

Form 10QSB for NEW CENTURY ENERGY CORP.

19-May-2006

Quarterly Report

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB (THIS "FORM 10-QSB"), CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF NEW CENTURY ENERGY CORP. ("NEW CENTURY", "THE COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-QSB, UNLESS ANOTHER DATE IS STATED, ARE TO MARCH 31, 2006.

Information regarding certain technical oil and gas exploration terms which are used throughout this Form 10-QSB can be found in the "Glossary of Oil and Gas Terms," incorporated by reference into this Form 10-QSB as exhibit 99.1.

New Century Energy Corp. is a Colorado corporation; organized under Colorado Business Corporation Law ("CBCL") engaged in the acquisition, development, operation and exploration of oil and natural gas properties in the Gulf Coast region of the United States, primarily in Texas. Our corporate headquarters are located at 5851 San Felipe Suite 775, Houston, Texas 77057, and our phone number is 713-266-4344.

HISTORY

New Century Energy Corp. (the "Company"), was incorporated in Colorado on April 18, 1997 as "Perfection Development Corporation." On September 29, 1998, the Company entered into an agreement pursuant to which it would acquire all of the outstanding capital stock of Vertica Software, Inc., a California corporation ("Vertica California"). On December 31, 1998, Vertica California merged with and into the Company. The Company was the surviving corporation in the merger and the separate corporate existence of Vertica California ceased. Concurrently with the merger, the Company changed its name from Perfection Development Corporation to Vertica Software, Inc. ("Vertica").

On February 1, 2002, the Company's charter was automatically revoked by the Colorado Secretary of State for failure to file a periodic report. Because of the Colorado statute at that time, once a charter was revoked it could not be renewed and the Company was forced to file new Articles of Incorporation with the Colorado Secretary of State, which it did on December 22, 2003, as Vertica Software, Inc. The Company filed a Statement of Merger with the Colorado Secretary of State to merge its former Colorado filings as Perfection Development Corporation/Vertica Software, Inc., with its current filings as New Century Energy Corp.

On January 28, 2004, the Company filed Articles of Amendment to the Company's Articles of Incorporation to authorize 5,000 shares of Series A Convertible Preferred Stock. On June 30, 2004, the Company filed Articles of Amendment to the Company's Articles of Incorporation to amend the Series A Convertible Preferred Stock ("Series A") designation and to authorize 2,000,000 shares of Series B Convertible Preferred Stock ("Series B"). Each share of Series A Preferred Stock is able to vote an amount equal to 300 shares of Common Stock. All shares of preferred stock rank prior to all other stock of the Company, as to payments of dividends and to distributions of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary. Each share of Series B Preferred Stock is able to vote an amount equal to 2,958 shares of Common Stock. Each share of Series A Preferred Stock can be converted into 300 shares of the Company's Common Stock at the option of the holder, provided that there are a sufficient number of shares authorized but unissued and unreserved. Each share of Series B Preferred Stock can be converted into 98.6 shares of the Company's Common Stock at the option of the holder, provided that there are a sufficient number of shares authorized but unissued and unreserved. As of the date of the filing of this report, there are no shares of Series A Preferred Stock outstanding and no shares of Series B Preferred Stock outstanding.

On September 30, 2004, the Company acquired 100% of the issued and outstanding common stock of Century Resources, Inc., a Delaware Corporation ("Century"), which was originally established for the acquisition, development, production, exploration for, and the sale of oil and natural gas in Texas, in exchange for 37,500,000 newly issued post 1:100 reverse split (described below) shares of the Company's Common Stock, pursuant to an Agreement and Plan of

Reorganization whereby Century became a wholly-owned subsidiary of the Company (the "Exchange"). Also on September 30, 2004, the Company effected a 1:100 reverse stock split. Unless otherwise stated, all share amounts in this quarterly report on Form 10-QSB are provided in post reverse split shares.

In connection with the Exchange, the Company agreed to transfer all rights to the existing installation of hardware and software used to develop intellectual property, all trademarks, copyrights and marketing materials developed for sales and distribution of such products relating to Internet/Intranet software products and services and an Internet web site for the hazardous material to the Company's former wholly owned subsidiary, ERC Solutions, Inc., a Delaware corporation ("ERC"), and changed its business focus to oil and gas exploration and production. On October 26, 2004, in connection with its new business focus, the Company filed Articles of Amendment with the Colorado Secretary of State, to change its name to "New Century Energy Corp." which became effective on November 1, 2004. ERC was subsequently dissolved in February 2006.

In November 2004, the Company filed a Certificate of Correction to the Company's previously filed Articles of Amendment, to correct the number of shares the Company is authorized to issue. As a result of this correction, the total number of authorized shares of the Company is 120,000,000, of which 100,000,000 are Common Stock, par value \$0.001 per share, and 20,000,000 are Preferred Stock, par value \$0.001 per share ("Preferred Stock").

2005 FUNDING AGREEMENTS

On June 30, 2005, we entered into a Securities Purchase Agreement with Laurus Master Fund, Ltd., a Cayman Islands company ("Laurus" and the "Closing"), whereby we sold a Secured Convertible Term Note in the principal amount of fifteen million dollars (\$15,000,000)(the "Note" or "Convertible Note"), which is convertible into an aggregate of 24,193,548 shares of our Common Stock at a conversion price of \$0.62 per share; issued Laurus a warrant to purchase up to 7,258,065 shares of Common Stock at \$0.80 per share (the "Warrant"); issued an option to Laurus to purchase up to 10,222,784 shares of our Common Stock (representing 20% of our outstanding Common Stock on a fully-diluted basis

[prior to the issuance of shares in connection with the Purchase and Sale Agreement]), for \$0.001 per share (as amended)(the "Option"); and entered into a Master Security Agreement, Registration Rights Agreement, Stock Pledge Agreement and Funds Escrow Agreement with Laurus and Century

Resources, Inc., our wholly owned subsidiary, entered into a Subsidiary Guaranty with Laurus. The Note, the Warrant, the Option, the Master Security Agreement, the Registration Rights Agreement, in which we agreed to file and obtain effectiveness of a Registration Statement covering the Securities issued to Laurus, the Subsidiary Guaranty, the Stock Pledge Agreement, the Funds Escrow Agreement and all other documents, instruments and agreements entered into in connection with the Closing, are referred to herein as the "Related Agreements."

In connection with the Securities Purchase Agreement, we issued Laurus a three year Secured Convertible Note in the amount of \$15,000,000, which was subsequently replaced by an Amended and Restated Secured Convertible Term Note (the "Convertible Term Note" or the "Note") which bears interest at the prime rate (as published by the Wall Street Journal) plus 2% (currently 10.00%, with the prime rate at 8.00% as of May 10, 2006, the "Contract Rate") per year, and which at no time unless adjusted as described below, shall bear interest at less than 7% per year, which unpaid principal and unpaid accrued interest, if any, shall be due and payable on June 30, 2008 (the "Maturity Date"). The interest on the Note shall be payable monthly, in arrears, commencing on September 1, 2005 (each monthly date being a "Determination Date"). Additionally, if the

Registration Statement covering the shares which the Note and Warrant are convertible into has been declared effective and our Common Stock has traded at least 25% above the "Fixed Conversion Rate," which is currently \$0.62 and which is subject to adjustment as described below, for the five trading days immediately preceding a Determination Date, then the Contract Rate shall be reduced by 1%, and shall be reduced by 1% for each incremental 25% increase in the market price of our Common Stock above the then applicable Fixed Conversion Rate (for example, if our Common Stock has traded at \$0.93 for the five trading days preceding a Determination Date, which amount is 50% above the current Fixed Conversion Rate (\$0.62), the Contract Rate will be reduced by an aggregate of two percentage points, one percentage point for each 25% increase that our Common Stock traded above the Fixed Conversion Rate), but, in no event shall the Contract Rate at any time be less than 0%.

We granted Laurus a seven year Common Stock Purchase Warrant ("Warrant") to purchase 7,258,065 shares of our Common Stock at an exercise price of \$0.80 per share. The Warrant became immediately exercisable when granted. The Warrant allows Laurus to purchase the shares until 5:00 p.m., June 30, 2012. The exercise price of the Warrant shall be adjusted automatically in the event that we issue any additional shares of Common Stock as a dividend or any preferred stock; subdivide our outstanding shares of Common Stock; or effect a reverse stock split, by multiplying the exercise price (currently \$0.80) by the number of our shares outstanding prior to such event and dividing that number by the number of our shares outstanding after such event. The Warrant states that Laurus may not exercise the Warrant, if such exercise would cause Laurus to hold more than 9.99% of our outstanding Common Stock, subject to the same limitation as in the Note, as described above.

At the Closing, and in connection with the Securities Purchase Agreement, we granted Laurus an option which vested immediately to purchase up to 10,222,784 shares of our Common Stock at an aggregate exercise price of approximately \$10,222.78 (with a per share exercise price of \$0.001). Laurus agreed under the Option not to sell any shares of Common Stock issuable upon exercise of the Option until: (a) payment in full of all of our obligations and liabilities to Laurus under the Securities Purchase Agreement, and (b) the exercise of the Warrant by Laurus; provided; however that Laurus may sell all or any portion of the Common Stock issuable upon the Option following an event of default (as defined in the Note, and described under the section titled "Secured Convertible Note," above), or with 75 days notice to us of their intent to convert and hold more than 9.99% of our outstanding Common Stock. On the day of the Closing, June 30, 2005, Laurus exercised a portion of the Option and received 3,675,000 shares of our Common Stock for an aggregate of \$3,675, leaving an option to purchase 6,547,784 shares of our Common Stock for \$6,547.78.

On September 19, 2005, we entered into a Securities Purchase Agreement with Laurus (the "September 2005 SPA"), pursuant to which we sold Laurus a Secured Term Note in the amount of \$9,500,000 (the "Term Note"). We also entered into a Reaffirmation and Ratification Agreement and an Escrow Agreement with Laurus in connection with the September 19, 2005 Securities Purchase

Agreement and Term Note. The interest rate of the Term Note was originally twenty percent (20%) per year, based on a 360 day year, payable monthly in arrears, with the first interest payment due on November 1, 2005, additionally, the Term Note was originally due on March 19, 2006; however, the Term Note has since been amended by our entry into the Fourth Amendment (as defined and described below under "Recent Events") with Laurus, whereby the yearly interest rate was amended to twelve and one half percent (12.5%), which is payable by us by way of 100% of the production payment of our 7.5% interest in the Lindholm-Hanson Gas Unit, which we purchased pursuant to the September 2005 Purchase and Sale Agreement, described above, and whereby we amended the due date of the Term Note to January 2, 2007.

In connection with the September 19, 2005 closing, we and Century Resources, Inc., entered into a Reaffirmation and Ratification Agreement with Laurus, whereby we agreed to ratify and confirm the terms of the original Closing documents and Related Documents, the September 19, 2005 closing documents; the events of default under the June and September 2005 closing documents; the grants of security interests to Laurus in connection with the June and September 2005 closings; and we agreed to release Laurus, and Laurus' employees, agents, representatives, consultants, attorney's, fiduciaries, officers, directors, partners, predecessors, successors and assigns, from any and all actions and cause of actions, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, or whatsoever kind or nature, for or because of any matter or things done, omitted or suffered to be done by any of the above, prior to and including the date of execution of the Reaffirmation and Ratification Agreement, the June 2005 agreements and the September 2005 agreements.

In connection with the Term Note, we entered into three Mortgage, Deed of Trust, Security Agreement, Financing Statement and Assignment of Productions with Laurus (the "Mortgage"), whereby we agreed to grant Eugene Grin, as trustee for Laurus ("Trustee") a security interest on, among other things, our oil and gas properties, production and proceeds, to secure the June 2005 Note; the Term Note; payment and performance of any and all present and future obligations; and sums advances as expenses or costs included on behalf of us any and all additional debts, obligations and liabilities of every kind and character existing in connection with the Term Note or the June 2005 Note.

On December 30, 2005, we entered into a Third Amendment Agreement ("Third Amendment") to extend the date we were required to file a Registration Statement covering the securities issuable to Laurus, and obtain effectiveness of such Registration Statement, an Amended and Restated Secured Convertible Term Note ("Restated Note," described in greater detail below) and an Option (the "December Option"). The December Option, provides Laurus the right to purchase up to 5,061,392 shares of our common stock at \$0.001 per share, representing ten percent (10%) of our fully diluted issued and outstanding shares of Common Stock prior to the date of the June 2005 SPA (June 30, 2005). Laurus agreed under the December Option not to exercise any rights under the December Option until: (a) payment in full of all of the obligations and liabilities of the Company to Laurus under the June 2005 SPA and Restated Note have been paid in full and (b) the exercise of the Warrant by Laurus, provided however that Laurus may sell all or any portion of the Common Stock issuable upon the December Option following an event of default (as defined in the Amended Note), or upon 75 days notice to us.

As a result of the December Option, Laurus has the right to convert the Restated Note, and exercise the Warrant, June Option and December Option into an aggregate of approximately 46,735,789 shares of the Company's common stock (assuming the full conversion of the Amended Note, Warrant, June Option and December Option and without taking into account any conversion for interest) which would constitute approximately 45.6% of the Company's then outstanding common stock (assuming the issuance of no additional shares of common stock other than in connection with the conversion of the Restated Note, and exercise of the Warrant, June Option and December Option); however, Laurus has contractually agreed not to hold more than 9.99% of the Company's issued and outstanding common stock, unless an event of default occurs or upon 75 days prior notice to the Company.

In connection with the Third Amendment, we also entered into the Restated Note, which replaced and superseded the Convertible Note, and which had an effective date of June 30, 2005, the date of the original Convertible Note, added a section to the original Convertible Note, which provided that the events

of default set forth in the Restated Note are subject to the express waiver of certain events of default by Laurus in favor of the Company as provided in the Amendment and the Second Amendment entered into with Laurus on November 3, 2005 and December 14, 2005. The Restated Note provided that such events of default expressly waived pursuant to the First Amendment and the Second Amendment shall remain waived in accordance with the express terms of the First Amendment and the Second and shall not be deemed to constitute events of default for purposes of the Restated Note, the June 2005 SPA or related agreements, the September 2005 SPA and/or related agreements.

Additionally, under the Restated Note, Laurus agreed to amend the date on which we were required to begin making payments of principal under the original Convertible Note from January 1, 2006, until July 1, 2006, in consideration for us entering into the Restated Note, the December Option and the Third Amendment.

The payments of principal under the Restated Note are due monthly at the rate of \$250,000 per month, until June 30, 2008, the maturity date of the Restated Note (the "Maturity Date"). On the Maturity Date, the \$9,000,000 remaining outstanding under the Restated Note (assuming Laurus does not convert any principal amount of the Restated Note into shares of our common stock), plus any accrued and unpaid interest is due and payable.

RECENT EVENTS

On January 3, 2006, we closed the Purchase and Sale Agreement entered into on November 1, 2005 ("Agreement") with Mr. Gerald W. Green, the "Seller." Pursuant to the Agreement, we agreed to purchase certain interests in and to certain oil and gas leases which are located within and adjacent to the Lindholm-Hanson Gas Unit in the Wishbone Field in McMullen County, Texas, located 80 miles south of San Antonio, Texas (the "Unit"), for \$1,890,000. We previously paid the Seller a ten percent (10%) deposit under the Agreement, representing \$189,000 and paid the Seller the remaining ninety percent (90%) of the purchase price, representing \$1,701,000 on January 3, 2006. The interests purchased total a 1.75% working interest and a 1.3125% net revenue interest in the leases (the "Interest"). As a result of the closing of the Interest, our total ownership of interests within the Lindholm-Hanson Gas Unit totals a 15.20% working interest and a 12.2140% net revenue interest and our total ownership of the Lindholm fee #1 well, which is outside of the Unit includes a 12.10% working interest and an 8.9820% net revenue interest.

The effective date of the sale of the Seller's Interest is October 1, 2005 (the "Effective Date"). At the closing and in accordance with the provisions of the Agreement, the Seller paid us the proceeds actually received by Seller and attributable to production during the period between the Effective Date and the closing. At the time of closing, we reimbursed Seller approximately \$154,750 for drilling and development costs assumed by us and attributable to the ownership and operation of the purchased leases which were paid by Seller and incurred at or after the Effective Date.

The Agreement is described in greater detail in our Report on Form 8-K filed with the Commission on November 7, 2005.

AMENDED AND RESTATED SECURED TERM NOTE

On or about March 30, 2006, with an effective date of September 19, 2005, we entered into the Amended and Restated Secured Term Note (the "Amended Term Note") with Laurus. Pursuant to the Amended Term Note, the maturity date of the September 2005 Secured Term Note ("Term Note") with Laurus was extended to January 2, 2007. Additionally, a section was added to the Amended Term Note

which provided for the Amended Term Note to be repaid by way of a production payment on certain of our oil and gas property (described below). The interest rate of the Term Note, which rate was not changed by the Amended Term Note, is twenty percent (20%) per year, based on a 360 day year, payable monthly in arrears.

The Amended Term Note provides for the payment of amortizing payments ("Amortizing Payments") of principal and interest due under the Amended Term Note equal to eighty percent (80%) of the gross proceeds paid to us in respect of oil, gas and/or other hydrocarbon production arising from our 7.25% working interest in the Wishbone Field in the Lindholm-Hanson Gas Unit, located in McMullen County, Texas, purchased by us pursuant to the Purchase and Sale Agreement dated September 2, 2005 (the "September Interests" and the "Production Payments"). Pursuant to the Amended Term Note, each such Amortizing Payment shall be made by us to Laurus not later than five (5) days following the date on which we receive the Production Payment, commencing with all Production Payments received by us after March 1, 2006, with respect to the production month of January 2006 and each month thereafter. Our payment of the Amortizing Payments to Laurus will be in lieu of the monthly payments of interest accruing under the Term Note, which we had previously been making since November 1, 2005.

Notwithstanding anything contained in the Amended Term Note to the contrary, if during the 2006 calendar year, the Company drills one or more wells in the Wishbone Field, then so long as no Event of Default shall have occurred and be continuing the Company shall be permitted to deduct from each Amortizing Payment in respect of the principal amount then required to be made an amount sufficient to cover not more than the Company's then owing 7.25% pro-rata share of the drilling and completion costs associated with such drilling, provided that in no event shall any such drilling and completion costs be deducted from the interest payments then due and owing by the Company to Laurus.

SETTLEMENT WITH FORMER EMPLOYEE

On or about March 20, 2006, we entered into a Settlement and Release Agreement with our former officer and employee, Hans Nehme ("Nehme" and the "Nehme Settlement"). Pursuant to the Nehme Settlement, Nehme agreed to file all necessary pleadings to dismiss his previously filed lawsuit against us, with prejudice and we agreed to pay Nehme \$25,483.09 and to issue him 100,000 shares of our restricted common stock. Additionally, pursuant to the Nehme Settlement, we, Nehme, our agents, representatives, and assigns agreed to release, acquit and forever discharge each other, together and our employees, affiliates, representatives, assigns, and in Nehme's release of us, our directors and officers and parent and subsidiary organizations, from and against any and all claims, demands, obligations, liabilities and causes of action, of any nature whatsoever, at law or equity, asserted or unasserted, known or unknown, fixed or contingent, liquidated or unliquidated, including but not limited to Nehme's previously disclosed lawsuit against us. The Nehme Settlement, however, did not include the release by Nehme of any claim against any third parties in connection with his ownership of rights or interests in intellectual property that was previously possessed or owned by Vertica Software, Inc., which was our former name up to the date of the Exchange, described above.

SUBSEQUENT EVENTS

On April 26, 2006, our newly formed wholly owned subsidiary, Gulf Coast Oil Corporation, a Delaware corporation ("Gulf Coast"), entered into a Securities Purchase Agreement with Laurus Master Fund, Ltd. (the "Purchase Agreement" and "Laurus"), whereby Gulf Coast sold Laurus a Secured Term Note in the amount of

\$40,000,000 (the "Gulf Coast Note") and a Common Stock Purchase Warrant to purchase up to 49% of the shares of common stock of Gulf Coast (the "Gulf Coast Warrant") at \$.001 per share. In connection with the Purchase Agreement, Gulf Coast also entered into a Guaranty with Laurus (the "Gulf Coast Guaranty"); a Mortgage Deed of Trust, Security Agreement, Financing Statement and Assignment of Production; a Master Security Agreement; a Collateral Assignment; and a letter agreement relating to a Shareholders Agreement to be entered into between Laurus and Gulf Coast following Laurus' exercise of the Gulf Coast Warrant. In connection with Gulf Coast's entry into the

Securities Purchase Agreement, we and Century Resources, Inc., our wholly owned Delaware subsidiary ("Century") entered into a Guaranty with Laurus (the "New Century Guaranty"); we and Century entered into an Amended and Restated Mortgage, Deed of Trust, Security Agreement, Financing Statement and Assignment of Production in favor of Laurus; and we entered into a Stock Pledge Agreement with Laurus.

GULF COAST NOTE

In connection with the Purchase Agreement, Gulf Coast issued Laurus a three (3) year Secured Term Note in the amount of \$40,000,000 (the "Gulf Coast Note") which bears interest at the prime rate (as published by the Wall Street Journal) plus 2% (currently 10.00%, with the prime rate at 8.00% as of May 10, 2006) per year, and which at no time shall bear interest at less than 8% per year, which unpaid principal and unpaid accrued interest, if any, shall be due and payable on October 28, 2009 (the "Maturity Date"). The interest on the Gulf Coast Note shall be payable monthly, in arrears, commencing on July 1, 2006. Additionally, amortizing payments of the principal amount due under the Gulf Coast Note are due July 1, 2006, and each succeeding month thereafter including the Maturity Date (each an "Amortization Amount"). As long as no Event of Default, as defined below, has occurred under the Gulf Coast Note, interest on the Gulf Coast Note . . .