as of December 31, 2004, our disclosure controls and procedures were not effective in timely alerting management to the material information relating to us (or our consolidated subsidiary) required to be included in our periodic filings with the SEC.

**CHANGES IN CONTROLS AND PROCEDURES**

There were no significant changes made in our internal controls over financial reporting during the quarter ended December 31, 2004 that have materially affected or are reasonably likely to materially affect these controls. Thus, no corrective actions with regard to significant deficiencies or material weaknesses were necessary.

**LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROL**

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

**ITEM 8B. OTHER INFORMATION**

None.

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.**

The following table and text sets forth the names and ages of all directors and executive officers of the Company and the key management personnel as of December 31, 2004. The Board of Directors of the Company is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Executive officers serve at the discretion of the Board of Directors, and are appointed to serve until the first Board of Directors meeting following the annual meeting of stockholders. Also provided is a brief description of the business experience of each director and executive officer and the key management personnel during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the Federal securities laws.

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
David Duquette	59	Chairman of the Board, President and Director
Josef Czikmantori	50	Secretary and Director

**DAVID DUQUETTE.** Mr. Duquette has served as the Chairman of the Board, President and Director of the Company since May 25, 2001. Mr. Duquette has been in the CNC Machine Tool Manufacturing and Remanufacturing business since 1967. From 1962 to 1965, he studied Electrical Engineering at the University of Wisconsin. Mr. Duquette founded New Century Remanufacturing in 1996. Prior to that year, he managed Orange Coast Rebuilding for approximately 8 years. Mr. Duquette was President of U.S. Machine Tools from 1969 to 1985.

**JOSEF CZIKMANTORI.** Mr. Czikmantori has served as Secretary and Director of the Company since May 25, 2001. Mr. Czikmantori was born in Romania. He completed 3 years of Technical College in Romania and then worked for United Machine Tool, which manufactured metal cutting machinery. He joined Mr. David Duquette at Orange Coast Machine Tools. He is a co-founder of New Century Remanufacturing.

Directors receive no compensation for serving on the Board of Directors, but are reimbursed for out-of-pocket expenses, if any, incurred in attending the board meetings.

**FAMILY RELATIONSHIPS.**

There are no family relationships between or among the directors, executive officers or persons nominated or charged by the Company to become directors or executive officers.

**INVOLVEMENT IN LEGAL PROCEEDINGS.**

To the best of the Company's knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or

banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

SECTION 16(A) BENEFICIAL OWNERSHIP COMPLIANCE.

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Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors and persons who own more than 10% of a registered class of the Company's equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of common stock and other equity securities of the Company, on Forms 3, 4 and 5, respectively. Executive officers, directors and greater than 10% shareholders are required by Commission regulations to furnish the Company with copies of all Section 16(a) reports they file. To the best of the Company's knowledge (based solely upon a review of the Forms 3, 4 and 5 filed), no officer, director or 10% beneficial shareholder failed to file on a timely basis for the fiscal year ended December 31, 2004 any reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended.

#### CODE OF ETHICS

For the years ended December 31, 2004 and 2003, the Company did not have formal written values and ethical standards. However, the Company's management does communicate values and ethical standards during Company wide meetings. Such standards will be outlined in the human resource manual to be completed before the end of 2005.

#### AUDIT COMMITTEE FINANCIAL EXPERT

The Company does not have an audit committee. Since our securities are not currently listed on or with a national securities exchange or national securities association, we are not required to have an independent audit committee. Therefore, the Company has not designated an audit committee financial expert. The Company currently is in the process of identifying independent audit committee members, including a financial expert to serve on our audit committee and we expect to continue this process in 2005. Because of our size, we do not have an audit committee, compensation committee or nominating committee.

#### STOCKHOLDER COMMUNICATIONS

Stockholders interested in communicating directly with the Board of Directors, or specified individual directors, may write to us at 9835 Santa Fe Springs Rd., Santa Fe Springs, CA 90670. Mr. David Duquette will review all such correspondence and will regularly forward to the Board copies of all such correspondence that deals with the functions of the Board.

#### ITEM 10. EXECUTIVE COMPENSATION.

The following Summary Compensation Table sets forth the compensation earned by the Company's Chief Executive Officer and the other most highly compensated executive officer(s) who were serving as such as of December 31, 2004, whose aggregate compensation for the 2004 fiscal year exceeded \$100,000 for services rendered in all capacity for that fiscal year.

NAME AND PRINCIPAL YEAR POSITION	ANNUAL COMPENSATION			LONG-TERM COMPENSATION				
	SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	AWARDS		PAYOUTS		
				SECURITIES		LTIP PAYOUTS (\$)	ALL OTHER COMPEN- SATION (\$)	
				RESTRICTED STOCK AWARD (\$)	UNDERLYING OPTIONS/ SARS			
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
2002	\$ 193,800	--	--	--	--	--	--	--

David  
Duquette,  
Chairman of  
the Board,  
President

David Duquette, Chairman of the Board, President and Director	2003	\$ 127,200	--	--	--	400,000	--	--
------------------------------------------------------------------------------	------	------------	----	----	----	---------	----	----

David  
Duquette,  
Chairman of  
the Board,  
President  
and Director

## OPTIONS/SAR GRANTS IN FISCAL YEAR 2003

Name	Number of securities underlying options/SARs granted (#)	Percent of total options/SARs granted to employees in fiscal year	Exercise or base price (\$/Share)	Expiration date
David Duquette, CEO	400,000	0%	\$0.25	9/12/08
Josef Czikmantori, Director	150,000	0%	\$0.25	9/12/08

## AGGREGATED OPTION EXERCISE IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning exercises of stock options during the year ended December 31, 2004, by each of the Named Executive Officers and the value of in-the-money unexercised options at December 31, 2004.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END
	(#)	(\$)(1)	EXERCISABLE/UNEXERCISABLE (#)	EXERCISABLE/UNEXERCISABLE (\$)(2)
David Duquette, CEO	400,000 / 0	\$0.00	400,000 / 0	16,000 / 0
Josef Czikmantori, Director	150,000 / 0	\$0.00	150,000 / 0	6,000 / 0

(1) Value realized is based on estimated fair market value of Common Stock on the date of exercise minus the exercise price.

(2) Value is based on estimated fair market value of Common Stock as of December 31, 2004 (\$0.29) minus the exercise price.

None of our Named Executive Officers exercised any of their options during 2004.

## LONG-TERM INCENTIVE PLANS

As of December 31, 2004 there is no long-term incentive plan.

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**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth the number of shares of common stock beneficially owned as of December 31, 2004 by (i) those persons or groups known to the Company who will beneficially own more than 5% of the Company's common stock; (ii) each director and director nominee; (iii) each executive officer whose compensation exceeded \$100,000 in the fiscal year ended December 31, 2004; and, (iv) all directors and executive officers as a group. The information is determined in accordance with Rule 13(d)-3 promulgated under the Exchange Act based upon information furnished by persons listed or contained in filings made by them with the Securities and Exchange Commission by information provided by such persons directly to the Company. Except as indicated below, the stockholders listed possess sole voting and investment power with respect to their shares.

<u>NAME OF BENEFICIAL OWNER</u>	<u>NO. OF SHARES</u>	<u>PERCENTAGE OF OWNERSHIP (1)</u>
David Duquette (1)	1,433,334	20%
Josef Czikmantor (2)	650,000	9%
Officers and Directors as a Group (2 persons)	2,083,334	29%

Based on 7,292,265 shares outstanding. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of December 31, 2004 are deemed to be outstanding and to be beneficially owned by the holder thereof for the purpose of computing the percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(1) Includes options to purchase 400,000 shares (ISOP).

(2) Includes options to purchase 150,000 shares (ISOP).

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.****NOTES RECEIVABLE FROM STOCKHOLDERS**

As of December 31, 2004, the Company had loans to two stockholders totaling \$485,924, including accrued interest, which were made prior to enforcement of the Sarbanes-Oxley Act of 2002. The loans accrue interest at 6% and are due on demand. The Company has reclassified the notes receivable from stockholders to stockholders' equity (deficit) as such amounts have not been repaid during the current year. The stockholders have shown the ability to repay the loans and intend on repaying such amounts in the future. For each of the years ended December 31, 2004 and 2003, total interest income from notes receivable from stockholders' approximated \$20,000.

**Exhibit 13. EXHIBITS.****EXHIBIT****NUMBER DESCRIPTION**

- 2.1 Share Exchange Agreement dated as of December 18, 2000. Incorporated herein by reference from the Company's filing on Form 8-K filed on August 23, 2000.
- 3.1 Certificate of Incorporation as filed with the Delaware Secretary of State, as amended. Incorporated by reference to Exhibit 2.1 to Company's Registration Statement on Form C-18, filed on August 14, 1980. I S
- 3.2 Certificate of Amendment to the Certificate of Incorporation as filed with the Delaware Secretary of State. Incorporated by reference to 8-K filed June 4, 2003.
- 3.2 Bylaws. Incorporated by reference to Exhibit 2.2 to the Registration Statement on Form S-18, filed on August 14, 1980.
- 10.1 Agreement and Plan of Merger, dated as of May 25, 2003, by and among Internetmercado.com, Inc., New Century Remanufacturing, Inc., New Century Acquisition Corporation, David Duquette and Josef Czikmantori; Incorporated by reference to the Exhibit 2.1 of the 8-K filed June 4, 2003.
- 21.1 Subsidiaries of the Company.
- 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.
- 31.2 Certification required by Rule 13a-14(a) or rule 15d-14(d) and under Section 906 of the arbanes-Oxley act of 2002. C S [GRAPHIC OMITTED]

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table presents fees for professional services rendered by Squar, Milner, Reehl & Williamson LLP ("Squar Milner") for the annual audit of our consolidated financial statements as of and for the years ended December 31, 2004, and 2003 and fees billed for other services rendered by Squar Milner during such years:

For the Years Ended December 31,

	2004	2003
Audit Fees	\$ 54,000	\$ 54,000
Audit Related Fees	-	-
Tax Fees	\$ 7,500	\$ 7,500
All Other Fees	-	\$ 27,000(1)
	\$ 61,500	\$ 88,500

(1) Such billings were in connection with Form SB-2, which was not filed during the year ended December 31, 2003.

**POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITOR**

The Company does not have an audit committee. Therefore, the Board of Directors is responsible for pre-approving all audit and permitted non-audit services to be performed for us by our independent auditors. The Board of Directors pre-approved all services rendered by our independent auditors.

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**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.

NEW CENTURY COMPANIES, INC.

Date: April 15, 2005

By: /s/ DAVID DUQUETTE

\_\_\_\_\_  
David Duquette  
Chairman, President and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date: April 15, 2005

By: /s/ DAVID DUQUETTE

\_\_\_\_\_  
David Duquette  
Chairman, President and Director

Date: April 15, 2005

By: /s/ JOSEF CZIKMANTORI

\_\_\_\_\_  
Josef Czikmantor  
Secretary and Director

**NEW CENTURY COMPANIES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2004 AND 2003**

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Report of Independent Registered Public Accounting Firm	F-1
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Consolidated Statements of Stockholders' Equity (Deficit)	F-4
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Notes to Consolidated Financial Statements	F-6

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheet of New Century Companies, Inc. and Subsidiary (the "Company") as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Century Companies, Inc. and Subsidiary as of December 31, 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has negative working capital of approximately \$3,317,000, an accumulated deficit of approximately \$7,472,000, recurring losses from operations and is in default on certain notes payable. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SQUAR, MILNER, REEHL & WILLIAMSON, LLP

April 7, 2005  
Newport Beach, California

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEET**  
**December 31, 2004**

**ASSETS**

**Current Assets**

Cash	\$	129,087
Contracts receivable, net		2,867
Inventories, net		980,242
Costs in excess of billings on uncompleted contracts		251,832
Other current assets		1,560
<b>Total current assets</b>		<b>1,365,588</b>

**Property and Equipment, net**

330,951

\$ 1,696,539

**LIABILITIES AND STOCKHOLDERS' DEFICIT**

**Current Liabilities**

Accounts payable and accrued expenses	\$	2,144,665
Dividends payable		409,575
Billings in excess of costs on uncompleted contracts		760,386
Notes payable		1,295,816
Capital lease obligations		72,379
<b>Total current liabilities</b>		<b>4,682,821</b>

**Commitments and Contingencies**

**Stockholders' Deficit**

Cumulative, convertible, Series B preferred stock, \$1 par value  
15,000,000 shares authorized; no shares issued and  
outstanding

Cumulative, convertible, Series C preferred stock, \$1 par value  
75,000 shares authorized; 60,780 shares issued and outstanding  
(liquidation preference of \$1,870,000)

60,780

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Cumulative, convertible, Series D preferred stock, \$25 par value 75,000 shares authorized; 23,640 shares issued and outstanding (liquidation preference of \$650,000)	591,000
Common stock, \$0.10 par value, 50,000,000 shares authorized; 7,292,265 shares issued and outstanding	729,227
Subscriptions receivable	(462,500)
) Notes receivable from stockholders	(485,924)
) Deferred consulting fees	(8,333)
) Additional paid-in capital	4,060,974
Accumulated deficit	(7,471,506)
) Total stockholders' deficit	(2,986,282)
) \$	1,696,539

*See accompanying notes to the consolidated financial statements.*

**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2004 and 2003**

	2004	2003
<b>CONTRACT REVENUES</b>	\$ 4,605,813	\$ 6,908,087
<b>COST OF CONTRACTS</b>	5,062,799	7,575,744
<b>GROSS PROFIT (LOSS)</b>	(456,986)	(667,657)
<b>OPERATING EXPENSES</b>		
Consulting and other compensation	319,700	490,783
Salaries and related	245,688	290,396
Selling, general and administrative	764,055	1,223,242
<b>TOTAL OPERATING EXPENSES</b>	1,329,443	2,004,421
<b>OPERATING LOSS</b>	(1,786,429)	(2,672,078)
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(181,468)	(295,338)
Interest income	1,020	32,267
Gain on forgiveness of accounts payable	544,318	-
<b>TOTAL OTHER INCOME (EXPENSE)</b>	363,870	(263,071)
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(1,422,559)	(2,935,149)
<b>PROVISION FOR INCOME TAXES</b>	800	2,467
<b>NET LOSS</b>	\$ (1,423,359)	\$ (2,937,616)
<b>NET LOSS APPLICABLE TO COMMON STOCKHOLDERS</b>	\$ (1,791,594)	\$ (3,074,866)
<b>Basic and diluted net loss available to common stockholders per common share</b>		
\$		(0.25)
)		
\$		(0.42)
)		

**Basic and diluted weighted average common shares  
outstanding**

7,038,209

7,355,214

*See accompanying notes to the consolidated financial  
statements.*

*Page F-3*

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**For the Years Ended December 31, 2004 and 2003**

	Preferred Stock, Series B		Preferred Stock, Series C		Preferred Stock, Series D		Common Stock		Notes			
	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Additional Paid In Capital	Receivable From Stockholders	Deferred Consulting Fees	Subscription Receivable
<b>Balance, January 1, 2003</b>	- \$	46,200	\$46,200	- \$	- \$	5,770,550	\$577,055	\$3,587,216	\$-	-\$ (55,833)	-\$ (462,500)	-\$ (2,605,000)
Issuance of common stock for services rendered	-	-	-	-	-	400,000	40,000	95,000	-	(35,438)	-	-
Issuance of common stock and preferred stock for services rendered	-	-	31,800	31,800	-	-	319,989	31,999	114,701	-	(74,375)	-
Amortization of deferred consulting fees	-	-	-	-	-	-	-	-	-	-	55,833	-
Warrants issued in connection with notes payable	-	-	-	-	-	-	-	17,350	-	-	-	-
Reclassification of loan to stockholder	-	-	-	-	-	-	-	-	-	(466,159)	-	-
Issuance of common stock as penalty for non-registration	-	-	-	-	-	100,000	10,000	11,000	-	-	-	-
Issuance of common stock related to reconciliation to reverse merger	-	-	-	-	-	64,720	6,472	(6,472)	-	-	-	-
Issuance of common stock in connection												



	-
	-
	-
	-
	-
)	(137,250)
	(137,250)
)	
Net loss	
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
)	(2,937,616)
	(2,937,616)
)	
<b>Balance, December 31, 2003</b>	
	-

	-
	63,600
	63,600
	-
	-
	6,895,265
	689,527
	3,809,194
)	(466,159
)	(109,813
)	(462,500
)	(5,679,912
)	(2,156,063
Issuance of convertible preferred stock at a discount	-
	-
	-
	-
	23,640
	591,000
	-
	-
	123,660

	-
	-
	-
)	(153,660
	561,000
Issuance of common stock for services rendered	
	-
	-
	-
	-
	-
	-
	350,000
	35,000
	130,000
	-
)	(10,000
	-
	-
	155,000
Amortization of deferred consulting fees	
	-
	-
	-
	-
	45

	-
	-
	-
	-
	-
	-
	111,480
	-
	-
	111,480
Issuance of common stock in connection with the conversion of preferred stock	
	-
	-
)	(2,820)
	(2,820)
)	
	-
	-
	47,000
	4,700
)	(1,880)
	-
	-
	-
	46

	-
	-
Accumulated dividends on preferred stock	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
)	(214,575)
	(214,575)
)	
Interest on notes receivable from stockholders	
	-
	-
	-
	-
	-
	-
	-
	-
	-

	-
	-
)	(19,765
	-
	-
	-
)	(19,765
Net loss	
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
	-
)	(1,423,359
	(1,423,359
)	
<b>Balance, December 31, 2004</b>	
	-
\$	

	-
	60,780
\$	60,780
	23,640
\$	591,000
	7,292,265
\$	729,227
\$	4,060,974
\$	(485,924)
)	
\$	(8,333)
)	
\$	(462,500)
)	
\$	(7,471,506)
)	
\$	(2,986,282)
)	

*See accompanying notes to the consolidated financial statements.*

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

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	2004	2003
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,423,359)	\$ (2,937,616)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	276,302	294,481
Amortization of deferred consulting fees	111,480	55,833
Gain on forgiveness of accounts payable	544,318	-
Bad debt expense	39,000	-
Inventory reserve	186,352	-
Estimated fair market value of preferred and common stock issued for consulting services	155,000	203,687
Estimated fair market value of common stock issued in connection with the deferral of the maturity of notes payable		-
		21,000
Estimated fair market value of warrants issued in connection with notes payable		-
		17,350
Interest income on notes receivable from stockholders		(19,765)
)		(19,765)
)		-
Loss on disposal of fixed assets		34,046
		-
Loss of lease deposit		465,000

Changes in operating assets and liabilities:

Contracts receivable	108,584
	941,729
Inventories	(9,651)
)	563,111
Costs in excess of billings on uncompleted contracts	68,700
	33,081
Other current assets	24,131
	17,106
Accounts payable and accrued expenses	(682,338)
)	347,990
Billings in excess of costs on uncompleted contracts	192,772
	508,290
Net cash (used in) provided by operating activities	(428,474)
)	545,323

Cash flows from investing activities:

Purchases of property and equipment

(1,396

)

(10,407

)

Net cash used in investing activities

(1,396

)

(10,407

)

Cash flows from financing activities:

Bank overdraft

(124,558

)

34,261

Proceeds from the issuance of notes payable

80,816

500,000

Principal repayments on notes payable

-

(900,000

)

Principal repayments on obligations under capital lease

(74,270

)

(93,484

)

Issuance of preferred stock, net of commissions and offering costs

	521,000
	-
Net cash provided by (used in) financing activities	
	402,988
)	(459,223
Net (decrease) increase in cash	
)	(26,882
	75,693
Cash at beginning of year	
	155,969
	80,276
Cash at end of year	
\$	129,087
\$	155,969

Supplemental disclosure of noncash investing and financing activities -

Cumulative preferred dividends

\$	214,575
\$	57,750
Conversion of preferred stock to common stock	
\$	4,700
\$	14,400
Preferred stock issued in lieu of accounts payable	
\$	40,000
\$	-

*See accompanying notes to the consolidated financial statements.*

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### *Organization and Nature of Operations*

New Century Companies, Inc. and Subsidiary (collectively, the "Company"), a California corporation, was incorporated March 1996 and is located in Southern California. The Company provides after-market services, including rebuilding, retrofitting and remanufacturing of metal cutting machinery.

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 Over-the-Counter Bulletin Board under the symbol "NCNC."

### *Principles of Consolidation*

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

### *Going Concern*

The accompanying 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 December 31, 2004, the Company has negative working capital of approximately \$3,317,000, an accumulated deficit of approximately \$7,472,000, recurring losses from operations and is in default on certain notes payable. 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 and debt and equity financing arrangements which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements for the year ending December 31, 2005. Therefore, the Company will be required to seek additional funds to finance its long-term operations. The successful outcome of future activities cannot be determined at this time and there is no assurance that if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

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

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

The consolidated financial statements do not include any adjustments related to recoverability and classification of assets carrying amounts or the amount and classification of liabilities that might result should the Company be unable

to continue as a going concern.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Going Concern*** (continued)

During 2004 management negotiated with several vendors and was able to obtain a fifty percent reduction in the amounts due to those specific vendors. As a result, the accompanying consolidated statements of operations include a gain on forgiveness of accounts payable totaling approximately \$544,000 for the year ended December 31, 2004.

***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 \$100,000. At times, cash may be in excess of the FDIC insurance limit of \$100,000. The Company's uninsured bank balances at December 31, 2004 totaled approximately \$200,000.

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

During the year ended December 31, 2004, sales to two customers approximated 19% of net sales. During the year ended December 31, 2003, sales to three customers approximated 45% of net sales. As of December 31, 2004, 95% of contracts receivable is over 90 days, and may be uncollectible. Accordingly, contracts receivable are carried net of an allowance for losses totaling \$39,000 at December 31, 2004.

***Risks and Uncertainties***

The Company operates in an industry that is subject to intense competition. The Company's operations are subject to significant risks and uncertainties including financial, operational, technological and other risks associated with operating a business including the potential risk of business failure.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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, collectibility of contracts receivable and the estimation of costs for long-term construction contracts. Actual results could materially differ from those estimates.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Cash and Cash Equivalents*

The Company considers all highly liquid fixed income investments with maturities of three months or less at the time of acquisition, to be cash equivalents. The Company had no cash equivalents at December 31, 2004.

*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. Net realizable value is based on management's forecast for sales of the Company's products or services in the ensuing years. The industry in which the Company operates is characterized by technological advancement and change. Should demand for the Company's products prove to be significantly less than anticipated, the ultimate realizable value of the Company's inventories could be substantially less than the amount shown in the accompanying consolidated balance sheet. At December 31, 2004 and 2003, the Company had inventory reserves approximating \$486,000 and \$300,000, respectively.

*Property and Equipment*

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets ranging from three to five years. Equipment under capital lease obligations are depreciated over the shorter of the estimated useful life or the term of the lease. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of operations.

*Long-Lived Assets*

The Company accounts for long-lived asset impairments under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). Consistent with prior guidance, SFAS No. 144 requires a three-step approach for recognizing and measuring the impairment of assets to be held and used. The Company recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. Fair value is estimated based on discounted future cash flows. Assets to be sold must be stated at the lower of the assets' carrying amount or fair value and depreciation is no longer recognized. The Company believes that no impairment of property and equipment exists at December 31, 2004.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Revenue Recognition***

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

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "*Revenue Recognition*," as amended and superseded 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 SEC. Management believes that the Company's revenue recognition policy conforms to SAB No. 104. The Company recognizes revenue of contracts pursuant to SOP 81-1.

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

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

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

The Company accounts for shipping and handling fees and costs in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-10 "*Accounting for Shipping and Handling Fees and Costs*." Such fees and costs incurred by the Company are immaterial to the operations of the Company.

In accordance with 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.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***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 December 31, 2004, the warranty obligation was immaterial to the accompanying consolidated balance sheet.

***Advertising***

The Company expenses the cost of advertising when incurred as selling expense in the accompanying consolidated statements of operations. Advertising expenses were approximately \$84,000 and \$64,000 for the years ended December 31, 2004 and 2003, respectively.

***Research and Development Costs***

Research and development costs are expensed as incurred.

***Income Taxes***

Under SFAS 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be recovered.

***Basic and Diluted Loss Per Common Share***

Under SFAS 128, "Earnings Per Share," basic earnings per common share is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive (under the treasury stock method, there were 179,000 and 940,000 additional potential common shares as of December 31, 2004 and 2003, respectively). Because the Company has incurred net losses, basic and diluted loss per share are the same since additional potential common shares would be anti-dilutive (see Note 8).

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Comprehensive Income***

SFAS 130, "*Reporting Comprehensive Income*," establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. For the years ended December 31, 2004 and 2003, the Company had no items of comprehensive income.

***Segments of Business***

SFAS 131, "*Disclosures about Segments of an Enterprise and Related Information*," changes the way public companies report information about segments of their business in their quarterly reports issued to stockholders. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The Company currently operates in one segment, as disclosed in the accompanying consolidated statements of operations.

***Stock Based Compensation***

The Company accounts for stock-based compensation issued to employees using the intrinsic value based method as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock issued to Employees." Under the intrinsic value based method, compensation expense is the excess, if any, of the fair value of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

SFAS 123, "Accounting for Stock-Based Compensation," if fully adopted, changes the method of accounting for employee stock-based compensation plans to the fair value based method. For stock options and warrants, fair value is determined using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option or warrant, stock volatility and the annual rate of quarterly dividends. Compensation expense, if any, is recognized over the applicable service period, which is usually the vesting period.

The adoption of the accounting methodology of SFAS 123 is optional and the Company has elected to continue accounting for stock-based compensation issued to employees using APB 25; however, pro forma disclosures, as the Company adopted the cost recognition requirement under SFAS 123, are required to be presented (see below). For stock-based compensation issued to non-employees, the Company uses the fair value method of accounting under the provisions of SFAS 123.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**Stock Based Compensation** (continued)

FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB 25" clarifies the application of APB 25 for (a) the definition of employee for purpose of applying APB 25, (b) the criteria for determining whether a plan qualifies as a non compensatory plan, (c) the accounting consequence for various modifications to the terms of a previously fixed stock option or award and (d) the accounting for an exchange of stock compensation awards in a business combination. Management believes that the Company accounts for transactions involving stock compensation in accordance with FIN 44.

SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123," provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

At December 31, 2004, the Company has one stock-based employee compensation plan and one stock-based non-employee compensation plan, which are described more fully in Note 7. There was no employee stock-based compensation cost recognized in net loss for fiscal years 2004 and 2003, respectively. The following table illustrates the effect on net loss and loss per common share if the Company had applied the fair value recognition provisions of SFAS 123, as amended, to stock-based employee compensation.

	2004	2003
Net loss applicable to common stockholders:		
As reported	\$ (1,791,594)	\$ (3,074,866)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	-	(247,000)
Pro forma	\$ (1,791,594)	\$ (3,321,866)
Basic and diluted net loss per share:		
As reported	\$ (0.25)	\$ (0.42)
Pro forma	\$ (0.25)	\$ (0.45)

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Stock Based Compensation* (continued)

The above pro forma effects of applying SFAS 123 are not necessarily representative of the impact on reported net loss for future years (see Significant Recent Accounting Pronouncements).

*Fair Value of Financial Instruments*

SFAS 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. The carrying amount of the Company's cash, contracts receivable, inventories, accounts payable and accrued expenses, capital lease obligations, and notes payable approximates their estimated fair values due to the short-term maturities of those financial instruments and because related interest rates offered to the Company approximate current offered rates. The fair value of the notes receivable from stockholders are not determinable as these transactions are with related parties.

*Significant Recent Accounting Pronouncements*

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities, or "VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (1) the equity investors do not have a controlling financial interest; or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures.

As amended in December 2003, the effective dates of FIN No. 46 for public entities that are small business issuers, as defined ("SBIs"), are as follows: (a) For interests in special-purpose entities ("SPEs"): periods ended after December 15, 2003; and (b) For all other VIEs: periods ended after December 15, 2004. The December 2003 amendment of FIN No. 46 also includes transition provisions that govern how an SBI which previously adopted the pronouncement (as it was originally issued) must account for consolidated VIEs. Management has concluded that the Company does not have an interest in any SPEs, and is evaluating the other effects of FIN No. 46 (as amended) on its future consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. In Chapter 4 of ARB 43, paragraph 5 previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Significant Recent Accounting Pronouncements* (continued)

period charges....” SFAS No. 151 requires that such items be recognized as current-period charges, regardless of whether they meet the criterion of *so abnormal* (an undefined term). This pronouncement also requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred in years beginning after June 15, 2005. Management is evaluating the effect of this pronouncement, if any, on its future financial statements.

In December 2004, the FASB issued SFAS No. 123-R, “Share-Based Payment,” which requires that the compensation cost relating to share-based payment transactions (including the cost of all employee stock options) be recognized in the financial statements. That cost will be measured based on the estimated fair value of the equity or liability instruments issued. SFAS No. 123-R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123-R replaces SFAS No. 123, “Accounting for Stock-Based Compensation,” and supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” As originally issued, SFAS No. 123 established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that pronouncement permitted entities to continue applying the intrinsic-value model of APB Opinion 25, provided that the financial statements disclosed the pro forma net income or loss based on the preferable fair-value method.

Small Business Issuers are required to apply SFAS No. 123-R in the first interim or annual reporting period that begins after December 15, 2005. Thus, the Company’s consolidated financial statements will reflect an expense for (a) all share-based compensation arrangements granted on or after January 1, 2006 and for any such arrangements that are modified, cancelled, or repurchased on or after that date, and (b) the portion of previous share-based awards for which the requisite service has not been rendered as of that date, based on the grant-date estimated fair value.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004**

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**2. CONTRACTS IN PROGRESS**

Contracts in progress as of December 31, 2004 approximate:

Cumulative costs to date	\$ 5,859,000
Cumulative gross profit to date	4,873,000
Cumulative revenue earned	10,732,000
Less progress billings to date	(11,240,000)
Net over billings	\$ (508,000)

The following approximate amounts are included in the accompanying consolidated balance sheet under these captions as of December 31, 2004:

Costs in excess of billings on uncompleted contracts	\$ 252,000
Billings in excess of costs on uncompleted contracts	(760,000)
Net over billings	\$ (508,000)

**3. PROPERTY AND EQUIPMENT**

Property and equipment approximate the following at December 31, 2004:

Machinery and equipment	\$ 1,089,000
Computer equipment	22,000
Capital lease equipment	271,000
Leasehold improvements	123,000
	1,505,000
Less accumulated depreciation and amortization	(1,174,000)
	\$ 331,000

**4. RELATED PARTY TRANSACTIONS***Notes Receivable from Stockholders*

As of December 31, 2004, the Company had loans to two stockholders approximating \$503,750, including accrued interest. The loans accrue interest at 6% and are due on demand. The Company has included the notes receivable from

stockholders in stockholders' equity (deficit) as such amounts have not been repaid

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2004**

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**4. RELATED PARTY TRANSACTIONS** (continued)

*Notes Receivable from Stockholders* (continued)

during the current year. For each of the years ended December 31, 2004 and 2003, total interest income from notes receivable from stockholders' approximated \$20,000.

**5. NOTES PAYABLE**

During the year ended December 31, 2001, the Company entered into an unsecured note payable ("Note A") with a third party for \$250,000. Note A accrues interest at a fixed rate of 18% per annum and matured in December 2003, as amended (see Note 7). Note A is personally guaranteed by a stockholder and is in default at December 31, 2004. At December 31, 2004, the total outstanding principal balance on Note A was \$250,000.

During the year ended December 31, 2001, the Company entered into a note payable ("Note B") with a third party for \$215,000. Note B accrues interest at a fixed rate of 15% per annum and matured in March 2002. Note B is secured by certain assets of the Company, as defined, and is in default at December 31, 2004. At December 31, 2004, the total outstanding principal balance on Note B was \$215,000.

In January 2003, the Company entered into a note payable agreement ("Note C") with two individuals in the amount of \$500,000 with an interest rate of 11% per annum, which matured in April 2003 and is in default at December 31, 2004. The note was issued with a discount of \$45,000, which the Company amortized to interest expense in the accompanying consolidated statement of operation for 2003. In connection with Note C, the Company issued warrants to purchase 25,000 shares of common stock. Note C is secured by certain assets of the Company. At December 31, 2004, the total outstanding principal balance on Note C was \$500,000.

In December 2002, the Company entered into a note payable agreement ("Note D") with two individuals in the amount of \$250,000 with an interest rate of 11% per annum, which matured in February 2003. The note was issued with a discount of \$15,000, which the Company amortized to interest expense in the accompanying consolidated statement of operations for 2003. In connection with Note D, the Company issued warrants to purchase 5,000 shares of common stock related to the extension of the maturity date of Note D to April 2004. At December 31, 2004, Note D was in default and had a total outstanding principal balance of \$250,000.

During November 2004, the Company borrowed \$80,816 on two notes payable ("Note E") to one individual. Note E is unsecured, matured in January 2005, has an interest rate of 6% and is currently in default. At December 31, 2004 the total outstanding principal balance on Note E was \$80,816.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004**

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**6. INCOME TAXES**

During fiscal 2004 and 2003, the provision for taxes (substantially all deferred) differs from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before provision for taxes as a result of the following:

	2004	2003
Computed "expected" tax (benefit) expense	\$ (484,000)	\$ (998,000)
Addition to (reduction) in income taxes resulting from:		
State income taxes, net of federal benefit	(57,000)	(171,000)
Change in deferred tax asset valuation allowance	533,000	1,140,000
Non-deductible expenses	8,800	31,467
	\$ 800	\$ 2,467

The effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2004 are presented below:

Deferred tax assets:		
Tax net operating loss carryforwards	\$	4,194,000
Accrued inventory reserve		194,000
Accrued expenses		19,000
Total gross deferred tax asset		4,407,000
Less valuation allowance		(4,407,000)
Total net deferred tax asset	\$	-

The valuation allowance increased by \$533,000 and \$1,140,000 during the years ended December 31, 2004 and 2003, respectively. The current provision for income taxes for the years ended December 31, 2004 and 2003 is not significant and due primarily to certain state taxes.

At December 31, 2004, the Company had net tax operating loss carryforwards of approximately \$10,961,000 and \$7,794,000 available to offset future taxable federal and state income, respectively. If not utilized to offset future taxable income, the federal and state carryforwards will expire in various years through 2024 and 2014, respectively. In the event the Company were to experience a greater than 50% change in ownership as defined in Section 382 of the Internal Revenue Code, the utilization of the Company's tax net operating loss carryforwards could be severely restricted.

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
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## 7. EQUITY TRANSACTIONS

### *Preferred Stock*

The Company has authorized 15,000,000 shares of cumulative, convertible Series B Preferred Stock ("Series B") with a par value of \$1 per share. The Series B has a mandatory cumulative dividend of \$1.25 per share, which is payable on a semi-annual basis, and convertible into 1.67 shares of the Company's common stock, does not have any voting rights, and has liquidation preferences, as defined. As of December 31, 2001, in accordance with the conversion terms of the Series B, 95,023 shares of the common stock remained unissued and committed, which the Company has reclassified to common stock during the year ended December 31, 2002 because the stock had constructively been issued.

In March 2002, the Board of Directors authorized 75,000 shares of 5% cumulative, convertible Series C Preferred Stock ("Series C") with a par value of \$1 per share. The Series C has a mandatory cumulative dividend of \$1.25 per share, which is payable on a semi-annual basis in June and December each year to holders of record on November 30 and May 31, does not have any voting rights and has liquidation preferences, as defined. Each share of Series C is convertible at the option of the holder into 16.667 shares of the Company's common stock.

During the year ended December 31, 2002, the Company completed a Private Placement Memorandum ("PPM") in which the Company offered to eligible investors, as defined, a maximum of 60,000 shares of Series C, with a required minimum offering of 30,000 shares of Series C to be sold at \$25 per share. During fiscal 2002 and pursuant to the PPM, the Company sold 44,000 shares of Series C to eligible investors for proceeds of \$956,605 (net of commissions and offering costs of \$143,395). In addition, the Company issued 2,200 shares of Series C and 40,000 restricted shares of common stock (see below) to the placement agent for services provided in connection with the PPM.

The Series C issued in fiscal 2002 was issued with a beneficial conversion feature as the issuance date trading value of the Company's common stock was greater than the conversion price. Accordingly, the Company has recorded a deemed dividend to the Series C shareholders of \$308,029. As of December 31, 2004, the Company had a total of \$63,600 shares of Series C issued and outstanding, with accumulated dividends totaling \$195,000, which is recorded in the accompanying consolidated balance sheet.

In September 2003, the Company issued 31,800 shares of series C, valued at approximately \$111,000 (based on the estimated fair market value on the date of grant) to consultants for services to be rendered through March 2004. The Company has expensed approximately \$46,000 and \$65,000 during the years ended December 31, 2004 and 2003, respectively, related to such issuance.

During the year ended December 31, 2003, certain holders of Series C converted 14,400 shares into 240,006 shares of common stock.

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

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
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**7. EQUITY TRANSACTIONS** (continued)

*Preferred Stock* (continued)

During the year ended December 31, 2004, the Company issued a PPM in which the Company offered to eligible investors, as defined, a maximum of 30,000 shares of Series D Preferred Stock ("Series D"), with a required minimum offering of 1,000 shares of Series D to be sold at \$25 per share. During the year ended December 31, 2004 and pursuant to the PPM, the Company issued 23,640 shares of Series D to eligible investors for proceeds totaling \$521,000, net of \$30,000 paid to the broker/dealer and \$40,000 of accounts payable which were exchanged for shares. Such offering costs were included as an offset to additional paid-in capital in the accompanying consolidated financial statements. Since the related conversion rate is 50:1, the effective conversion rate of \$0.50 resulted in a deemed dividend of \$153,660, which was included in accumulated deficit. The deemed dividend is also reflected as an increase in the net loss attributable to common shareholders (see Note 8). Additionally, the broker/dealer was granted Three-Year Placement Warrants, as defined in the PPM, with a cashless exercise feature to purchase 25,000 shares of the Company's common stock at prices ranging from \$0.50 to \$1.00. No expense was recorded related to the granting of such warrants as they were considered an offering cost. The warrants vested immediately and expire in February 2007.

*Common Stock*

During the year ended December 31, 2001, the Company received a \$87,500 subscription receivable from a member of the Board of Directors in exchange for shares of the Company's restricted common stock. The subscription receivable bears interest at an annual rate of 6%. Principal and any unpaid interest were due on October 6, 2001. As of December 31, 2004, the subscription receivable remains unpaid.

During the year ended December 31, 2002, the Company received two subscriptions receivable totaling \$375,000 in exchange for 250,000 restricted shares of common stock. The receivables bear interest at an annual rate of 5%. Principal and any unpaid interest on both subscriptions receivable were due on August 22, 2003, and are in default as of December 31, 2004. The Company is currently in negotiations related to the outstanding principal balance. The related accrued interest receivable and interest income are insignificant to the consolidated financial statements.

During the year ended December 31, 2003, the Company amortized \$55,833 of deferred consulting fees to consulting expense in the accompanying consolidated statements of operations, which was related to the issuance of restricted shares of common stock during the year ended December 31, 2002 to three consulting firms for services rendered in relation to corporate finance.

During the year ended December 31, 2003, the Company issued 719,918 shares of restricted common stock valued at \$202,500 (estimated based on the market price on the date of grant) to consultants for services to be rendered through September 2004. The Company recorded the entire value to deferred consulting fees and amortized the amount to consulting expense over the periods of service. During the years ended December 31, 2004 and 2003, approximately \$138,000 and \$64,000, respectively, was amortized to consulting expense.



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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
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**7. EQUITY TRANSACTIONS** (continued)

*Common Stock* (continued)

During the year ended December 31, 2003, the Company issued 100,000 shares of restricted common stock to a shareholder as penalty for not registering shares previously issued under Form SB-2 in a timely manner. The common stock was valued at \$21,000 (estimated based on the market price on the date of grant).

During the year ended December 31, 2003, the Company issued 64,720 shares of restricted common stock in reconciliation with the reverse merger in 2001.

In January 2004, the Company issued 150,000 shares of restricted common stock valued at \$105,000 (estimated based on the market price on the date of grant) to a consultant for services rendered during 2004. In March 2004, due to some disagreements between the consultant and the Company in relation to the services, the Company requested the cancellation of the shares. In December 2004, the Company and the consultant reached an agreement, and the shares were reissued. The \$105,000 value of the transaction, based on the value on the measurement date in January 2004 (above), was recorded as consulting expense during the year ended December 31, 2004.

In March 2004, the Company issued 100,000 shares of restricted common stock value at \$50,000 (estimated based on the market price on the date of grant) to a consulting firm for services rendered in relation to corporate finance and investor relations. Such amount was recorded as consulting expense during the year ended December 31, 2004.

In December 2004, the Company issued 100,000 shares of restricted common stock valued at \$10,000 (estimated based on the market price on the date of grant) to a consultant for services to be rendered through May 2005. The Company recorded the entire value to deferred consulting fees and is amortizing the amount to consulting expense over the period of service. As of December 31, 2004, the total unamortized consulting fees approximated \$8,300, which is recorded as an increase to stockholders equity (deficit).

*Stock Options and Warrants*

Under the terms of the Company's Incentive Stock Option Plan ("ISOP"), options to purchase an aggregate of 1,000,000 shares of common stock may be issued to key employees, as defined. The exercise price of any option may not be less than the fair market value of the shares on the date of grant. No options granted may be exercisable more than 10 years after the date of grant. The options granted generally vest evenly over a one-year period, beginning from the date of grant.

Under the terms of the Company's Non-Statutory Stock Option Plan ("NSSO"), options to purchase an aggregate of 1,350,000 shares of common stock may be issued to non-employees for services rendered. These options are non-assignable and non-transferable, are exercisable over a five-year period from the date of grant, and vest on the date of grant.



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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**7. EQUITY TRANSACTIONS** (continued)

*Stock Options and Warrants* (continued)

In December 2001, the Company issued 100,000 warrants to purchase common stock for \$2 per share, which is exercisable for two years from the date of issuance. The warrants were issued in connection with a six-month, short-term note payable and cancelled during fiscal 2003. In accordance with GAAP, the proceeds of the financing have been allocated to the debt and the warrants, based on their relative fair values. Accordingly, a discount of \$106,000 was recorded as a reduction in the debt balance, and the off-setting credit was recorded as additional paid-in capital. The debt discount was amortized and charged to interest expense over the life of the debt during the year ended December 31, 2002. As part of an extension agreement (see "Note A" at Note 5), the Company effectively cancelled the original 100,000 warrants and issued warrants to purchase 200,000 shares of common stock at an exercise price of \$1.00, which vested upon grant and expired in December 2003. As the pro-rata value of the 200,000 warrants issued approximates the amounts expensed in 2002, no additional expense has been recorded. Note A is personally guaranteed by a stockholder and is in default at December 31, 2003.

In September 2002, the Company granted 100,000 stock options to a third party for services rendered valued at \$68,000 (estimated based on the Black-Scholes option pricing model pursuant to SFAS 123). The stock options had an exercise price of \$1.10, vested immediately and expired in September 2003.

During the year ended December 31, 2003, the Company granted a warrant to purchase 25,000 shares of the Company's restricted common stock in connection with the issuance of a note payable (see "Note C" at Note 5). The pro-rata value of the warrant was \$13,000 (estimated based on the Black-Scholes option pricing model pursuant to SFAS 123). The warrant has an exercise price of \$1.00, vests immediately and is exercisable through January 2008.

During the year ended December 31, 2003, the Company granted a warrant to purchase 5,000 shares of the Company's restricted common stock in connection with the deferral of the maturity date of a note payable (see "Note D" at Note 5). The value of the warrant was \$4,500 (estimated based on the Black-Scholes option pricing model pursuant to SFAS 123). The warrant has an exercise price of \$1.25, vests immediately and is exercisable through March 2008.

In September 2003, the Company granted options to purchase an aggregate of 1,300,000 shares of restricted common stock, at an exercise price of \$0.25 per share (the fair market value of the Company's common stock on the date of grant), to various employees of the Company. The options vested immediately and are exercisable through September 2008.

During the year ended December 31, 2004, the Company did not grant any stock options or warrants.

**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
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**7. EQUITY TRANSACTIONS** (continued)*Stock Options and Warrants* (continued)

The following is a status of the stock options and warrants outstanding at December 31, 2004 and the changes during the three years then ended:

	Year Ended December 31, 2004		Year Ended December 31, 2003	
	Options and Warrants	Weighted Average Price	Options and Warrants	Weighted Average Price
Outstanding, beginning of year	1,821,583	\$ 2.34	741,583	\$ 8.06
Granted	-	-	1,530,000	0.36
Exercised	-	-	-	-
Cancelled/Terminated	(135,000)	(9.54)	(450,000)	(5.06)
Outstanding and exercisable, end of year	1,686,583	\$ 1.77	1,821,583	\$ 2.34
Weighted average fair value of options granted		\$ -		\$ 0.17

The following table summarizes information related to stock options outstanding at December 31, 2004:

Exercise Price	Number	Options Outstanding	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$0.25	1,300,000	3.7	\$ 0.25
\$1.00- \$1.25	130,000	2.8	1.09
\$5.00- \$6.56	10,000	1.8	5.78
\$9.80- \$10.00	246,583	0.3	9.95

1,686,583                      \$            1.77

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. EQUITY TRANSACTIONS** (continued)*Stock Options and Warrants* (continued)

The following outlines the significant assumptions used to calculate the fair market value information presented utilizing the Black-Scholes pricing model during fiscal years 2004 and 2003:

	<b>Year Ended December 31, 2004</b>	<b>Year Ended December 31, 2003</b>
Discount rate	-	2%- 3%
Volatility	-	253%
Expected life	-	4 years
Expected dividend yield	-	-

**8. LOSS PER SHARE**

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Net loss	\$ (1,423,359)	\$ (2,937,616)
Cumulative preferred dividends (See Note 7)	(214,575)	(137,250)
Deemed dividends on preferred stock (See Note 7)	(153,660)	-
Numerator for basic and diluted loss per share: Net loss applicable to common stockholders		(1,791,594)
)		(3,074,866)
)		
Denominator for basic and diluted loss per share: Weighted average shares		

7,038,209

7,355,214

Basic and diluted loss per share

\$	
)	
\$	(0.25)
)	
\$	(0.42)
)	

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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY  
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**9. COMMITMENTS AND CONTINGENCIES**

*Service Agreements*

Periodically, the Company enters into various agreements for services including, but not limited to, public relations, financial consulting and manufacturing consulting. Generally, the agreements are ongoing until such time they are terminated, as defined. Compensation for services is paid either at a fixed monthly rate or based on a percentage, as specified, and may be payable in shares of the Company's common stock. The Company's policy is that expenses related to these types of agreements are valued at the fair market value of the services or the shares granted, whichever is more realistically determinable. Such expenses are amortized over the period of service.

*Leases*

The Company leases equipment under various operating lease agreements which require monthly payments ranging from approximately \$250 to \$600, and maturing through July 2006.

The Company also leases its office and warehouse facility under a non-cancelable operating lease agreement. The lease requires monthly lease payments of approximately \$33,000, with annual increases of 3% through December 2006. The lease is personally guaranteed by one of the stockholders. The lease agreement included a provision in which the Company could purchase the land and building (the "Property") for \$3,050,000 from the current landlord/owner, as amended. During the year ended December 31, 2001, the Company entered into a note payable with the prior landlord/owner of the Property in the amount of \$215,000, as a condition of sale of the Property to the current landlord/owner and as a deposit toward the eventual purchase of the Property by the Company, then subsequently deposited an additional \$250,000 directly into escrow. The deposits totaling \$465,000 were non-refundable. In March 2003, a third party purchased the Property. Therefore, since the Company had no legal claim for the deposits, such amounts were expensed in the accompanying consolidated statement of operations for the year ended December 31, 2003.

The Company was a sublessor in a sublease of an office and warehouse facility under a non-cancelable operating sublease agreement which expired in August 2003. In connection with the sublease, the Company recognized approximately \$167,000 of rental income, which has been included in operating expenses in the accompanying consolidated statements of operations for the year ended December 31, 2003. Of this amount, \$148,000 represented the Company's obligation as the original lessee.

The Company leases certain equipment under capital lease obligations that expire through December 2005. Monthly payments approximate \$9,000, including interest at rates ranging from 14% to 20%. The assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value.

**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
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**9. COMMITMENTS AND CONTINGENCIES** (continued)*Leases* (continued)

Future minimum lease payments on the operating and capital lease obligations approximates the following for the years ending December 31:

	Operating Leases	Capital Leases	Total
2005	\$ 389,000	\$ 78,000	\$ 467,000
2006	397,000	-	397,000
Total minimum lease payments	\$ 786,000	\$ 78,000	\$ 864,000
Less imputed interest		6,000	
Present value of minimum lease payments		72,000	
Less current portion		72,000	
Long-term portion		\$ -	

Rental expense for operating leases approximated \$410,000 and \$380,000 (net of approximately \$165,000 sublease rental income) for the years ended December 31, 2004 and 2003, respectively. Interest expense incurred pursuant to capital lease obligations approximated \$18,000 and \$25,000 for the years ended December 31, 2004 and 2003, respectively.

Equipment under capital leases as of December 31, 2004, which is included in property and equipment in the accompanying consolidated balance sheet (see Note 3) approximates:

Machinery and equipment	\$ 271,000
Accumulated depreciation	(150,000)
	\$ 121,000

*Legal*

From time to time, the Company may be involved in various claims, lawsuits, disputes with third parties, actions involving allegations or discrimination or breach of contract actions incidental in the normal operations of the business. The Company is currently not involved in any such litigation, which management believes could have a material adverse effect on its financial position or result of operations.



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**NEW CENTURY COMPANIES, INC. AND SUBSIDIARY**  
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**9. COMMITMENTS AND CONTINGENCIES** (continued)**Backlog** (Unaudited)

The following schedule approximates a reconciliation of backlog representing signed contracts:

Balance, January 1, 2004	\$ 2,192,000
New contracts, January 1, 2004 through December 31, 2004	5,885,000
	8,077,000
Less, contract revenue earned - January 1, 2004 through December 31, 2004	(4,606,000)
Balance December 31, 2004	\$ 3,471,000

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