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6 [Additional Counsel Appear  
7 on Signature Page]

8 UNITED STATES DISTRICT COURT  
9 CENTRAL DISTRICT OF CALIFORNIA

10 \_\_\_\_\_  
11 GERALD HAMMER, Individually and On  
12 Behalf of All Others Similarly Situated,

13 Plaintiff,

14 vs.

15 NEW CENTURY FINANCIAL  
16 CORPORATION, BRAD A. MORRICE,  
17 TAJ S. BINDRA, PATTI M. DODGE,  
ROBERT K. COLE, KEVIN M. CLOYD.

18 Defendants.  
19 \_\_\_\_\_

} **CIVIL ACTION NO.**

} **CLASS ACTION COMPLAINT**

} **JURY TRIAL DEMANDED**

20 Plaintiff, Gerald Hammer (“Plaintiff”), alleges the following based upon the  
21 investigation by Plaintiff’s counsel, which included, among other things, a review of  
22 the Defendants’ public documents, conference calls and announcements made by  
23 Defendants, United States Securities and Exchange Commission (“SEC”) filings, wire  
24 and press releases published by and regarding New Century Financial Corporation  
25 (“New Century” or the “Company”), securities analysts’ reports and advisories about  
26 the Company, and information readily available on the Internet, and Plaintiff believes  
27 that substantial additional evidentiary support will exist for the allegations set forth  
28 herein after a reasonable opportunity for discovery.

1 **NATURE OF THE ACTION AND OVERVIEW**

2 1. This is a federal class action on behalf of purchasers of the common stock  
3 of New Century between April 7, 2006 and February 7, 2007, inclusive (the “Class  
4 Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the  
5 “Exchange Act”).

6 2. New Century operates as a real estate investment trust (“REIT”). The  
7 Company focuses on lending to individuals whose borrowing needs are generally not  
8 fulfilled by traditional financial institutions because they do not satisfy the credit,  
9 documentation or other underwriting standards prescribed by conventional mortgage  
10 lenders and loan buyers.

11 3. The complaint alleges that, throughout the Class Period, Defendants  
12 failed to disclose material adverse facts about the Company’s financial well-being,  
13 business relationships, and prospects. Specifically, Defendants failed to disclose or  
14 indicate the following: (1) that the Company was under-reserving for loan losses as  
15 conditions in the sub-prime industry deteriorated; (2) that the Company failed to take  
16 timely writedowns for residual interests in securitizations; (3) that the Company failed  
17 to properly account for its allowances for early-payment defaults and loan repurchase  
18 losses; (4) that the Company lacked adequate internal and financial controls; (5) that  
19 the Company’s financial statements were not prepared in accordance with Generally  
20 Accepted Accounting Principals (“GAAP”); (6) that the Company’s statements about  
21 its financial well-being and future business prospects were lacking in any reasonable  
22 basis when made; and (7) that, as a result of the foregoing, the Company’s financial  
23 statements were materially false and misleading at all relevant times.

24 4. On February 7, 2007, after the market had closed for the day, New  
25 Century shocked investors when it announced that it would have to restate its 2006  
26 financial statements, since they were not prepared in accordance with GAAP.

27 5. On this news, shares of the Company’s stock declined \$10.92 per share,  
28 or 36 percent, to close on February 8, 2007 at \$19.24 per share, on unusually heavy

1 trading volume. By February 9, 2007, shares of New Century had lost nearly 42  
2 percent of their value on this news.

3 **JURISDICTION AND VENUE**

4 6. The claims asserted herein arise under and pursuant to Sections 10(b) and  
5 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5  
6 promulgated thereunder (17 C.F.R. § 240.10b-5).

7 7. This Court has jurisdiction over the subject matter of this action pursuant  
8 to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

9 8. Venue is proper in this Judicial District pursuant to Section 27 of the  
10 Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and  
11 transactions alleged herein, including the preparation and dissemination of materially  
12 false and misleading information, occurred in substantial part in this Judicial District.

13 9. In connection with the acts, conduct and other wrongs alleged in this  
14 complaint, Defendants, directly or indirectly, used the means and instrumentalities of  
15 interstate commerce, including but not limited to, the United States mails, interstate  
16 telephone communications and the facilities of the national securities exchange.

17 **PARTIES**

18 10. Plaintiff, Gerald Hammer, as set forth in the accompanying certification,  
19 incorporated by reference herein, purchased New Century common stock at artificially  
20 inflated prices during the Class Period and has been damaged thereby.

21 11. Defendant New Century is a Maryland corporation with its principal  
22 place of business located at 18400 Von Karman Avenue, Suite 1000, Irvine, CA.

23 12. Defendant Brad A. Morrice (“Morrice”) was, at all relevant times, the  
24 Company’s President and Chief Executive Officer (“CEO”), a position he assumed on  
25 July 1, 2006.

26 13. Defendant Taj S. Bindra (“Bindra”) was, at all relevant times, the  
27 Company’s Chief Financial Officer (“CFO”) and Executive Vice President.

28 14. Defendant Patti M. Dodge (“Dodge”) was the Company’s Chief

1 Financial Officer (“CFO”) until November 15, 2006. She is currently an Executive  
2 Vice President in the Company’s Investor Relations department.

3 15. Defendant Robert K. Cole (“Cole”) was the Company’s Chairman of the  
4 Board from December 1995 through December 2006. He was also the Company’s  
5 CEO until he was replaced by Defendant Morrice on July 1, 2006.

6 16. Defendant Kevin M. Cloyd (“Cloyd”) was, at all relevant times, the  
7 Executive Vice President of Secondary Marketing, as well as President of the  
8 Secondary Marketing Division. Defendant Cloyd assisted in the preparation of the  
9 false financial statements and repeated the contents therein to the market.

10 17. Defendants Morrice, Bindra, Dodge, Cole, and Cloyd, as identified in ¶¶  
11 12 – 16, are collectively referred to hereinafter as the “Individual Defendants.” The  
12 Individual Defendants, because of their positions with the Company, possessed the  
13 power and authority to control the contents of New Century’s reports to the SEC, press  
14 releases and presentations to securities analysts, money and portfolio managers and  
15 institutional investors, i.e., the market. Each Defendant was provided with copies of  
16 the Company’s reports and press releases alleged herein to be misleading prior to or  
17 shortly after their issuance and had the ability and opportunity to prevent their issuance  
18 or cause them to be corrected. Because of their positions and access to material non-  
19 public information available to them, each of these Defendants knew that the adverse  
20 facts specified herein had not been disclosed to and were being concealed from the  
21 public, and that the positive representations which were being made were then  
22 materially false and misleading. The Individual Defendants are liable for the false  
23 statements pleaded herein, as those statements were each “group-published”  
24 information, the result of the collective actions of the Individual Defendants.

## 25 **SUBSTANTIVE ALLEGATIONS**

### 26 **Background**

27 18. New Century operates as a real estate investment trust (REIT). The  
28 Company focuses on lending to individuals whose borrowing needs are generally not

1 fulfilled by traditional financial institutions because they do not satisfy the credit,  
2 documentation or other underwriting standards prescribed by conventional mortgage  
3 lenders and loan buyers.

4  
5 **Materially False and Misleading**  
6 **Statements Issued During the Class Period**

7  
8 19. The Class Period begins on April 7, 2006. On this day, New Century  
9 issued a press release entitled "New Century Financial Corporation Announces First  
10 Quarter 2006 Total Loan Production of \$13.4 Billion." Therein, the Company, in  
11 relevant part, stated:

12 New Century Financial Corporation (NYSE: NEW), a real  
13 estate investment trust and parent company of one of the  
14 nation's premier mortgage finance companies, today  
15 announced total loan production for the first quarter 2006  
16 and provided the date for its first quarter 2006 results  
17 announcement.

18 Mortgage Loan Production

19 **"We are off to a strong start this year with \$13.4 billion**  
20 **in total loan production for the first quarter of 2006. We**  
21 **are particularly pleased to have achieved a 31 percent**  
22 **increase in total loan production over the first quarter**  
23 **of 2005, with approximately 14 percent coming from**  
24 **organic growth in our non- prime division. While the**  
25 **weighted average coupon on our non-prime product**  
26 **decreased modestly to 8.4 percent for March 2006**  
27 **compared with the previous month, we are on track to**  
28 **meet our profit margin target due in part to tighter**  
**credit spreads and lower loan acquisition costs," said**

1           **Robert K. Cole, Chairman of the Board and Chief**  
2           **Executive Officer. "We are pleased to see signs of a**  
3           **more favorable secondary market for our loans, as we**  
4           **have successfully entered into forward-sale**  
5           **commitments through June 2006 with gain-onsale**  
6           **executions above 102."** [Emphasis added.]

7           20.    On May 4, 2006, New Century issued a press release entitled "New  
8 Century Financial Corporation Reports Strong First Quarter 2006 Results – Company  
9 Achieved Earnings-per-Share of \$1.79 – Reaffirms 2006 Dividend Guidance of \$7.30  
10 per Share." Therein, the Company, in relevant part, stated:

11                   New Century Financial Corporation (NYSE: NEW), a real  
12                   estate investment trust (REIT) and parent company of one  
13                   of the nation's premier mortgage finance companies, today  
14                   reported results for the three months ended March 31, 2006.

15                   **First Quarter 2006 Highlights**

- 16
- 17                   • Earnings-per-share (EPS) of \$1.79
  - 18
  - 19                   • REIT taxable income of \$1.78 per share fully
  - 20                   covered the corresponding dividend of \$1.75 per
  - 21                   share
  - 22
  - 23                   • After-tax return on equity was 19.5 percent
  - 24
  - 25                   • Securitized \$1.7 billion of mortgage loans at the
  - 26                   REIT
  - 27                   • Total loan production was \$13.4 billion in the first
  - 28                   quarter 2006 and \$4.7 billion in April 2006

- Maintained non-prime loan acquisition costs (LAC) at 1.66 percent
- **Reaffirms 2006 dividend guidance of \$7.30 per share**

### **Financial Results**

“We achieved strong first quarter 2006 results highlighted by 21 percent growth in EPS, a 17 percent increase in REIT taxable income, and 31 percent growth in mortgage loan production compared with the same period last year,” said Robert K. Cole, Chairman and Chief Executive Officer. “We are also pleased to have maintained low loan acquisition costs, achieved our targeted net operating margin range for the quarter, and added mortgage loans to our REIT portfolio, which will contribute to our ability to pay our projected dividend of \$7.30 per share for 2006.”

The company reported net earnings of \$103.7 million, or \$1.79 per share, for the first quarter of 2006, compared with \$84.8 million, or \$1.48 per share, for the same period in 2005. The year-over-year increase in net earnings was primarily attributable to the growth in mortgage loan production volume and greater contributions to net earnings from the company’s REIT portfolio.

\* \* \*

### **Total Mortgage Loan Production**

1 Total mortgage loan production for the first quarter of 2006  
2 was \$13.4 billion, a 31 percent increase over the same  
3 period a year ago. “Our key objectives this year include  
4 maximizing the capabilities of the prime and Alt-A  
5 platform we acquired in 2005 for future growth and  
6 utilizing that acquisition as a catalyst for expanding the  
7 mortgage products we offer through each of our delivery  
8 channels,” said Brad A. Morrice, Vice Chairman, President  
9 and Chief Operating Officer. “This quarter’s mortgage loan  
10 production results were enhanced by \$1.9 billion in prime  
11 and Alt-A originations and we expect to see even stronger  
12 results as we continue the expansion of our product lines  
13 across all channels.”

14 \* \* \*

15 *Wholesale Channel*

16 In the first quarter of 2006, the company originated \$11.4  
17 billion in loans through its Wholesale channel, representing  
18 a 25 percent increase over the first quarter of 2005. “The  
19 growth in Wholesale mortgage loan production was the  
20 result of the superior efforts of our top-tier Account  
21 Executives. As a result, I’m proud to report that our  
22 Wholesale business ranked as the #1 non-prime wholesale  
23 lender and #4 wholesale lender in the overall mortgage  
24 market in 2005,” said Mr. Morrice.

25 \* \* \*

26  
27 *Retail Channel*  
28

1 The company's Retail channel originated approximately  
2 \$2.0 billion in loans in the first quarter of 2006, compared  
3 with \$1.2 billion in the year ago quarter. The 75 percent  
4 increase in Retail mortgage loan production was primarily  
5 the result of the addition of the origination platform that the  
6 company acquired from RBC Mortgage in September 2005.

7 \* \* \*

8  
9 **2006 Outlook**

10 **"Our strategic objectives for 2006 include achieving**  
11 **consistently strong operating performance in both our**  
12 **REIT and TRS, broadening the mortgage products and**  
13 **services available through each of our delivery channels,**  
14 **and lowering costs while increasing productivity,"** said  
15 **Mr. Morrice. "We are already making great progress**  
16 **toward achieving each of these objectives.**

17  
18 **"At the REIT, we expect to execute up to \$2 billion in**  
19 **securitizations in the second quarter of 2006, subject to**  
20 **our evaluation of secondary market opportunities. At**  
21 **the TRS, we anticipate our net operating margin to**  
22 **improve in the second quarter of 2006 reflecting a**  
23 **stronger secondary market for our loans and our**  
24 **continued efforts to control operating costs.**  
25 **Additionally, we anticipate growing our second quarter**  
26 **2006 production volume over the first quarter 2006**  
27 **level.**

1           **“We have continued confidence in our ability to pay a**  
2           **2006 dividend of \$7.30 per share as a result of this**  
3           **year’s REIT portfolio additions, the carry-over of REIT**  
4           **taxable income from 2005, and, if necessary,**  
5           **contributions from our TRS,” concluded Mr. Morrice.**

6           [Internal citations omitted. Emphasis added.]

7           21.    On May 10, 2006, New Century filed its Quarterly Report with the SEC  
8           on Form 10-Q. The Company’s Form 10-Q was signed by Defendants Cole, Dodge,  
9           and Morrice, and reaffirmed its financial results previously announced on May 4,  
10          2006. Additionally, the Company, in relevant part, stated:

11                   **Basis of Presentation**

12                                   \* \* \*

13                   **The accompanying condensed consolidated financial**  
14                   **statements include the consolidated financial statements**  
15                   **of New Century’s wholly-owned subsidiaries, New**  
16                   **Century TRS, New Century Credit, and NCRIV. All**  
17                   **material intercompany balances and transactions are**  
18                   **eliminated in consolidation.**

19                   **The Company has prepared the accompanying**  
20                   **unaudited condensed consolidated financial statements**  
21                   **in accordance with accounting principles generally**  
22                   **accepted in the United States of America for interim**  
23                   **financial information and with the instructions to Form**  
24                   **10-Q and Rule 10-01 of Regulation S-X. Accordingly,**  
25                   **the statements do not include all of the information and**  
26                   **footnotes required by generally accepted accounting**  
27                   **principles for complete financial statements. In the**  
28                   **opinion of management, all adjustments (consisting of**

1 normal recurring accruals) considered necessary for a  
2 fair presentation have been included. Operating results  
3 for the three months ended March 31, 2006 are not  
4 necessarily indicative of the results that may be  
5 expected for the year ending December 31, 2006. For  
6 further information, refer to the consolidated financial  
7 statements and notes thereto included in New Century's  
8 Annual Report on Form 10-K for the year ended  
9 December 31, 2005 filed with the Securities and  
10 Exchange Commission.

11 \* \* \*

#### 12 **Controls and Procedures**

13 **As of March 31, 2006, the end of our first quarter, our**  
14 **management, including our Chief Executive Officer,**  
15 **Chief Financial Officer and President and Chief**  
16 **Operating Officer, has evaluated the effectiveness of our**  
17 **disclosure controls and procedures, as such term is**  
18 **defined in Rule 13a-15(e) promulgated under the Securities**  
19 **Exchange Act of 1934, as amended. Based on that**  
20 **evaluation, our Chief Executive Officer, Chief Financial**  
21 **Officer and President and Chief Operating Officer**  
22 **concluded, as of March 31, 2006, that our disclosure**  
23 **controls and procedures were effective to ensure that**  
24 **information required to be disclosed by us in reports**  
25 **that we file or submit under the Securities Exchange**  
26 **Act of 1934 is recorded, processed, summarized and**  
27 **reported within the time periods specified in Securities**  
28 **and Exchange Commission rules and forms. There was**

1                   **no change in our internal control over financial**  
2                   **reporting during the quarter ended March 31, 2006 that**  
3                   **materially affected, or is reasonably likely to materially**  
4                   **affect, our internal control over financial reporting.**

5                   [Emphasis added.]

6                   22.     The Form 10-Q submitted to the SEC on May 10, 2006 also contained a  
7 Sarbanes-Oxley certification, signed by Defendants Cole, Dodge, and Morrice, that  
8 stated:

9                   I,       Robert K. Cole / Patti M. Dodge / Brad A. Morrice],  
10                   certify that:

- 11                   1.     I have reviewed this quarterly report on Form 10-Q  
12                   of New Century Financial Corporation;
- 13                   2.     Based on my knowledge, this report does not contain  
14                   any untrue statement of a material fact or omit to  
15                   state a material fact necessary to make the statements  
16                   made, in light of the circumstances under which such  
17                   statements were made, not misleading with respect  
18                   to the period covered by this report;
- 19                   3.     Based on my knowledge, the financial statements,  
20                   and other financial information included in this  
21                   report, fairly present in all material respects the  
22                   financial condition, results of operations and cash  
23                   flows of the registrant as of, and for, the periods  
24                   presented in this report;
- 25                   4.     The registrant's other certifying officers and I are  
26                   responsible for establishing and maintaining  
27                   disclosure controls and procedures (as defined in  
28                   Exchange Act Rules 13a-15(e) and 15d-15(e)) and

1 internal control over financial reporting (as defined  
2 in Exchange Act Rules 13a-15(f) and 15d-15(f)) for  
3 the registrant and have:

4 a. Designed such disclosure controls and  
5 procedures, or caused such disclosure controls  
6 and procedures to be designed under our  
7 supervision, to ensure that material  
8 information relating to the registrant,  
9 including its consolidated subsidiaries, is  
10 made known to us by others within those  
11 entities, particularly during the period in  
12 which this report is being prepared;

13 b. Designed such internal control over financial  
14 reporting, or caused such internal control over  
15 financial reporting to be designed under our  
16 supervision, to provide reasonable assurance  
17 regarding the reliability of financial reporting  
18 and the preparation of financial statements for  
19 external purposes in accordance with generally  
20 accepted accounting principles;

21 c. Evaluated the effectiveness of the registrant's  
22 disclosure controls and procedures and  
23 presented in this report our conclusions about  
24 the effectiveness of the disclosure controls and  
25 procedures, as of the end of the period covered  
26 by this report based on such evaluation; and

27 d. Disclosed in this report any change in the  
28 registrant's internal control over financial

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reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

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1           23. On June 7, 2006, New Century issued a press release entitled "New  
2 Century Financial Corporation Announces May 2006 Total Loan Production of \$5.5  
3 Billion." Therein, the Company stated:

4  
5           New Century Financial Corporation (NYSE: NEW), a real  
6 estate investment trust (REIT) and parent company of one  
7 of the nation's premier mortgage finance companies, today  
8 announced that total loan production for May 2006 was  
9 \$5.5 billion, a 28 percent increase over May 2005.

10           "We delivered strong loan production results for May 2006,  
11 including \$4.7 billion in non-prime loan production and  
12 \$0.8 billion in prime and Alt-A loan production,  
13 representing 15 and 33 percent growth over April 2006,  
14 respectively," said Robert K. Cole, Chairman and Chief  
15 Executive Officer. "Additionally, our weighted average  
16 coupon for non-prime loan production in May 2006 was 8.5  
17 percent.

18  
19           "I'm also pleased to announce that we priced our first Alt-A  
20 securitization today, which we anticipate will close later in  
21 the month. This \$521 million transaction demonstrates our  
22 ability to leverage our exit channels, maximizes secondary  
23 market execution and diversifies our REIT portfolio of  
24 mortgage loans with a new asset class."

1           24. On July 10, 2006, New Century issued a press release entitled "New  
2 Century Financial Corporation Announces Second Quarter 2006 Total Loan  
3 Production of \$16.2 Billion." Therein, the Company, in relevant part, stated:

4           New Century Financial Corporation (NYSE: NEW), a real  
5 estate investment trust (REIT) and parent company of one  
6 of the nation's premier mortgage finance companies, today  
7 announced second quarter 2006 total loan production of  
8 \$16.2 billion, representing a 21 percent increase over the  
9 same period a year ago.

10           June 2006 total loan production of \$6.0 billion increased 9  
11 percent compared with May 2006 and brought second  
12 quarter total loan production to \$16.2 billion," said Brad A.  
13 Morrice, Vice Chairman, President and Chief Executive  
14 Officer, who transitioned into this new role on July 1, 2006.  
15 "The weighted average coupon for our June nonprime  
16 production was 8.4 percent, which reflects an increased  
17 amount of higher credit grade non-prime production.  
18 Additionally, we have raised the coupon on our non-prime  
19 loans by 15 basis points over the past few weeks.

20           We expect that our continued cost reductions and enhanced  
21 secondary marketing execution during the second quarter  
22 have improved our non-prime net operating margin over the  
23 first quarter of 2006. As such, we expect our non-prime net  
24 operating margin to be within the recently increased  
25 guidance range of 75 basis points to 85 basis points for the  
26 second quarter of 2006," concluded Mr. Morrice.

27           25. On August 3, 2006, New Century issued a press release entitled "New  
28 Century Financial Corporation Reports Second Quarter 2006 Results – Board Declares

1 Third Quarter Dividend of \$1.85 per Share - Company Reaffirms 2006 Dividend  
2 Guidance of \$7.30 per Share.” Therein, the Company, in relevant part, stated:

3  
4 New Century Financial Corporation (NYSE: NEW), a real  
5 estate investment trust (REIT) and parent company of one  
6 of the nation’s premier mortgage finance companies, today  
7 reported results for the three and six months ended June 30,  
8 2006.

9  
10 **Second Quarter 2006 Results and Highlights**

- 11 • **Earnings-per-share (EPS) of \$1.81**
- 12
- 13 • **REIT taxable income per share of \$1.40**
- 14
- 15 • **Total mortgage loan production of \$16.2 billion;**  
16 **total loan production for July 2006 of**  
17 **approximately \$5.3 billion**
- 18 • **Non-prime net operating margin increased to 1.01**  
19 **percent**
- 20
- 21 • **Non-prime loan acquisition costs (LAC)**  
22 **decreased to 1.51 percent**
- 23
- 24 • **Prime/Alt-A platform achieved profitability**
- 25
- 26 • **After-tax return on equity was 19.8 percent**
- 27
- 28 • **Board declared third quarter dividend of \$1.85**  
**per share**

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- **Reaffirmed 2006 dividend guidance of \$7.30 per share**
- Chief Financial Officer Patti M. Dodge to transition to newly created executive role when successor is in place

**“Our second quarter results are evidence of the strength and stability of our franchise,” said Brad A. Morrice, President and Chief Executive Officer. “We achieved the second highest quarterly loan production volume in our history, while substantially improving our operating margin over the first quarter in a challenging environment. As a result, our second quarter net earnings were \$105.5 million, or \$1.81 per share, an 11 percent increase in net earnings compared with the second quarter of 2005. These results are particularly impressive considering that we only sold or securitized 82 percent of the loans we originated in the second quarter, increasing loans held for sale by \$3.0 billion. These loans are covered by forward sales commitments with premiums in excess of 102, so we expect to realize the related earnings in the third quarter.”**

**Mortgage Loan Portfolios**

During the second quarter of 2006, the company completed \$1.7 billion in securitizations structured as financings at the REIT level, including the company’s first Alt-A loan securitization of \$0.5 billion and a \$1.2 billion

1 securitization of non-prime product. "The Alt-A transaction  
2 enhanced our secondary market execution and diversified  
3 our REIT portfolio of mortgage loans with a new asset  
4 class," said Kevin M. Cloyd, President of NC Capital  
5 Corporation, the company's secondary marketing  
6 subsidiary.

7  
8 **At June 30, 2006, the balance of the mortgage loan**  
9 **portfolio was \$16.0 billion. The allowance for losses on**  
10 **loans held for investment was \$209.9 million,**  
11 **representing 1.31 percent of the unpaid principal**  
12 **balance of the portfolio. This compares with 0.79**  
13 **percent of the unpaid principal balance of the portfolio**  
14 **at June 30, 2005 and 1.30 percent of the portfolio at**  
15 **March 31, 2006. Delinquency rates as of June 30, 2006**  
16 **in the company's portfolio continue to be significantly**  
17 **lower than historical experience. The company's 60-plus**  
18 **day delinquency rate as of June 30, 2006 was 4.61**  
19 **percent compared with 4.50 percent in the previous**  
20 **quarter. The company's 2005 and 2006 vintages are**  
21 **experiencing more normalized delinquency trends than**  
22 **the 2003 and 2004 vintages, which have performed**  
23 **exceptionally well when compared with historical**  
24 **experience. "We are comfortable with our current loan**  
25 **loss reserve levels, which take into consideration not**  
26 **only normal portfolio seasoning but also our higher**  
27 **cumulative loss expectations for the newer vintages,"**  
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**said Patti M. Dodge, Executive Vice President and Chief Financial Officer.**

REIT portfolio income declined to \$52.0 million in the second quarter of 2006 compared with \$83.3 million in the first quarter. REIT portfolio income was \$79.2 million in the second quarter of 2005. The sequential decrease in REIT portfolio income is primarily the result of a lower return-on-assets (“ROA”) in the second quarter when compared to the first quarter. ROA declined to 1.49 percent in the second quarter from 2.34 percent in the first quarter as a result of a decrease in interest spread attributable to portfolio seasoning and the expected spread compression that comes with such seasoning. In addition, the company’s shift in 2006 to embedding swaps in its securitization transactions, which results in a more level yield over the life of the transaction, also led to a decrease in interest spread. Lower prepayment income, hedge re-balancing gains and income from hedge ineffectiveness and other derivative instruments also had a significant impact on ROA.

\* \* \*

*Total Mortgage Loan Production*

Total mortgage loan production for the second quarter of 2006 was \$16.2 billion, a 20 percent increase over the same period a year ago and a 21 percent increase over the first quarter of 2006. Excluding the prime and Alt-A loan

1 origination platform that was acquired in the third quarter  
2 of 2005, second quarter loan production increased 5 percent  
3 year-over-year. For the quarter, the company's Wholesale  
4 channel originated \$13.8 billion of mortgage loans and the  
5 Retail channel originated \$2.4 billion. "We are pleased with  
6 the second quarter's strong loan production volume, which  
7 resulted from modest growth in our core non-prime product  
8 coupled with the addition of our Prime and Alt-A  
9 products," said Mr. Morrice. "Additionally, we introduced  
10 a new credit grade during the quarter that serves borrowers  
11 with qualifications between Alt-A and non-prime. We  
12 believe this AAA credit grade is rapidly gaining acceptance  
13 in the market place."

14 \* \* \*

15 **Dividend**

16 The company's Board of Directors declared a \$1.85 per  
17 share dividend on its common stock for the third quarter of  
18 2006. This dividend reflects a \$0.05 per share increase from  
19 the prior quarter and is the seventh consecutive increase in  
20 the dividend since the company elected to become a REIT  
21 in the fourth quarter of 2004. The third quarter dividend  
22 will be paid on October 31, 2006 to stockholders of record  
23 at the close of business on September 29, 2006 and the ex-  
24 dividend date is September 27, 2006. The declaration of  
25 any future dividends will be subject to the company's  
26 earnings, financial position, capital requirements,  
27 contractual restrictions and other relevant factors.  
28

1           **“The earnings from the current REIT portfolio, plus an**  
2           **estimated \$1.88 per share carry-over of REIT taxable**  
3           **income from 2005, coupled with additions to the REIT**  
4           **portfolio and potential TRS contributions, gives us**  
5           **confidence that we will achieve our 2006 dividend**  
6           **guidance of \$7.30 per share,” said Mr. Morrice.**

7  
8           **Outlook**

9           **“Our year-to-date results reflect the benefits of our**  
10          **combined REIT portfolio and TRS operations model,**  
11          **solid execution of our business plan and the overall**  
12          **strength and stability of our franchise. Looking**  
13          **forward, we feel that the environment will continue to**  
14          **favor mortgage lenders like New Century that have**  
15          **significant operating scale and low expense structures.**  
16          **As a result, we have continued confidence in our ability**  
17          **to deliver strong future performance and create per**  
18          **share value for our stockholders,” said Mr. Morrice.**

19  
20          **Chief Financial Officer Transition**

21          Ms. Dodge has decided to transition from Chief Financial  
22          Officer to a newly created role, primarily focused on  
23          investor communications. In her new capacity, Ms. Dodge  
24          will focus on transforming the Investor Relations function  
25          to a more strategic role in order to more effectively increase  
26          shareholder value. She will continue to report to  
27          Mr. Morrice and the Investor Relations department will  
28          continue to report to her. She will remain an Executive

1 Vice President of the company and a member of the  
2 executive management team, maintaining a key role in the  
3 strategic business decisions of the company. The company  
4 has retained an executive search firm and a nationwide  
5 search for her successor is currently underway. Ms. Dodge  
6 will continue in her current role until her successor is in  
7 place.

8 “Patti is a key member of our executive management team  
9 and we are pleased that she will continue to contribute her  
10 financial expertise and strategic thinking in this new  
11 capacity,” said Mr. Morrice. “We are also enthusiastic  
12 about the opportunity to both strengthen our Investor  
13 Relations function and expand our overall management  
14 team. We expect the transition between chief financial  
15 officers to be seamless.” [Internal citations omitted.  
16 Emphasis added.]

17 26. On August 9, 2006, New Century filed its Quarterly Report with the SEC  
18 on Form 10-Q. The Company’s Form 10-Q was signed by Defendants Cole, Dodge,  
19 and Morrice, and reaffirmed its financial results previously announced on August 3,  
20 2006. This Form 10-Q also contained an identical certification, signed by Defendants  
21 Cole, Dodge, and Morrice as that set forth in ¶22. Additionally, the Company, in  
22 relevant part, stated:

23 **Basis of Presentation**

24 \* \* \*

25 **The accompanying condensed consolidated financial**  
26 **statements include the consolidated financial statements**  
27 **of New Century’s wholly-owned subsidiaries, New**  
28 **Century TRS, New Century Credit, and NCRIV. All**

1 material intercompany balances and transactions are  
2 eliminated in consolidation.

3 The Company has prepared the accompanying  
4 unaudited condensed consolidated financial statements  
5 in accordance with accounting principles generally  
6 accepted in the United States of America for interim  
7 financial information and with the instructions to  
8 Form 10-Q and Rule 10-01 of Regulation S-X.  
9 Accordingly, the statements do not include all of the  
10 information and footnotes required by generally  
11 accepted accounting principles for complete financial  
12 statements. In the opinion of management, all  
13 adjustments (consisting of normal recurring accruals)  
14 considered necessary for a fair presentation have been  
15 included. Operating results for the six months ended  
16 June 30, 2006 are not necessarily indicative of the  
17 results that may be expected for the year ending  
18 December 31, 2006. For further information, refer to  
19 the consolidated financial statements and notes thereto  
20 included in New Century's Annual Report on Form 10-  
21 K for the year ended December 31, 2005 filed with the  
22 Securities and Exchange Commission.

23 \* \* \*

24 **Controls and Procedures**

25 As of June 30, 2006, the end of our second quarter, our  
26 management, including our Chairman of the Board,  
27 President and Chief Executive Officer and Chief  
28 Financial Officer has evaluated the effectiveness of our

1 disclosure controls and procedures, as such term is  
2 defined in Rule 13a-15(e) promulgated under the  
3 Securities Exchange Act of 1934, as amended. Based on  
4 that evaluation, our Chairman of the Board, President  
5 and Chief Executive Officer and Chief Financial Officer  
6 concluded, as of June 30, 2006, that our disclosure  
7 controls and procedures were effective to ensure that  
8 information required to be disclosed by us in reports  
9 that we file or submit under the Securities Exchange  
10 Act of 1934 is recorded, processed, summarized and  
11 reported within the time periods specified in Securities  
12 and Exchange Commission rules and forms. There was  
13 no change in our internal control over financial  
14 reporting during the quarter ended June 30, 2006 that  
15 materially affected, or is reasonably likely to materially  
16 affect, our internal control over financial reporting.  
17 [Emphasis added.]

18 27. On September 8, 2006, New Century issued a press release entitled “New  
19 Century Financial Corporation Announces August 2006 Total Loan Production of \$5.8  
20 Billion.” Therein, the Company, in relevant part, stated:

21 New Century Financial Corporation (NYSE: NEW), a real  
22 estate investment trust (REIT) and parent company of one  
23 of the nation's premier mortgage finance companies, today  
24 announced August 2006 total loan production of \$5.8  
25 billion.

26  
27 "While August's total loan production volume of \$5.8  
28 billion was down 5 percent compared with our record

1 production volume in August 2005, it represented a 9  
2 percent increase over July 2006 and we are pleased with  
3 this level given market conditions," said Brad A. Morrice,  
4 President and Chief Executive Officer. "We are also  
5 pleased with the quality of the loans we are originating.  
6 August's production includes an increased amount of our  
7 highest non-prime credit grade and a reduction of interest-  
8 only loans to 17 percent of non-prime production from 35  
9 percent in August 2005. Additionally, we have become  
10 more geographically diverse, reducing California-based  
11 loans to 32 percent of non-prime production in August  
12 2006 from 37 percent in the same period a year ago.

13 **"We believe our strict underwriting guidelines, skilled**  
14 **risk management and servicing teams and enhanced**  
15 **fraud detection tools have resulted in lower early**  
16 **payment default and repurchase rates than many of our**  
17 **peers. While we have seen an increase in early payment**  
18 **defaults from 2005 levels as a result of the macro-**  
19 **economic environment, the increase has been modest,"**  
20 **concluded Mr. Morrice.** [Emphasis added.]  
21  
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24 28. On November 2, 2006, New Century issued a press release entitled "New  
25 Century Financial Corporation Reports Third Quarter 2006 Results and Provides  
26 Outlook for 2007 – Fourth Quarter Dividend Declared; Brings 2006 Total Dividends  
27 to \$7.30 per Share - Expects to Distribute \$400 Million or More to Stockholders in  
28

1 2007 Through Dividends and Common Stock Repurchases.” Therein, the Company,  
2 in relevant part, stated:

3           New Century Financial Corporation (NYSE: NEW), a real  
4           estate investment trust (REIT) and one of the nation’s  
5           premier mortgage finance companies, today reported results  
6           for the three and nine months ended September 30, 2006.

7  
8           **Highlights**

- 9           • **Earnings-per-share (EPS) was \$1.12**
- 10           • **REIT taxable income per share was \$0.84**
- 11           • **Total mortgage loan production was \$15.8 billion**
- 12           • **Non-prime net operating margin was 0.52 percent**
- 13           • **Record low non-prime loan acquisition costs**  
14           • **(LAC) of 1.49 percent**
- 15           • **After-tax return-on-equity was 12.7 percent**
- 16           • **Announces acquisition of Irwin Mortgage**  
17           • **Corporation’s servicing operations**
- 18           • **Raised \$107 million in gross proceeds of**  
19           • **perpetual preferred and trust preferred capital**
- 20           • **Declared fourth quarter dividend of \$1.90 per**  
21           • **share; results in total 2006 dividends of \$7.30 per**  
22           • **share**
- 23  
24  
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- Appointed Taj S. Bindra as Executive Vice President and Chief Financial Officer
- Announces updated financial and secondary market strategy
- **Expects to distribute \$400 million or more to stockholders in 2007 through a combination of dividends and common stock repurchases**

### **Third Quarter 2006 Results**

**“Current conditions in our industry are clearly challenging,” said Brad A. Morrice, President and Chief Executive Officer. “In this context, while our \$1.12 quarterly EPS reflects a year-over-year and sequential decline, it is important to point out that a significant item negatively impacting our EPS was a \$0.75 per share reduction from marking-to-market our derivatives not qualifying for hedge accounting treatment. Notwithstanding the current quarter's impact, we believe our hedging strategies are effective on an economic basis. Notwithstanding the current quarter’s impact, we believe our hedging strategies are effective on an economic basis.**

**“Excluding the hedging-related accounting charges, our operating results were solid. As expected, we maintained loan production volume at a level comparable to the previous quarter, achieved record low loan acquisition**

1 **costs, and improved portfolio interest spread before the**  
2 **impact of hedging during the third quarter. Partially**  
3 **offsetting these positive trends, gain-on-sale declined as**  
4 **a result of increased rating agency credit enhancement**  
5 **levels and higher loan repurchases and discounted loan**  
6 **sales,” said Mr. Morrice.**

7  
8 **Mortgage Loan Portfolio**

9 The balance of the mortgage loan portfolio declined to  
10 \$14.0 billion at September 30, 2006 from \$15.9 billion at  
11 June 30, 2006. “During the third quarter, we chose to sell  
12 loans in the whole loan market rather than adding assets to  
13 our REIT portfolio, resulting in a decline in the portfolio  
14 balance,” said Kevin M. Cloyd, President of NC Capital  
15 Corporation, the company’s secondary marketing  
16 subsidiary. “Going forward, we will continue to evaluate  
17 whole loan sales compared with securitizations on a case-  
18 by-case basis.”

19 \* \* \*

20  
21 *Credit Performance*

22 At September 30, 2006, the allowance for losses on  
23 mortgage loans held for investment and real estate owned  
24 was \$239.4 million compared with \$236.5 million at  
25 June 30, 2006. These amounts represent 1.68 percent and  
26 1.47 percent of the unpaid principal balance of the  
27 mortgage loan portfolio, respectively. The company’s 60-  
28 day-plus delinquency rate as of September 30, 2006 was

1 5.95 percent compared with 4.61 percent in the second  
2 quarter of 2006. The higher delinquency rate in the third  
3 quarter is the result of normal portfolio seasoning and  
4 higher delinquencies in the 2005 and 2006 vintages  
5 compared with the 2003 and 2004 vintages. The company  
6 planned for these higher delinquency rates and believes it is  
7 adequately reserved for the expected higher level of loan  
8 losses after giving consideration to the performance of its  
9 newer vintages.

### 10 **Mortgage Loan Production**

11 Total mortgage loan production for the third quarter of  
12 2006 was \$15.8 billion, a 2.5 percent decrease compared  
13 with \$16.2 billion of loan production for the second quarter  
14 of 2006 and a 5.4 percent decrease compared with the  
15 company's quarterly record of \$16.7 billion of loan  
16 production in the third quarter of 2005. The company's  
17 Wholesale channel originated \$13.5 billion of mortgage  
18 loans and the Retail channel originated \$2.3 billion of  
19 mortgage loans in the quarter.  
20

21 \* \* \*

### 22 *Adoption of Additional Lending Best Practices*

23 The company recently announced its adoption of additional  
24 lending best practices. These guidelines include improved  
25 underwriting guidelines for its adjustable-rate and interest-  
26 only mortgage loan programs for potential borrowers in  
27 owner-occupied properties who have FICO scores below  
28

1 580 and loan-to-value ratios greater than 80 percent. The  
2 company is requiring these borrowers to qualify with a  
3 debt-to-income ratio that is less than 50 percent and uses  
4 the fully-indexed rate minus 100 basis points rather than  
5 qualifying at the initial interest rate. Less than 4 percent of  
6 the company's recent loan production volume would not  
7 have qualified for a 30-year adjustable-rate or interest-only  
8 loan under these guidelines. "We believe the steps we are  
9 taking are prudent in light of the current market  
10 environment and are designed to help ensure that specific  
11 loan products are appropriate for the circumstances of  
12 individual borrowers and improve the overall credit quality  
13 of our loans. We plan to continue evaluating our product  
14 line with these goals in mind. While these underwriting  
15 changes may result in a modest decline in volume, we do  
16 not expect a meaningful impact to profitability," said  
17 Mr. Morrice.

18 **TRS Operating Results - Non-Prime Gain-on-Sale**

19 ***Loan Sales* - In the third quarter of 2006, the company**  
20 **sold \$13.9 billion of non-prime loans at a gross premium**  
21 **of 2.25 percent compared with \$9.9 billion at a gross**  
22 **premium of 2.33 percent in the second quarter of 2006.**  
23 **Additionally, the company sold \$410.0 million of non-**  
24 **prime mortgage loans during the third quarter of 2006**  
25 **at an average discount of 12.9 percent of their**  
26 **outstanding principal balances compared with**  
27 **\$415.1 million for the second quarter of 2006 at an**  
28

1 average discount of 5.0 percent. While the total volume  
2 of discounted loans sales decreased slightly, the severity  
3 of the discount increased due to the inclusion of a higher  
4 percentage of non-performing assets in these sales and a  
5 lower average price for loans with minor defects. Higher  
6 loan repurchases and discounted mortgage loan sales  
7 reduced the gain-on-sale margin by 48 basis points.

8 “We expect the volume of discounted loan sales and the  
9 severity of the discount to continue to challenge  
10 originators in this industry,” said Mr. Cloyd. “Loan  
11 buyers have become more vigilant, increasing the  
12 number of loan files reviewed in their due diligence  
13 process and decreasing the percentage of loans they  
14 ultimately purchase. In addition, loan repurchases have  
15 increased as a result of higher early payment defaults.  
16 While we expect this industry trend to continue in the  
17 near-term, we believe our additional underwriting  
18 guidelines and continual focus on process improvement  
19 will help mitigate this trend.”  
20

21 \* \* \*

#### 22 **Servicer Rating Upgrade**

23 **On October 27, 2006, Fitch Ratings upgraded the**  
24 **company’s residential primary servicer rating to RPS3+**  
25 **from RPS3 for its non-prime product. Fitch based the**  
26 **rating upgrade on the company’s management team,**  
27 **established servicing platform, capable default**  
28



1 earnings, financial position, capital requirements,  
2 contractual restrictions and other relevant factors.

3  
4 **Chief Financial Officer Transition**

5 The company announced earlier this week that it has  
6 appointed Taj S. Bindra as Executive Vice President and  
7 Chief Financial Officer. Mr. Bindra will assume the  
8 position of Executive Vice President effective November 6,  
9 2006 and Chief Financial Officer effective November 15,  
10 2006. He will be a member of the company's Executive  
11 Management Committee and report to Mr. Morrice. As  
12 announced in August, Ms. Dodge will transition to the role  
13 of Executive Vice President, Investor Relations effective  
14 November 15, 2006 and will continue to be a member of  
15 the Executive Management Committee, reporting to  
16 Mr. Morrice.

17 **Fourth Quarter 2006 Outlook**

18 **“For the fourth quarter, we expect the operating**  
19 **environment to continue to be challenging. We expect**  
20 **loan production volume to be up to 10 percent lower**  
21 **than the third quarter and our non-prime net operating**  
22 **margin to be reduced by 10 to 20 basis points in the**  
23 **fourth quarter as a result of higher loan repurchases**  
24 **and discounted loan sales. However, we do not currently**  
25 **expect the impact of forward sale and interest rate lock**  
26 **commitments in the fourth quarter to be significant, as**  
27 **compared with the 18 basis point negative impact in the**  
28 **third quarter. Additionally, we expect portfolio income**

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to be lower than the third quarter as the portfolio balance continues to decline,” said Mr. Morrice.

**2007 Outlook**

“We expect 2007 will be a year of continued industry evolution and opportunity for New Century. Our strategy for next year focuses on maximizing our core mortgage origination franchise through process innovation, enhanced productivity and increased efficiencies. We believe that we are well-positioned to meet the challenges next year. We expect overall mortgage market volume to decline approximately 10 percent in 2007, yet we believe our size, scale, financial resources, low loan acquisition costs and reputation will enable us to compete successfully and profitably gain market share in this consolidating industry. This environment calls for a financial strategy that is flexible enough to capitalize on the opportunities that arise during 2007 giving consideration to secondary and capital market conditions.

“We believe that mortgage banking remains an excellent business for the long-term, and we remain committed to delivering long-term value to stockholders. REIT status and the portfolio are tools that help us execute our mortgage banking strategy but we do not expect to add to the portfolio simply to support a specific dividend target. We expect to continue to evaluate whole loan sales versus

1           **securitizations on a case-by-case basis based on whole**  
2           **loan prices relative to our view of the risk-adjusted**  
3           **returns on capital available through securitization.**

4           **“During 2007, we plan to distribute capital to**  
5           **stockholders through a combination of dividends and**  
6           **stock repurchases, which will be dependent on market**  
7           **conditions and the relative return of each. It is not**  
8           **possible to predict these market conditions in advance.**  
9           **Therefore, rather than providing specific dividend**  
10           **guidance, we are announcing our plan to distribute**  
11           **\$400 million or more to stockholders in 2007 in some**  
12           **form,” concluded Mr. Morrice. [Internal citations**  
13           **omitted. Emphasis added.]**

14           29.    On November 9, 2006, New Century filed its Quarterly Report with the  
15           SEC on Form 10-Q. The Company’s Form 10-Q was signed by Defendants Cole,  
16           Dodge, and Morrice, and reaffirmed its financial results previously announced on  
17           November 2, 2006. This Form 10-Q also contained an identical certification, signed  
18           by Defendants Cole, Dodge, and Morrice as that set forth in ¶22. Additionally, the  
19           Company, in relevant part, stated:

20                   **Basis of Presentation**

21                                   \* \* \*

22           **The Company has prepared the accompanying**  
23           **unaudited condensed consolidated financial statements**  
24           **in accordance with accounting principles generally**  
25           **accepted in the United States of America for interim**  
26           **financial information and with the instructions to**  
27           **Form 10-Q and Rule 10-01 of Regulation S-X.**  
28           **Accordingly, the statements do not include all of the**

1 information and footnotes required by generally  
2 accepted accounting principles for complete financial  
3 statements. In the opinion of management, all  
4 adjustments (consisting of normal recurring accruals)  
5 considered necessary for a fair presentation have been  
6 included. Operating results for the three and nine  
7 months ended September 30, 2006 are not necessarily  
8 indicative of the results that may be expected for the  
9 year ending December 31, 2006. For further  
10 information, refer to the consolidated financial  
11 statements and notes thereto included in New Century's  
12 Annual Report on Form 10-K for the year ended  
13 December 31, 2005 filed with the Securities and  
14 Exchange Commission.

15 \* \* \*

#### 16 Controls and Procedures

17 As of September 30, 2006, the end of our third quarter,  
18 our management, including our Chairman of the Board,  
19 President and Chief Executive Officer and Chief  
20 Financial Officer has evaluated the effectiveness of our  
21 disclosure controls and procedures, as such term is  
22 defined in Rule 13a-15(e) promulgated under the  
23 Securities Exchange Act of 1934, as amended. Based on  
24 that evaluation, our Chairman of the Board, President  
25 and Chief Executive Officer and Chief Financial Officer  
26 concluded, as of September 30, 2006, that our disclosure  
27 controls and procedures were effective to ensure that  
28 information required to be disclosed by us in reports

1           **that we file or submit under the Securities Exchange**  
2           **Act of 1934 is recorded, processed, summarized and**  
3           **reported within the time periods specified in Securities**  
4           **and Exchange Commission rules and forms. There was**  
5           **no change in our internal control over financial**  
6           **reporting during the quarter ended September 30, 2006**  
7           **that materially affected, or is reasonably likely to**  
8           **materially affect, our internal control over financial**  
9           **reporting.** [Emphasis added.]

10           30.    On January 8, 2007, New Century issued a press release entitled “New  
11 Century Financial Corporation Grows Annual Loan Production to a New Record of  
12 \$59.8 Billion in 2006.” Therein, the Company, in relevant part, stated:

13           New Century Financial Corporation (NYSE: NEW), a real  
14           estate investment trust (REIT) and one of the nation's  
15           premier mortgage finance companies, today announced that  
16           total mortgage loan production for 2006 reached a new  
17           record high of \$59.8 billion, which is 6.6 percent higher  
18           than the \$56.1 billion originated in 2005. Additionally, loan  
19           production for December 2006 was \$4.8 billion,  
20           representing a 9.4 percent decrease compared with  
21           December 2005 and a 6.7 percent increase compared with  
22           November 2006. The weighted average coupon for the  
23           company's non-prime loan production remained at 8.3  
24           percent for December 2006, unchanged from the prior  
25           month.

26             
27           "We are pleased to have delivered another year of record  
28           loan production and profitable market share growth given

1 the turbulent market environment," said Brad A. Morrice,  
2 President and Chief Executive Officer. "Our solid results  
3 for the year reflect a modest decline in our non-prime  
4 production, offset by the expansion of prime and Alt-A  
5 originations. **For 2007, we expect our overall mortgage  
6 loan production to be relatively flat compared with 2006  
7 as we anticipate a decline in market volume and the  
8 impact of our tighter underwriting guidelines to be  
9 offset by the continued roll-out of our Alt-A and prime  
10 products and additional market share growth for our  
11 non-prime products."**

#### 12 **Fourth Quarter and Full-Year 2006 Results** 13 **Announcement**

14  
15 The company will report its fourth quarter and full-year  
16 2006 financial results on Thursday, February 8, 2007 after  
17 the market closes and will host a conference call that day at  
18 2:00 p.m. PST to discuss the results. [Emphasis added.]  
19

20 31. The statements contained in ¶¶ 19 – 30 were materially false and  
21 misleading when made because Defendants failed to disclose or indicate the following:  
22 (1) that the Company was under-reserving for loan losses as conditions in the sub-  
23 prime industry deteriorated; (2) that the Company failed to take timely writedowns for  
24 residual interests in securitizations; (3) that the Company failed to properly account  
25 for its allowances for early-payment defaults and loan repurchase losses; (4) that the  
26 Company lacked adequate internal and financial controls; (5) that the Company's  
27 financial statements were not prepared in accordance with Generally Accepted  
28 Accounting Principals ("GAAP"); (6) that the Company's statements about its

1 financial well-being and future business prospects were lacking in any reasonable  
2 basis when made; and (7) that, as a result of the foregoing, the Company's financial  
3 statements were materially false and misleading at all relevant times.

4 **The Truth Begins to Emerge**

5  
6 37. On February 7, 2007, after the market had closed for the day, New  
7 Century shocked investors when it issued a press release entitled "New Century  
8 Financial Corporation to Restates Financial Statements for the Quarters Ended March  
9 31, June 30 and September 30, 2006." The Company, in relevant part, stated:

10 **New Century Financial Corporation (NYSE: NEW), a**  
11 **real estate investment trust (REIT), today announced**  
12 **that it will restate its consolidated financial results for**  
13 **the quarters ended March 31, June 30 and**  
14 **September 30, 2006 to correct errors the company**  
15 **discovered in its application of generally accepted**  
16 **accounting principles regarding the company's**  
17 **allowance for loan repurchase losses.**

18  
19 **The company establishes an allowance for repurchase**  
20 **losses on loans sold, which is a reserve for expenses and**  
21 **losses that may be incurred by the company due to the**  
22 **potential repurchase of loans resulting from early-**  
23 **payment defaults by the underlying borrowers or based**  
24 **on alleged violations of representations and warranties**  
25 **in connection with the sale of these loans. When the**  
26 **company repurchases loans, it adds the repurchased**  
27 **loans to its balance sheet as mortgage loans held for sale**  
28 **at their estimated fair values, and reduces the**

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**repurchase reserve by the amount the repurchase prices exceed the fair values. During the second and third quarters of 2006, the company’s accounting policies incorrectly applied Statement of Financial Accounting Standards No. 140 – Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. Specifically, the company did not include the expected discount upon disposition of loans when estimating its allowance for loan repurchase losses.**

**In addition, the company’s methodology for estimating the volume of repurchase claims to be included in the repurchase reserve calculation did not properly consider, in each of the first three quarters of 2006, the growing volume of repurchase claims outstanding that resulted from the increasing pace of repurchase requests that occurred in 2006, compounded by the increasing length of time between the whole loan sales and the receipt and processing of the repurchase request.**

**Importantly, the foregoing adjustments are generally non-cash in nature. Moreover, the company had cash and liquidity in excess of \$350 million at December 31, 2006.**

**Although the company’s full review of the legal, accounting and tax impact of the restatements is ongoing, at this time the company expects that, once**

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restated, its net earnings for each of the first three quarters of 2006 will be reduced.

**In light of the pending restatements, the company’s previously filed condensed consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2006 and all earnings-related press releases for those periods should no longer be relied upon. The company expects to file amended Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2006 as soon as practicable, with a goal to file by March 1, 2007. The company also expects that the errors leading to these restatements constitute material weaknesses in its internal control over financial reporting for the year ended December 31, 2006. However, the company has taken significant steps to remediate these weaknesses and anticipates remediating them as soon as practicable.**

The company’s fourth quarter and full-year 2006 earnings announcement, originally scheduled for February 8, 2007, has been postponed to an undetermined future date, which will follow the company’s filing of its amended Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2006.

**Fourth Quarter 2006 Developments**

**The increasing industry trend of early-payment defaults and, consequently, loan repurchases intensified in the**

1           **fourth quarter of 2006. The company continued to**  
2           **observe this increased trend in its early-payment default**  
3           **experience in the fourth quarter, and the volume of**  
4           **repurchased loans and repurchase claims remains high.**

5           **In addition, the company currently expects to record a**  
6           **fair value adjustment to its residual interests to reflect**  
7           **revised prepayment, loss and discount rate assumptions**  
8           **with respect to the loans underlying these residual**  
9           **interests, based on indicative market data. While the**  
10          **company is still determining the magnitude of these**  
11          **adjustments to its fourth quarter 2006 results, the**  
12          **company expects the combined impact of the foregoing**  
13          **to result in a net loss for that period. [Emphasis added.]**

14  
15          32.    On the release of this shocking news, shares of the Company's stock  
16          declined \$10.92 per share, or 36 percent, to close on February 8, 2007 at \$19.24 per  
17          share, on unusually heavy trading volume.

18          33.    The market's reaction to the Company's release of this unexpected and  
19          shocking revelation may best be summed up by the views stated by JP Morgan analyst  
20          Andrew Weisel. In his research report of February 7, 2007 digesting the Company's  
21          shocking news, Mr. Weisel, in relevant part, stated:

22                   **We believe management's credibility has been heavily**  
23                   **damaged following news that the company will restate**  
24                   **all of its 2006 financial results due to under reserving**  
25                   **for expected loan losses.** With no visibility on how bad the  
26                   restatement may be, on top of an expected 4Q06 loss, we  
27                   believe book equity is no longer a valid basis for valuation.  
28                   In addition, with conditions continuing to deteriorate and

1 no color on what if any dividend will be paid in 2007, we  
2 continue to recommend investors underweight shares of  
3 NEW.

4 **Restatement damages credibility.** As published in prior  
5 notes, we had suspected NEW was under-reserving for loan  
6 losses as conditions in the subprime industry continued to  
7 deteriorate. **With the revelation that the company will**  
8 **need to lower 1Q-3Q 06 results due to its loss reserve**  
9 **methodology, which constitutes a material weakness**  
10 **under [Sarbanes-Oxley], we believe management's**  
11 **credibility has been seriously damaged and will not be**  
12 **easily fixed while the current executive suite remains**  
13 **unchanged.** [Emphasis added.]

14 34. The following day, Bear Stearns analysts Scott Coren and Michael  
15 Nannizzi issued an analyst report summarizing their reaction to the surprising news  
16 from New Century. Their detailed report of February 8, 2007, which included  
17 reference to the prior false and misleading financial statements issued by New  
18 Century, in relevant part, stated:

19 **Provisions For Repurchases May Have Been**  
20 **Understated by 30+ bps**

21  
22 New Century indicated that it failed to adequately reserve  
23 for the expected discount (to par) that it would likely  
24 receive when selling loans that it was forced to repurchase  
25 for early-payment default and other rep/warranty violations.  
26 Evidently, the company only provided for premium  
27 recapture and lost interest, which are the much smaller  
28

1 components of any loss to be expected on a repurchase-  
2 related disposition.

3 According to the company's SEC filings, its provision for  
4 repurchases was 3 bps, 7 bps, and -3 bps in 1Q06, 2Q06,  
5 and 3Q06, respectively. Collectively, this translates to a  
6 total provision of about \$5.2 million for the year, or 2 bps  
7 of non-prime whole loan sales. Based on the recent  
8 experience of some of the company's peers, we estimate  
9 that a more "normal" repurchase provision might average  
10 between 30 to 40 bps of whole loan sales, assuming 1.5%  
11 to 2.0% frequency rate and a 20% severity rate. **This**  
12 **implies that New Century may have under-reserved by**  
13 **\$100 million to \$135 million (~\$0.68 to \$0.92 per share**  
14 **after-tax) during the first nine months of 2006.**  
15 [Emphasis added]

16 **NEW CENTURY'S VIOLATION OF GAAP RULES**  
17 **IN ITS FINANCIAL STATEMENTS**  
18 **FILED WITH THE SEC**

19 35. These financial statements and the statements about the Company's  
20 financial results were false and misleading, as such financial information was not  
21 prepared in conformity with GAAP, nor was the financial information a fair  
22 presentation of the Company's operations due to the Company's improper accounting  
23 for and disclosure about its revenues, in violation of GAAP rules.

24 36. GAAP are those principles recognized by the accounting profession as  
25 the conventions, rules and procedures necessary to define accepted accounting practice  
26 at a particular time. Regulation S-X (17 C.F.R. § 210.4 01(a) (1)) states that financial  
27 statements filed with the SEC which are not prepared in compliance with GAAP are  
28 presumed to be misleading and inaccurate. Regulation S-X requires that interim

1 financial statements must also comply with GAAP, with the exception that interim  
2 financial statements need not include disclosure which would be duplicative of  
3 disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a).

4 37. The fact that New Century will restate its financial statements, and  
5 disclosed that these financial statements should not be relied upon is an admission that  
6 they were false and misleading when originally issued (APB No.20, ¶¶7-13; SFAS No.  
7 154, ¶25)

8 38. Given these accounting irregularities, the Company announced financial  
9 results that were in violation of GAAP and the following principles:

- 10 (a) The principle that “interim financial reporting should be based  
11 upon the same accounting principles and practices used to prepare  
12 annual financial statements” was violated (APB No. 28, ¶10);
- 13 (b) The principle that “financial reporting should provide information  
14 that is useful to present to potential investors and creditors and  
15 other users in making rational investment, credit, and similar  
16 decisions” was violated (FASB Statement of Concepts No. 1,  
17 ¶34);
- 18 (c) The principle that “financial reporting should provide information  
19 about the economic resources of an enterprise, the claims to those  
20 resources, and effects of transactions, events, and circumstances  
21 that change resources and claims to those resources” was violated  
22 (FASB Statement of Concepts No. 1, ¶40);
- 23 (d) The principle that “financial reporting should provide information  
24 about an enterprise’s financial performance during a period” was  
25 violated (FASB Statement of Concepts No. 1, ¶42);
- 26 (e) The principle that “financial reporting should provide information  
27 about how management of an enterprise has discharged its  
28 stewardship responsibility to owners (stockholders) for the use of

1 enterprise resources entrusted to it” was violated. To the extent  
2 that management offers securities of the enterprise to the public, it  
3 voluntarily accepts wider responsibilities for accountability to  
4 prospective investors and to the public in general (FASB  
5 Statement of Concepts No. 1, ¶50);

6 (f) The principle that “financial reporting should be reliable in that it  
7 represents what it purports to represent” was violated (FASB  
8 Statement of Concepts No. 2, ¶¶ 58-59); and

9 (g) The principle that “completeness, meaning that nothing is left out  
10 of the information that may be necessary to insure that it validly  
11 represents underlying events and conditions” was violated (FASB  
12 Statement of Concepts No. 2, ¶79);

13 (h) The principle that “conservatism be used as a prudent reaction to  
14 uncertainty to try to ensure that uncertainties and risks inherent in  
15 business situations are adequately considered” was violated. The  
16 best way to avoid injury to investors is to try to ensure that what is  
17 reported represent what its purports to represent (FASB Statement  
18 of Concepts No. 2, ¶¶95, 97).

19 39. The adverse information concealed by Defendants during the Class  
20 Period and detailed above was in violation of Item 303 of Regulation S-K under the  
21 federal securities law (17 C.F.R. §229.303).

22 **PLAINTIFF’S CLASS ACTION ALLEGATIONS**

23 40. Plaintiff brings this action as a class action pursuant to Federal Rule of  
24 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who  
25 purchased the common stock of New Century between April 7, 2006 and February 7,  
26 2007, inclusive (the “Class Period”) and who were damaged thereby. Excluded from  
27 the Class are Defendants, the officers and directors of the Company, at all relevant  
28 times, members of their immediate families and their legal representatives, heirs,

1 successors or assigns and any entity in which Defendants have or had a controlling  
2 interest.

3 41. The members of the Class are so numerous that joinder of all members is  
4 impracticable. Throughout the Class Period, New Century's common stock was  
5 actively traded on NYSE under the stock symbol "NEW." While the exact number of  
6 Class members is unknown to Plaintiff at this time and can only be ascertained  
7 through appropriate discovery, Plaintiff believes that there are hundreds or thousands  
8 of members in the proposed Class. Record owners and other members of the Class  
9 may be identified from records maintained by New Century or its transfer agent and  
10 may be notified of the pendency of this action by mail, using the form of notice similar  
11 to that customarily used in securities class actions.

12 42. Plaintiff's claims are typical of the claims of the members of the Class as  
13 all members of the Class are similarly affected by Defendants' wrongful conduct in  
14 violation of federal law that is complained of herein.

15 43. Plaintiff will fairly and adequately protect the interests of the members of  
16 the Class and has retained counsel competent and experienced in class and securities  
17 litigation.

18 44. Common questions of law and fact exist as to all members of the Class  
19 and predominate over any questions solely affecting individual members of the Class.  
20 Among the questions of law and fact common to the Class are:

- 21 • whether the federal securities laws were violated by Defendants'  
22 acts as alleged herein;
- 23 • whether statements made by Defendants to the investing public  
24 during the Class Period misrepresented material facts about the  
25 business, operations and management of New Century; and
- 26 • to what extent the members of the Class have sustained damages  
27 and the proper measure of damages.

28 45. A class action is superior to all other available methods for the fair and

1 efficient adjudication of this controversy since joinder of all members is impracticable.  
2 Furthermore, as the damages suffered by individual Class members may be relatively  
3 small, the expense and burden of individual litigation make it impossible for members  
4 of the Class to individually redress the wrongs done to them. There will be no  
5 difficulty in the management of this action as a class action.

6 **UNDISCLOSED ADVERSE FACTS**

7 46. The market for New Century's common stock was open, well-developed  
8 and efficient at all relevant times. As a result of these materially false and misleading  
9 statements and failures to disclose, New Century's common stock traded at artificially  
10 inflated prices during the Class Period. Plaintiff and other members of the Class  
11 purchased or otherwise acquired New Century's common stock relying upon the  
12 integrity of the market price of New Century's common stock and market information  
13 relating to New Century, and have been damaged thereby.

14 47. During the Class Period, Defendants materially misled the investing  
15 public, thereby inflating the price of New Century's common stock, by publicly  
16 issuing false and misleading statements and omitting to disclose material facts  
17 necessary to make Defendants' statements, as set forth herein, not false and  
18 misleading. Said statements and omissions were materially false and misleading in  
19 that they failed to disclose material adverse information and misrepresented the truth  
20 about the Company, its business and operations, as alleged herein.

21 48. At all relevant times, the material misrepresentations and omissions  
22 particularized in this Complaint directly or proximately caused or were a substantial  
23 contributing cause of the damages sustained by Plaintiff and other members of the  
24 Class. As described herein, during the Class Period, Defendants made or caused to be  
25 made a series of materially false or misleading statements about New Century's  
26 business, prospects and operations. These material misstatements and omissions had  
27 the cause and effect of creating in the market an unrealistically positive assessment of  
28 New Century and its business, prospects and operations, thus causing the Company's

1 common stock to be overvalued and artificially inflated at all relevant times.  
2 Defendants' materially false and misleading statements during the Class Period  
3 resulted in Plaintiff and other members of the Class purchasing the Company's  
4 common stock at artificially inflated prices, thus causing the damages complained of  
5 herein.

#### 6 **LOSS CAUSATION**

7 49. Defendants' wrongful conduct, as alleged herein, directly and  
8 proximately caused the economic loss suffered by Plaintiff and the Class.

9 50. During the Class Period, Plaintiff and the Class purchased common stock  
10 of New Century at artificially inflated prices and were damaged thereby. The price of  
11 New Century's common stock significantly declined when the misrepresentations  
12 made to the market, and/or the information alleged herein to have been concealed from  
13 the market, and/or the effects thereof, were revealed, causing investors' losses.

#### 14 **SCIENTER ALLEGATIONS**

15 51. As alleged herein, Defendants acted with scienter in that Defendants  
16 knew that the public documents and statements issued or disseminated in the name of  
17 the Company were materially false and misleading; knew that such statements or  
18 documents would be issued or disseminated to the investing public; and knowingly  
19 and substantially participated or acquiesced in the issuance or dissemination of such  
20 statements or documents as primary violations of the federal securities laws. As set  
21 forth elsewhere herein in detail, Defendants, by virtue of their receipt of information  
22 reflecting the true facts regarding New Century their control over, and/or receipt  
23 and/or modification of New Century's allegedly materially misleading misstatements  
24 and/or their associations with the Company which made them privy to confidential  
25 proprietary information concerning New Century, participated in the fraudulent  
26 scheme alleged herein.

27 52. Defendants acted with additional scienter in that they knew that their  
28 false and misleading statements would continue to keep the price of New Century's

1 shares artificially high. Due to this artificially increased value in the stock price, New  
2 Century was able to generate significantly superior amounts of capital through its  
3 public offering, private placement and subsequent financial dealings.

4 53. Moreover, Defendants acted with further scienter in that the Company  
5 insiders were able to cash in on the Company's artificially inflated stock price during  
6 the Class Period by selling 690,840 shares of New Century for gross proceeds of  
7 \$27,516,144. The schedule of trading by New Century insiders during the Class  
8 Period is evidenced by the following chart:

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10 [Remainder of Page Left Blank Intentionally]

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	Date of Trade	Inside Trader	Shares	Price	Gross Proceeds
1					
2					
3	<b>8/7/2006</b>	<b>Cole, Robert K.</b>	<b>100000</b>	<b>\$46.60</b>	<b>\$4,660,000</b>
4					
5	<b>9/15/2006</b>	<b>Cole, Robert K.</b>	<b>25000</b>	<b>\$41.43</b>	<b>\$1,035,750</b>
6	<b>10/6/2006</b>	<b>Cole, Robert K.</b>	<b>25000</b>	<b>\$40.32</b>	<b>\$1,008,000</b>
7					
8	<b>1/22/2007</b>	<b>Cole, Robert K.</b>	<b>4792</b>	<b>\$30.30</b>	<b>\$145,197</b>
9	<b>7/18/2006</b>	<b>Dodge, Patti M.</b>	<b>13889</b>	<b>\$46.00</b>	<b>\$638,894</b>
10	<b>8/15/2006</b>	<b>Gotschall,</b>	<b>100000</b>	<b>\$41.69</b>	<b>\$4,169,000</b>
11		<b>Edward F.</b>			
12	<b>9/1/2006</b>	<b>Gotschall,</b>	<b>20000</b>	<b>\$37.97</b>	<b>\$759,400</b>
13		<b>Edward F.</b>			
14	<b>9/5/2006</b>	<b>Gotschall,</b>	<b>80000</b>	<b>\$38.36</b>	<b>\$3,068,800</b>
15		<b>Edward F.</b>			
16	<b>10/2/2006</b>	<b>Gotschall,</b>	<b>100000</b>	<b>\$38.98</b>	<b>\$3,897,999</b>
17		<b>Edward F.</b>			
18	<b>11/20/2006</b>	<b>Gotschall,</b>	<b>65300</b>	<b>\$36.99</b>	<b>\$2,415,447</b>
19		<b>Edward F.</b>			
20	<b>11/21/2006</b>	<b>Gotschall,</b>	<b>136145</b>	<b>\$36.62</b>	<b>\$4,985,629</b>
21		<b>Edward F.</b>			
22	<b>1/22/2007</b>	<b>Gotschall,</b>	<b>4020</b>	<b>\$30.30</b>	<b>\$121,806</b>
23		<b>Edward F.</b>			
24	<b>6/30/2006</b>	<b>Morrice, Brad A.</b>	<b>6776</b>	<b>\$45.75</b>	<b>\$310,002</b>
25					
26	<b>1/22/2007</b>	<b>Morrice, Brad A.</b>	<b>4020</b>	<b>\$30.30</b>	<b>\$121,806</b>
27	<b>2/2/2007</b>	<b>Morrice, Brad A.</b>	<b>5898</b>	<b>\$30.25</b>	<b>\$178,414</b>
28					

1  
2 **TOTAL INSIDE SALES DURING**

3 **CLASS PERIOD:** **690840** **\$27,516,144**  
4

5 **Applicability of Presumption of Reliance:**

6 **Fraud On The Market Doctrine**  
7

8 54. At all relevant times, the market for New Century's common stock was  
9 an efficient market for the following reasons, among others:

- 10 • New Century's stock met the requirements for listing, and was  
11 listed and actively traded on NYSE, a highly efficient and  
12 automated market;
- 13 • As a regulated issuer, New Century filed periodic public reports  
14 with the SEC and NYSE;
- 15 • New Century regularly communicated with public investors via  
16 established market communication mechanisms, including  
17 through regular disseminations of press releases on the national  
18 circuits of major newswire services and through other wide-  
19 ranging public disclosures, such as communications with the  
20 financial press and other similar reporting services; and
- 21 • New Century was followed by several securities analysts  
22 employed by major brokerage firms who wrote reports which  
23 were distributed to the sales force and certain customers of their  
24 respective brokerage firms. Each of these reports was publicly  
25 available and entered the public marketplace.

26 55. As a result of the foregoing, the market for New Century's common stock  
27 promptly digested current information regarding New Century from all publicly-  
28 available sources and reflected such information in New Century's stock price. Under  
these circumstances, all purchasers of New Century common stock during the Class

1 Period suffered similar injury through their purchase of New Century common stock at  
2 artificially inflated prices and a presumption of reliance applies.

3 **NO SAFE HARBOR**

4 56. The statutory safe harbor provided for forward-looking statements under  
5 certain circumstances does not apply to any of the allegedly false statements pleaded  
6 in this complaint. Many of the specific statements pleaded herein were not identified  
7 as “forward-looking statements” when made. To the extent there were any forward-  
8 looking statements, there were no meaningful cautionary statements identifying  
9 important factors that could cause actual results to differ materially from those in the  
10 purportedly forward-looking statements. Alternatively, to the extent that the statutory  
11 safe harbor does apply to any forward-looking statements pleaded herein, Defendants  
12 are liable for those false forward-looking statements because at the time each of those  
13 forward-looking statements was made, the particular speaker knew that the particular  
14 forward-looking statement was false, and/or the forward-looking statement was  
15 authorized and/or approved by an executive officer of New Century who knew that  
16 those statements were false when made.

17 **FIRST CLAIM**

18 **Violation of Section 10(b) of**  
19 **The Exchange Act and Rule 10b-5**  
20 **Promulgated Thereunder Against All Defendants**

21 57. Plaintiff repeats and realleges each and every allegation contained above  
22 as if fully set forth herein.

23 58. During the Class Period, Defendants carried out a plan, scheme and  
24 course of conduct which was intended to and, throughout the Class Period, did: (i)  
25 deceive the investing public, including Plaintiff and other Class members, as alleged  
26 herein; and (ii) cause Plaintiff and other members of the Class to purchase New  
27 Century common stock at artificially inflated prices. In furtherance of this unlawful  
28 scheme, plan and course of conduct, Defendants, and each of them, took the actions

1 set forth herein.

2 59. Defendants (a) employed devices, schemes, and artifices to defraud; (b)  
3 made untrue statements of material fact and/or omitted to state material facts necessary  
4 to make the statements not misleading; and (c) engaged in acts, practices, and a course  
5 of business which operated as a fraud and deceit upon the purchasers of the  
6 Company's common stock in an effort to maintain artificially high market prices for  
7 New Century's common stock in violation of Section 10(b) of the Exchange Act and  
8 Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and  
9 illegal conduct charged herein or as controlling persons as alleged below.

10 60. Defendants, individually and in concert, directly and indirectly, by the  
11 use, means or instrumentalities of interstate commerce and/or of the mails, engaged  
12 and participated in a continuous course of conduct to conceal adverse material  
13 information about the business, operations and future prospects of New Century as  
14 specified herein.

15 61. These Defendants employed devices, schemes and artifices to defraud,  
16 while in possession of material adverse non-public information and engaged in acts,  
17 practices, and a course of conduct as alleged herein in an effort to assure investors of  
18 New Century's value and performance and continued substantial growth, which  
19 included the making of, or the participation in the making of, untrue statements of  
20 material facts and omitting to state material facts necessary in order to make the  
21 statements made about New Century and its business operations and future prospects  
22 in light of the circumstances under which they were made, not misleading, as set forth  
23 more particularly herein, and engaged in transactions, practices and a course of  
24 business which operated as a fraud and deceit upon the purchasers of New Century  
25 common stock during the Class Period.

26 62. Each of the Individual Defendants' primary liability, and controlling  
27 person liability, arises from the following facts: (i) the Individual Defendants were  
28 high-level executives and/or directors at the Company during the Class Period and

1 members of the Company's management team or had control thereof; (ii) each of these  
2 Defendants, by virtue of his responsibilities and activities as a senior officer and/or  
3 director of the Company was privy to and participated in the creation, development  
4 and reporting of the Company's internal budgets, plans, projections and/or reports; (iii)  
5 each of these Defendants enjoyed significant personal contact and familiarity with the  
6 other Defendants and was advised of and had access to other members of the  
7 Company's management team, internal reports and other data and information about  
8 the Company's finances, operations, and sales at all relevant times; and (iv) each of  
9 these Defendants was aware of the Company's dissemination of information to the  
10 investing public which they knew or recklessly disregarded was materially false and  
11 misleading.

12         63. The Defendants had actual knowledge of the misrepresentations and  
13 omissions of material facts set forth herein, or acted with reckless disregard for the  
14 truth in that they failed to ascertain and to disclose such facts, even though such facts  
15 were available to them. Such Defendants' material misrepresentations and/or  
16 omissions were done knowingly or recklessly and for the purpose and effect of  
17 concealing New Century's operating condition and future business prospects from the  
18 investing public and supporting the artificially inflated price of its common stock. As  
19 demonstrated by Defendants' overstatements and misstatements of the Company's  
20 business, operations and earnings throughout the Class Period, Defendants, if they did  
21 not have actual knowledge of the misrepresentations and omissions alleged, were  
22 reckless in failing to obtain such knowledge by deliberately refraining from taking  
23 those steps necessary to discover whether those statements were false or misleading.

24         64. As a result of the dissemination of the materially false and misleading  
25 information and failure to disclose material facts, as set forth above, the market price  
26 of New Century common stock was artificially inflated during the Class Period. In  
27 ignorance of the fact that market prices of New Century's common stock were  
28 artificially inflated, and relying directly or indirectly on the false and misleading

1 statements made by Defendants, or upon the integrity of the market in which the  
2 common stock trades, and/or in the absence of material adverse information that was  
3 known to or recklessly disregarded by Defendants, but not disclosed in public  
4 statements by Defendants during the Class Period, Plaintiff and the other members of  
5 the Class acquired New Century's common stock during the Class Period at artificially  
6 high prices and were damaged thereby.

7 65. At the time of said misrepresentations and omissions, Plaintiff and other  
8 members of the Class were ignorant of their falsity, and believed them to be true. Had  
9 Plaintiff and the other members of the Class and the marketplace known the truth  
10 regarding the problems that New Century was experiencing, which were not disclosed  
11 by Defendants, Plaintiff and other members of the Class would not have purchased or  
12 otherwise acquired their New Century common stock, or, if they had acquired such  
13 common stock during the Class Period, they would not have done so at the artificially  
14 inflated prices which they paid.

15 66. By virtue of the foregoing, Defendants have violated Section 10(b) of the  
16 Exchange Act and Rule 10b-5 promulgated thereunder.

17 67. As a direct and proximate result of Defendants' wrongful conduct,  
18 Plaintiff and the other members of the Class suffered damages in connection with their  
19 respective purchases and sales of the Company's common stock during the Class  
20 Period.

## 21 **SECOND CLAIM**

### 22 **Violation of Section 20(a) of** 23 **The Exchange Act Against the Individual Defendants**

24 68. Plaintiff repeats and realleges each and every allegation contained above  
25 as if fully set forth herein.

26 69. The Individual Defendants acted as controlling persons of New Century  
27 within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue  
28 of their high-level positions, and their ownership and contractual rights, participation

1 in and/or awareness of the Company's operations and/or intimate knowledge of the  
2 false financial statements filed by the Company with the SEC and disseminated to the  
3 investing public, the Individual Defendants had the power to influence and control and  
4 did influence and control, directly or indirectly, the decision-making of the Company,  
5 including the content and dissemination of the various statements which Plaintiff  
6 contends are false and misleading. The Individual Defendants were provided with or  
7 had unlimited access to copies of the Company's reports, press releases, public filings  
8 and other statements alleged by Plaintiff to be misleading prior to and/or shortly after  
9 these statements were issued and had the ability to prevent the issuance of the  
10 statements or cause the statements to be corrected.

11 70. In particular, each of these Defendants had direct and supervisory  
12 involvement in the day-to-day operations of the Company and, therefore, is presumed  
13 to have had the power to control or influence the particular transactions giving rise to  
14 the securities violations as alleged herein, and exercised the same.

15 71. As set forth above, New Century and the Individual Defendants each  
16 violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this  
17 Complaint. By virtue of their positions as controlling persons, the Individual  
18 Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and  
19 proximate result of Defendants' wrongful conduct, Plaintiff and other members of the  
20 Class suffered damages in connection with their purchases of the Company's common  
21 stock during the Class Period.

22 **WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

- 23 a. Determining that this action is a proper class action under Rule 23  
24 of the Federal Rules of Civil Procedure;
- 25 b. Awarding compensatory damages in favor of Plaintiff and the  
26 other Class members against all Defendants, jointly and severally,  
27 for all damages sustained as a result of Defendants' wrongdoing,  
28 in an amount to be proven at trial, including interest thereon;

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- c. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- d. Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: February 12, 2007

Respectfully submitted,

By: \_\_\_\_\_  
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