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9 UNITED STATES DISTRICT COURT
10 CENTRAL DISTRICT OF CALIFORNIA
11 SOUTHERN DIVISION

12 RICHARD DAMORE, RUEVEN
13 LAPIN and GARY M. TANNER,
Individually and On Behalf of All
14 Others Similarly Situated,

15 Plaintiffs,

16 vs.

17 NEW CENTURY FINANCIAL
CORPORATION, BRAD A.
18 MORRICE, ROBERT K. COLE,
PATTI M. DODGE and EDWARD F.
19 GOTSCHALL,

20 Defendants.

) **VIA FAX**

) No.

) **CLASS ACTION**

) **COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS**

) **DEMAND FOR JURY TRIAL**

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1 **JURISDICTION AND VENUE**

2 1. Jurisdiction is conferred by §27 of the Securities Exchange Act of 1934
3 (“1934 Act”). The claims asserted herein arise under §§10(b) and 20(a) of the 1934
4 Act and SEC Rule 10b-5.

5 2. (a) Venue is proper in this District pursuant to §27 of the 1934 Act.
6 Many of the false and misleading statements were made in or issued from this District.

7 (b) New Century Financial Corporation’s principal executive offices
8 are located at 18400 Von Karman, Suite 1000, Irvine, California.

9 **INTRODUCTION**

10 3. This is a securities class action on behalf of all persons who purchased or
11 otherwise acquired the common stock of New Century Financial Corporation (“New
12 Century” or the “Company”) between April 7, 2006 and February 7, 2007 (the “Class
13 Period”), against New Century and certain of its officers and/or directors for
14 violations of the 1934 Act.

15 4. New Century is a real estate investment trust that through its subsidiaries
16 operates mortgage finance companies. The Company originates and purchases
17 primarily first-mortgage loans worldwide. New Century is headquartered in Irvine,
18 California.

19 5. During the Class Period, defendants issued materially false and
20 misleading statements regarding the Company’s business and financial results. As a
21 result of defendants’ false statements, New Century stock traded at artificially inflated
22 prices during the Class Period, reaching a high of \$51.22 per share on April 28, 2006.
23 Defendants took advantage of this inflation, selling 665,334 shares of their New
24 Century stock for proceeds of over \$26.6 million.

25 6. On February 7, 2007, after the market closed, New Century issued a press
26 release entitled “New Century Financial Corporation to Restate Financial Statements
27 for the Quarters Ended March 31, June 30 and September 30, 2006.” The press
28 release stated in part:

1 New Century Financial Corporation, a real estate investment trust
2 (REIT), today announced that it will restate its consolidated financial
3 results for the quarters ended March 31, June 30 and September 30, 2006
4 to correct errors the company discovered in its application of generally
5 accepted accounting principles regarding the company's allowance for
6 loan repurchase losses.

7 The company establishes an allowance for repurchase losses on
8 loans sold, which is a reserve for expenses and losses that may be
9 incurred by the company due to the potential repurchase of loans
10 resulting from early-payment defaults by the underlying borrowers or
11 based on alleged violations of representations and warranties in
12 connection with the sale of these loans. When the company repurchases
13 loans, it adds the repurchased loans to its balance sheet as mortgage
14 loans held for sale at their estimated fair values, and reduces the
15 repurchase reserve by the amount the repurchase prices exceed the fair
16 values. During the second and third quarters of 2006, the company's
17 accounting policies incorrectly applied Statement of Financial
18 Accounting Standards No. 140 - Accounting for Transfers and Servicing
19 of Financial Assets and Extinguishment of Liabilities. Specifically, the
20 company did not include the expected discount upon disposition of loans
21 when estimating its allowance for loan repurchase losses.

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

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

4 Although the company's full review of the legal, accounting and
5 tax impact of the restatements is ongoing, at this time the company
6 expects that, once restated, its net earnings for each of the first three
7 quarters of 2006 will be reduced.

8 In light of the pending restatements, the company's previously
9 filed condensed consolidated financial statements for the quarters ended
10 March 31, June 30 and September 30, 2006 and all earnings-related press
11 releases for those periods should no longer be relied upon. The company
12 expects to file amended Quarterly Reports on Form 10-Q for the quarters
13 ended March 31, June 30 and September 30, 2006 as soon as practicable,
14 with a goal to file by March 1, 2007. The company also expects that the
15 errors leading to these restatements constitute material weaknesses in its
16 internal control over financial reporting for the year ended December 31,
17 2006. However, the company has taken significant steps to remediate
18 these weaknesses and anticipates remediating them as soon as
19 practicable.

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

25 Fourth Quarter 2006 Developments

26 The increasing industry trend of early-payment defaults and,
27 consequently, loan repurchases intensified in the fourth quarter of 2006.
28 The company continued to observe this increased trend in its early-

1 payment default experience in the fourth quarter, and the volume of
2 repurchased loans and repurchase claims remains high.

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

10 7. On February 8, 2007, New Century's stock collapsed \$10.92 per share to
11 close at \$19.24 per share, a one-day decline of 36%, on volume of 25 million shares,
12 17 times the average three month volume. This was the largest one-day decline in the
13 Company's stock since October 1998, when the stock declined due to the Russian
14 Debt Crisis.

15 8. The true facts, which were known by the defendants but concealed from
16 the investing public during the Class Period, were as follows:

17 (a) The Company lacked requisite internal controls, and, as a result,
18 the Company's projections and reported results issued during the Class Period were
19 based upon defective assumptions and/or manipulated facts;

20 (b) The Company's financial statements were materially misstated due
21 to its failure to properly account for its allowance for loan repurchase losses;

22 (c) The Company's financial statements were materially misstated due
23 to its failure to properly account for its residual interests in securitizations by failing to
24 timely write down the impaired asset;

25 (d) Given the deterioration and the increased volatility in the subprime
26 market, the Company would be forced to tighten its underwriting guidelines which
27 would have a direct material negative impact on its loan productions going forward;
28 and

1 (e) Given the increased volatility in the subprime market, the
2 Company had no reasonable basis to make projections about its ability to maintain its
3 current mortgage loan production levels for 2007. As a result, the Company's
4 projections issued during the Class Period about its expected loan productions for
5 2007 were at a minimum reckless.

6 9. As a result of defendants' false statements, New Century's stock price
7 traded at inflated levels during the Class Period. However, after the above revelations
8 seeped into the market, the Company's shares were hammered by massive sales of the
9 Company's shares sending them down more than 62% from their Class Period high.

10 **THE PARTIES**

11 10. (a) Plaintiff Richard Damore purchased New Century common stock
12 as described in the attached certification and was damaged thereby.

13 (b) Plaintiff Rueven Lapin purchased New Century common stock as
14 described in the attached certification and was damaged thereby.

15 (c) Plaintiff Gary M. Tanner purchased New Century common stock
16 as described in the attached certification and was damaged thereby.

17 11. Defendant New Century is a real estate investment trust that through its
18 subsidiaries operates mortgage finance companies. The Company originates and
19 purchases primarily first-mortgage loans worldwide. New Century is headquartered
20 in Irvine, California.

21 12. Defendant Brad A. Morrice ("Morrice") co-founded New Century in
22 1995. Defendant Morrice is, and at all relevant times was, Vice Chairman of the
23 Board, President and Chief Executive Officer ("CEO") of New Century. During the
24 Class Period, Morrice was responsible for the Company's false financial statements.

25 13. Defendant Robert K. Cole ("Cole") co-founded New Century in 1995.
26 Defendant Cole is, and at all relevant times was, a director of the Company and until
27 December 2006 was Chairman of the Board and from December 1995 to July 2006
28 was CEO of the Company. During the Class Period, Cole was responsible for the

1 Company's false financial statements and reaped proceeds of over \$6.7 million by
2 selling his New Century stock.

3 14. Defendant Patti M. Dodge ("Dodge") has been Executive Vice President,
4 Investor Relations, of the Company since November 2006, and from July 2004
5 through November 2006 was Chief Financial Officer ("CFO") of New Century.
6 During the Class Period, Dodge was responsible for the Company's false financial
7 statements and reaped proceeds of \$638,894 by selling her New Century stock.

8 15. Defendant Edward F. Gotschall ("Gotschall") co-founded the Company
9 in 1995. Defendant Gotschall is, and at all relevant times was, Chairman-Finance of
10 the Board, Vice Chairman of the Board and a director of the Company. During the
11 Class Period, Gotschall was responsible for the Company's false financial statements
12 and reaped proceeds of over \$19.2 million by selling his New Century stock.

13 16. Defendants Morrice, Cole, Dodge and Gotschall (the "Individual
14 Defendants"), because of their positions with the Company, possessed the power and
15 authority to control the contents of New Century's quarterly reports, press releases
16 and presentations to securities analysts, money and portfolio managers and
17 institutional investors, *i.e.*, the market. They were provided with copies of the
18 Company's reports and press releases alleged herein to be misleading prior to or
19 shortly after their issuance and had the ability and opportunity to prevent their
20 issuance or cause them to be corrected. Because of their positions with the Company,
21 and their access to material non-public information available to them but not to the
22 public, Morrice, Cole, Dodge and Gotschall knew that the adverse facts specified
23 herein had not been disclosed to and were being concealed from the public and that
24 the positive representations being made were then materially false and misleading.
25 Morrice, Cole, Dodge and Gotschall are liable for the false statements pleaded herein
26 at ¶¶19-31.

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1 **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

2 17. Defendants are liable for: (i) making false statements; or (ii) failing to
3 disclose adverse facts known to them about New Century. Defendants’ fraudulent
4 scheme and course of business that operated as a fraud or deceit on purchasers of New
5 Century common stock was a success, as it: (i) deceived the investing public regarding
6 New Century’s prospects and business; (ii) artificially inflated the price of New
7 Century’s common stock; (iii) allowed defendants Cole, Dodge and Gotschall to sell
8 over \$26.6 million worth of their own New Century stock at artificially inflated prices;
9 and (iv) caused plaintiffs and other members of the Class to purchase New Century
10 common stock at inflated prices.

11 **BACKGROUND**

12 18. New Century is a real estate investment trust that through its subsidiaries
13 operates mortgage finance companies. The Company originates and purchases
14 primarily first-mortgage loans worldwide. The Company focuses on lending to
15 individuals whose borrowing needs are generally not fulfilled by traditional financial
16 institutions because they do not satisfy the credit, documentation or other underwriting
17 standards prescribed by conventional mortgage lenders and loan buyers. The
18 Company originates and purchases mortgage loans through two divisions: Wholesale
19 Division and Retail Division.

20 **DEFENDANTS’ FALSE AND MISLEADING**
21 **STATEMENTS ISSUED DURING THE CLASS PERIOD**

22 19. On April 7, 2006, the Company issued a press release entitled “New
23 Century Financial Corporation Announces First Quarter 2006 Total Loan Production
24 of \$13.4 Billion.” The press release stated in part:

25 New Century Financial Corporation, a real estate investment trust and
26 parent company of one of the nation’s premier mortgage finance
27 companies, today announced total loan production for the first quarter
28

1 2006 and provided the date for its first quarter 2006 results
2 announcement.

3 Mortgage Loan Production

4 “We are off to a strong start this year with \$13.4 billion in total
5 loan production for the first quarter of 2006. We are particularly pleased
6 to have achieved a 31 percent increase in total loan production over the
7 first quarter of 2005, with approximately 14 percent coming from
8 organic growth in our non- prime division. While the weighted average
9 coupon on our non-prime product decreased modestly to 8.4 percent for
10 March 2006 compared with the previous month, we are on track to meet
11 our profit margin target due in part to tighter credit spreads and lower
12 loan acquisition costs,” said Robert K. Cole, Chairman of the Board and
13 Chief Executive Officer. “We are pleased to see signs of a more
14 favorable secondary market for our loans, as we have successfully
15 entered into forward-sale commitments through June 2006 with gain-on-
16 sale executions above 102.”

17 20. On May 4, 2006, the Company issued a press release entitled “New
18 Century Financial Corporation Reports Strong First Quarter 2006 Results; Company
19 Achieved Earnings-per-Share of \$1.79.” The press release stated in part:

20 New Century Financial Corporation, a real estate investment trust
21 (REIT) and parent company of one of the nation’s premier mortgage
22 finance companies, today reported results for the three months ended
23 March 31, 2006.

24 First Quarter 2006 Highlights

- 25 * Earnings-per-share (EPS) of \$1.79
- 26 * REIT taxable income of \$1.78 per share fully covered the
27 corresponding dividend of \$1.75 per share
- 28 * After-tax return on equity was 19.5 percent

- 1 * Securitized \$1.7 billion of mortgage loans at the REIT
- 2 * Total loan production was \$13.4 billion in the first quarter 2006
- 3 and \$4.7 billion in April 2006
- 4 * Maintained non-prime loan acquisition costs (LAC) at 1.66
- 5 percent
- 6 * Reaffirms 2006 dividend guidance of \$7.30 per share

7 Financial Results

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

17 The company reported net earnings of \$103.7 million, or \$1.79 per
18 share, for the first quarter of 2006, compared with \$84.8 million, or
19 \$1.48 per share, for the same period in 2005. The year-over-year increase
20 in net earnings was primarily attributable to the growth in mortgage loan
21 production volume and greater contributions to net earnings from the
22 company’s REIT portfolio.

23 Mortgage Loan Portfolios

24 During the first quarter of 2006, the company completed two
25 securitizations structured as financings totaling \$1.7 billion in mortgage
26 loans at the REIT, including one securitization consisting solely of \$0.3
27 billion of second lien collateral. Substantially all of the collateral in the
28 \$0.3 billion securitization represents second mortgage loans originated in

1 connection with the company's 80/20-mortgage product. "We believe
2 the securitization of second trust deeds allowed us to capture the full
3 economic value of that particular pool of loans," said Kevin M. Cloyd,
4 President of NC Capital Corporation, the company's secondary
5 marketing subsidiary. "The remaining \$1.4 billion of mortgage loans
6 securitized was representative of our core non-prime mortgage loan
7 production and received favorable credit enhancement from rating
8 agencies as a result of lower loss coverage requirements."

9 At March 31, 2006, the balance of the REIT mortgage loan
10 portfolio was \$14.1 billion and the balance of the taxable REIT
11 subsidiary (TRS) mortgage loan portfolio was \$2.1 billion. The
12 allowance for losses on loans held for investment was \$186.0 million and
13 \$23.8 million for the REIT and TRS portfolios, respectively,
14 representing 1.32 percent and 1.14 percent of the unpaid principal
15 balance of the respective portfolios. This compares with 1.23 percent and
16 1.22 percent of the unpaid principal balance of the respective portfolios
17 at December 31, 2005. Delinquency rates as of March 31, 2006 and
18 actual losses to date in the company's REIT and TRS portfolios continue
19 to be significantly lower than historical experience. The company's 60-
20 plus day delinquency rates as of March 31, 2006 were 4.46 percent at the
21 REIT and 4.78 percent at the TRS. *While actual losses to date have
22 been significantly lower than the company's expectations, the company
23 continues to build its allowances for loan losses based on various
24 factors, which include seasoning of the portfolios, as well as overall
25 economic and market conditions.*

26 Mortgage Loan Production by Channel – Non-Prime, Prime and
27 Alt-A
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1 The company originates and purchases mortgage loans through
2 two channels – Wholesale and Retail. The Wholesale channel originates
3 and purchases mortgage loans through a network of independent
4 mortgage brokers and correspondent lenders solicited by its Account
5 Executives. The company’s Retail channel originates mortgage loans
6 directly through its 240 branch offices and its central telemarketing unit,
7 as well as through relationships that are referred or solicited through
8 builders and realtors.

9 Total Mortgage Loan Production

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

21 Total mortgage loan production for April 2006 was approximately
22 \$4.7 billion, or \$0.235 billion in average daily volume, including \$4.0
23 billion of Wholesale mortgage loan production and \$0.7 billion of Retail
24 mortgage loan production. This compares with \$4.5 billion, or \$0.214 in
25 average daily volume, for April 2005. The weighted average coupon for
26 non-prime production in April 2006 was 8.5 percent.

27 (Footnotes omitted.)

28

1 21. On May 10, 2006, the Company filed its Form 10-Q for the first quarter
2 of 2006, which included the same financial results previously reported. The Form 10-
3 Q also included a certification by Cole, which stated:

4 I, Robert K. Cole, certify that:

5 1. I have reviewed this quarterly report on Form 10-Q of New Century
6 Financial Corporation;

7 2. Based on my knowledge, this report does not contain any untrue
8 statement of a material fact or omit to state a material fact necessary
9 to make the statements made, in light of the circumstances under
10 which such statements were made, not misleading with respect to the
11 period covered by this report;

12 3. Based on my knowledge, the financial statements, and other financial
13 information included in this report, fairly present in all material
14 respects the financial condition, results of operations and cash flows
15 of the registrant as of, and for, the periods presented in this report;

16 4. The registrant's other certifying officers and I are responsible for
17 establishing and maintaining disclosure controls and procedures (as
18 defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal
19 control over financial reporting (as defined in Exchange Act Rules
20 13a-15(f) and 15d-15(f)) for the registrant and have:

21 a) Designed such disclosure controls and procedures, or caused
22 such disclosure controls and procedures to be designed under
23 our supervision, to ensure that material information relating to
24 the registrant, including its consolidated subsidiaries, is made
25 known to us by others within those entities, particularly during
26 the period in which this report is being prepared;

27 b) Designed such internal control over financial reporting, or
28 caused such internal control over financial reporting to be

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- designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial 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.

1 22. Defendants Morrice and Dodge signed nearly identical certifications
2 included in the Form 10-Q.

3 23. On June 7, 2006, the Company issued a press release entitled “New
4 Century Financial Corporation Announces May 2006 Total Loan Production of \$5.5
5 Billion.” The press release stated in part:

6 New Century Financial Corporation, a real estate investment trust
7 (REIT) and parent company of one of the nation’s premier mortgage
8 finance companies, today announced that total loan production for May
9 2006 was \$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 \$0.8 billion in
12 prime and Alt-A loan production, representing 15 and 33 percent growth
13 over April 2006, respectively,” said Robert K. Cole, Chairman and Chief
14 Executive Officer. “Additionally, our weighted average coupon for non-
15 prime loan production in May 2006 was 8.5 percent.

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

21 24. On August 3, 2006, the Company issued a press release entitled “New
22 Century Financial Corporation Reports Second Quarter 2006 Results; Board Declares
23 Third Quarter Dividend of \$1.85 per Share.” The press release stated in part:

24 New Century Financial Corporation, a real estate investment trust
25 (REIT) and parent company of one of the nation’s premier mortgage
26 finance companies, today reported results for the three and six months
27 ended June 30, 2006.

28 Second Quarter 2006 Results and Highlights

- 1 * Earnings-per-share (EPS) of \$1.81
- 2 * REIT taxable income per share of \$1.40
- 3 * Total mortgage loan production of \$16.2 billion; total loan
- 4 production for July 2006 of approximately \$5.3 billion
- 5 * Non-prime net operating margin increased to 1.01 percent
- 6 * Non-prime loan acquisition costs (LAC) decreased to 1.51
- 7 percent
- 8 * Prime/Alt-A platform achieved profitability
- 9 * After-tax return on equity was 19.8 percent
- 10 * Board declared third quarter dividend of \$1.85 per share
- 11 * Reaffirmed 2006 dividend guidance of \$7.30 per share
- 12 * Chief Financial Officer Patti M. Dodge to transition to
- 13 newly created executive role when successor is in place

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

27 Mortgage Loan Portfolios

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1 During the second quarter of 2006, the company completed \$1.7
2 billion in securitizations structured as financings at the REIT level,
3 including the company's first Alt-A loan securitization of \$0.5 billion
4 and a \$1.2 billion securitization of non-prime product. "The Alt-A
5 transaction enhanced our secondary market execution and diversified our
6 REIT portfolio of mortgage loans with a new asset class," said Kevin M.
7 Cloyd, President of NC Capital Corporation, the company's secondary
8 marketing subsidiary.

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

26 REIT portfolio income declined to \$52.0 million in the second
27 quarter of 2006 compared with \$83.3 million in the first quarter. REIT
28 portfolio income was \$79.2 million in the second quarter of 2005. The

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

12 * * *

13 Total Mortgage Loan Production

14 Total mortgage loan production for the second quarter of 2006
15 was \$16.2 billion, a 20 percent increase over the same period a year ago
16 and a 21 percent increase over the first quarter of 2006. Excluding the
17 prime and Alt-A loan origination platform that was acquired in the third
18 quarter of 2005, second quarter loan production increased 5 percent year-
19 over-year. For the quarter, the company’s Wholesale channel originated
20 \$13.8 billion of mortgage loans and the Retail channel originated \$2.4
21 billion. “We are pleased with the second quarter’s strong loan production
22 volume, which resulted from modest growth in our core non-prime
23 product coupled with the addition of our Prime and Alt-A products,” said
24 Mr. Morrice. “Additionally, we introduced a new credit grade during the
25 quarter that serves borrowers with qualifications between Alt-A and non-
26 prime. We believe this AAA credit grade is rapidly gaining acceptance in
27 the market place.”

1 Total mortgage loan production for July 2006 was approximately
2 \$5.3 billion, including \$4.6 billion of Wholesale mortgage loan
3 production and \$0.7 billion of Retail mortgage loan production. This
4 compares with \$4.6 billion for July 2005.

5 (Footnotes omitted.)

6 25. On August 9, 2006, the Company filed its Form 10-Q for the second
7 quarter of 2006, which included the same financial results previously reported. The
8 Form 10-Q also included a certification by Cole, which stated:

9 I, Robert K. Cole, certify that:

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

1 the registrant, including its consolidated subsidiaries, is made
2 known to us by others within those entities, particularly during
3 the period in which this report is being prepared;

4 b) Designed such internal control over financial reporting, or
5 caused such internal control over financial reporting to be
6 designed under our supervision, to provide reasonable
7 assurance regarding the reliability of financial reporting and
8 the preparation of financial statements for external purposes in
9 accordance with generally accepted accounting principles;

10 c) Evaluated the effectiveness of the registrant's disclosure
11 controls and procedures and presented in this report our
12 conclusions about the effectiveness of the disclosure controls
13 and procedures, as of the end of the period covered by this
14 report based on such evaluation; and

15 d) Disclosed in this report any change in the registrant's internal
16 control over financial reporting that occurred during the
17 registrant's most recent fiscal quarter (the registrant's fourth
18 fiscal quarter in the case of an annual report) that has
19 materially affected, or is reasonably likely to materially affect,
20 the registrant's internal control over financial reporting; and

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

26 a) All significant deficiencies and material weaknesses in the
27 design or operation of internal control over financial reporting
28 which are reasonably likely to adversely affect the registrant's

1 ability to record, process, summarize and report financial
2 information; and

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

6 26. Defendants Morrice and Dodge signed nearly identical certifications
7 included in the Form 10-Q.

8 27. On September 8, 2006, the Company issued a press release entitled "New
9 Century Financial Corporation Announces August 2006 Total Loan Production of
10 \$5.8 Billion." The press release stated in part:

11 New Century Financial Corporation, a real estate investment trust
12 (REIT) and parent company of one of the nation's premier mortgage
13 finance companies, today announced August 2006 total loan production
14 of \$5.8 billion.

15 "While August's total loan production volume of \$5.8 billion was
16 down 5 percent compared with our record production volume in August
17 2005, it represented a 9 percent increase over July 2006 and we are
18 pleased with this level given market conditions," said Brad A. Morrice,
19 President and Chief Executive Officer. "We are also pleased with the
20 quality of the loans we are originating. August's production includes an
21 increased amount of our highest non-prime credit grade and a reduction
22 of interest-only loans to 17 percent of non-prime production from 35
23 percent in August 2005. Additionally, we have become more
24 geographically diverse, reducing California-based loans to 32 percent of
25 non-prime production in August 2006 from 37 percent in the same
26 period a year ago.

27 "We believe our strict underwriting guidelines, skilled risk
28 management and servicing teams and enhanced fraud detection tools

1 have resulted in lower early payment default and repurchase rates than
2 many of our peers. While we have seen an increase in early payment
3 defaults from 2005 levels as a result of the macro-economic
4 environment, the increase has been modest,” concluded Mr. Morrice.

5 28. On November 2, 2006, the Company issued a press release entitled “New
6 Century Financial Corporation Reports Third Quarter 2006 Results and Provides
7 Outlook for 2007; Fourth Quarter Dividend Declared; Brings 2006 Total Dividends to
8 \$7.30 per Share.” The press release stated in part:

9 New Century Financial Corporation, a real estate investment trust
10 (REIT) and one of the nation’s premier mortgage finance companies,
11 today reported results for the three and nine months ended September 30,
12 2006.

13 Highlights

- 14 * Earnings-per-share (EPS) was \$1.12
- 15 * REIT taxable income per share was \$0.84
- 16 * Total mortgage loan production was \$15.8 billion
- 17 * Non-prime net operating margin was 0.52 percent
- 18 * Record low non-prime loan acquisition costs (LAC) of 1.49
19 percent
- 20 * After-tax return-on-equity was 12.7 percent
- 21 * Announces acquisition of Irwin Mortgage Corporation’s
22 servicing operations
- 23 * Raised \$107 million in gross proceeds of perpetual
24 preferred and trust preferred capital
- 25 * Declared fourth quarter dividend of \$1.90 per share; results
26 in total 2006 dividends of \$7.30 per share
- 27 * Appointed Taj S. Bindra as Executive Vice President and
28 Chief Financial Officer

1 * Announces updated financial and secondary market
2 strategy

3 * Expects to distribute \$400 million or more to stockholders
4 in 2007 through a combination of dividends and common
5 stock repurchases

6 Third Quarter 2006 Results

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

15 “Excluding the hedging-related accounting charges, our operating
16 results were solid. As expected, we maintained loan production volume
17 at a level comparable to the previous quarter, achieved record low loan
18 acquisition costs, and improved portfolio interest spread before the
19 impact of hedging during the third quarter. Partially offsetting these
20 positive trends, gain-on-sale declined as a result of increased rating
21 agency credit enhancement levels and higher loan repurchases and
22 discounted loan sales,” said Mr. Morrice.

23 (Footnotes omitted.)

24 29. On November 9, 2006, the Company filed its Form 10-Q for the third
25 quarter of 2006, which included the same financial results previously reported. The
26 Form 10-Q also included a certification by Cole, which stated:

27 I, Robert K. Cole, certify that:

28

- 1 1. I have reviewed this quarterly report on Form 10-Q of New Century
2 Financial Corporation;
- 3 2. Based on my knowledge, this report does not contain any untrue
4 statement of a material fact or omit to state a material fact necessary
5 to make the statements made, in light of the circumstances under
6 which such statements were made, not misleading with respect to the
7 period covered by this report;
- 8 3. Based on my knowledge, the financial statements, and other financial
9 information included in this report, fairly present in all material
10 respects the financial condition, results of operations and cash flows
11 of the registrant as of, and for, the periods presented in this report;
- 12 4. The registrant's other certifying officers and I are responsible for
13 establishing and maintaining disclosure controls and procedures (as
14 defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal
15 control over financial reporting (as defined in Exchange Act Rules
16 13a-15(f) and 15d-15(f)) for the registrant and have:
 - 17 a) Designed such disclosure controls and procedures, or caused
18 such disclosure controls and procedures to be designed under
19 our supervision, to ensure that material information relating to
20 the registrant, including its consolidated subsidiaries, is made
21 known to us by others within those entities, particularly during
22 the period in which this report is being prepared;
 - 23 b) Designed such internal control over financial reporting, or
24 caused such internal control over financial reporting to be
25 designed under our supervision, to provide reasonable
26 assurance regarding the reliability of financial reporting and
27 the preparation of financial statements for external purposes in
28 accordance with generally accepted accounting principles;

1 c) Evaluated the effectiveness of the registrant's disclosure
2 controls and procedures and presented in this report our
3 conclusions about the effectiveness of the disclosure controls
4 and procedures, as of the end of the period covered by this
5 report based on such evaluation; and

6 d) Disclosed in this report any change in the registrant's internal
7 control over financial reporting that occurred during the
8 registrant's most recent fiscal quarter (the registrant's fourth
9 fiscal quarter in the case of an annual report) that has
10 materially affected, or is reasonably likely to materially affect,
11 the registrant's internal control over financial reporting; and

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

17 a) All significant deficiencies and material weaknesses in the
18 design or operation of internal control over financial reporting
19 which are reasonably likely to adversely affect the registrant's
20 ability to record, process, summarize and report financial
21 information; and

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

25 30. Defendants Morrice and Dodge signed nearly identical certifications
26 included in the Form 10-Q.

27 31. On January 8, 2007, the Company issued a press release entitled "New
28 Century Financial Corporation Grows Annual Loan Production to a New Record of

1 \$59.8 Billion in 2006; Company to Report Fourth Quarter and Full-Year 2006 Results
2 on February 8, 2007.” The press release stated in part:

3 New Century Financial Corporation, a real estate investment trust
4 (REIT) and one of the nation’s premier mortgage finance companies,
5 today announced that total mortgage loan production for 2006 reached a
6 new record high of \$59.8 billion, which is 6.6 percent higher than the
7 \$56.1 billion originated in 2005. Additionally, loan production for
8 December 2006 was \$4.8 billion, representing a 9.4 percent decrease
9 compared with December 2005 and a 6.7 percent increase compared
10 with November 2006. The weighted average coupon for the company’s
11 non-prime loan production remained at 8.3 percent for December 2006,
12 unchanged from the prior month.

13 “We are pleased to have delivered another year of record loan
14 production and profitable market share growth given the turbulent
15 market environment,” said Brad A. Morrice, President and Chief
16 Executive Officer. “Our solid results for the year reflect a modest decline
17 in our non-prime production, offset by the expansion of prime and Alt-A
18 originations. *For 2007, we expect our overall mortgage loan
19 production to be relatively flat compared with 2006 as we anticipate a
20 decline in market volume and the impact of our tighter underwriting
21 guidelines to be offset by the continued roll-out of our Alt-A and prime
22 products and additional market share growth for our non-prime
23 products.*”

24 32. Then, on February 7, 2007, the Company issued a press release entitled
25 “New Century Financial Corporation Announces January 2007 Mortgage Loan
26 Production of \$4.2 Billion.” The press release stated in part:

27 New Century Financial Corporation, a real estate investment trust
28 (REIT), today announced that total mortgage loan production for January

1 2007 was \$4.2 billion, reflecting a 5.0 percent increase compared with
2 \$4.0 billion in January 2006.

3 “Given the current environment and our recently tightened
4 underwriting guidelines, we are pleased with the year-over-year loan
5 production growth in January,” said Brad A. Morrice, President and
6 Chief Executive Officer. “However, in response to the level of early-
7 payment defaults and loan repurchases, as well as changing secondary
8 market demand for certain products and product changes likely to be
9 required by regulatory authorities, we have intensified our focus on
10 tightening our underwriting guidelines and taking other steps to further
11 improve fraud detection and risk management. While we expect the
12 impact of these developments to be partially offset by our growth
13 initiatives, including the roll-out of our Alt-A product through our
14 Wholesale channel, we no longer expect our loan production to be flat in
15 2007 compared with the \$59.8 billion originated in 2006; rather, our
16 revised outlook for 2007 loan production is to be down approximately 20
17 percent compared with 2006. Importantly, it is difficult to predict the
18 impact of the steps we continue to take in response to changing market
19 conditions.”

20 33. Additionally on February 7, 2007, after the market closed, the Company
21 issued a press release entitled “New Century Financial Corporation to Restate
22 Financial Statements for the Quarters Ended March 31, June 30 and September 30,
23 2006.” The press release stated in part:

24 New Century Financial Corporation, a real estate investment trust
25 (REIT), today announced that it will restate its consolidated financial
26 results for the quarters ended March 31, June 30 and September 30, 2006
27 to correct errors the company discovered in its application of generally
28

1 accepted accounting principles regarding the company's allowance for
2 loan repurchase losses.

3 The company establishes an allowance for repurchase losses on
4 loans sold, which is a reserve for expenses and losses that may be
5 incurred by the company due to the potential repurchase of loans
6 resulting from early-payment defaults by the underlying borrowers or
7 based on alleged violations of representations and warranties in
8 connection with the sale of these loans. When the company repurchases
9 loans, it adds the repurchased loans to its balance sheet as mortgage
10 loans held for sale at their estimated fair values, and reduces the
11 repurchase reserve by the amount the repurchase prices exceed the fair
12 values. During the second and third quarters of 2006, the company's
13 accounting policies incorrectly applied Statement of Financial
14 Accounting Standards No. 140 - Accounting for Transfers and Servicing
15 of Financial Assets and Extinguishment of Liabilities. Specifically, the
16 company did not include the expected discount upon disposition of loans
17 when estimating its allowance for loan repurchase losses.

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

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

28

1 Although the company's full review of the legal, accounting and
2 tax impact of the restatements is ongoing, at this time the company
3 expects that, once restated, its net earnings for each of the first three
4 quarters of 2006 will be reduced.

5 In light of the pending restatements, the company's previously
6 filed condensed consolidated financial statements for the quarters ended
7 March 31, June 30 and September 30, 2006 and all earnings-related press
8 releases for those periods should no longer be relied upon. The company
9 expects to file amended Quarterly Reports on Form 10-Q for the quarters
10 ended March 31, June 30 and September 30, 2006 as soon as practicable,
11 with a goal to file by March 1, 2007. The company also expects that the
12 errors leading to these restatements constitute material weaknesses in its
13 internal control over financial reporting for the year ended December 31,
14 2006. However, the company has taken significant steps to remediate
15 these weaknesses and anticipates remediating them as soon as
16 practicable.

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

22 Fourth Quarter 2006 Developments

23 The increasing industry trend of early-payment defaults and,
24 consequently, loan repurchases intensified in the fourth quarter of 2006.
25 The company continued to observe this increased trend in its early-
26 payment default experience in the fourth quarter, and the volume of
27 repurchased loans and repurchase claims remains high.

28

1 In addition, the company currently expects to record a fair value
2 adjustment to its residual interests to reflect revised prepayment, loss and
3 discount rate assumptions with respect to the loans underlying these
4 residual interests, based on indicative market data. While the company is
5 still determining the magnitude of these adjustments to its fourth quarter
6 2006 results, the company expects the combined impact of the foregoing
7 to result in a net loss for that period.

8 34. On this news, New Century's stock immediately collapsed to close at
9 \$19.24 per share the following day on volume of 25 million shares.

10 35. The true facts, which were known by the defendants but concealed from
11 the investing public during the Class Period, were as follows:

12 (a) The Company lacked requisite internal controls, and, as a result,
13 the Company's projections and reported results issued during the Class Period were
14 based upon defective assumptions and/or manipulated facts;

15 (b) The Company's financial statements were materially misstated due
16 to its failure to properly account for its allowance for loan repurchase losses;

17 (c) The Company's financial statements were materially misstated due
18 to its failure to properly account for its residual interests in securitizations by failing to
19 timely write down the impaired asset;

20 (d) Given the deterioration and the increased volatility in the subprime
21 market, the Company would be forced to tighten its underwriting guidelines which
22 would have a direct material negative impact on its loan productions going forward;
23 and

24 (e) Given the increased volatility in the subprime market, the
25 Company had no reasonable basis to make projections about its ability to maintain its
26 current mortgage loan production levels for 2007. As a result, the Company's
27 projections issued during the Class Period about its expected loan productions for
28 2007 were at a minimum reckless.

1 admission that the financial statements originally issued were false and that the
2 overstatement of income was material. Pursuant to GAAP, as set forth in Accounting
3 Principles Board Opinion (“APB”) No. 20, the type of restatement announced by New
4 Century was to correct for material errors in its previously issued financial statements.
5 See APB No. 20, ¶¶7-13. Moreover, FASB Statement of Financial Accounting
6 Standard (“SFAS”) No. 154, *Accounting Changes and Error Corrections*, states:
7 “Any error in the financial statements of a prior period discovered subsequent to their
8 issuance shall be reported as a prior-period adjustment by restating the prior-period
9 financial statements.” SFAS No. 154, ¶25. Thus, GAAP provides that financial
10 statements should be restated in order to correct an error in previously issued financial
11 statements. New Century’s restatement is due to an error. Thus, the restatement is an
12 admission by New Century that its previously issued financial results and its public
13 statements regarding those results were false.

14 41. Due to these accounting improprieties, the Company presented its
15 financial results and statements in a manner which violated GAAP, including the
16 following fundamental accounting principles:

17 (a) The principle that interim financial reporting should be based upon
18 the same accounting principles and practices used to prepare annual financial
19 statements was violated (APB No. 28, ¶10);

20 (b) The principle that financial reporting should provide information
21 that is useful to present and potential investors and creditors and other users in making
22 rational investment, credit and similar decisions was violated (FASB Statement of
23 Concepts No. 1, ¶34);

24 (c) The principle that financial reporting should provide information
25 about the economic resources of an enterprise, the claims to those resources, and
26 effects of transactions, events and circumstances that change resources and claims to
27 those resources was violated (FASB Statement of Concepts No. 1, ¶40);

28

1 (d) The principle that financial reporting should provide information
2 about how management of an enterprise has discharged its stewardship responsibility
3 to owners (stockholders) for the use of enterprise resources entrusted to it was
4 violated. To the extent that management offers securities of the enterprise to the
5 public, it voluntarily accepts wider responsibilities for accountability to prospective
6 investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

7 (e) The principle that financial reporting should provide information
8 about an enterprise's financial performance during a period was violated. Investors
9 and creditors often use information about the past to help in assessing the prospects of
10 an enterprise. Thus, although investment and credit decisions reflect investors'
11 expectations about future enterprise performance, those expectations are commonly
12 based at least partly on evaluations of past enterprise performance (FASB Statement
13 of Concepts No. 1, ¶42);

14 (f) The principle that financial reporting should be reliable in that it
15 represents what it purports to represent was violated. That information should be
16 reliable as well as relevant is a notion that is central to accounting (FASB Statement
17 of Concepts No. 2, ¶¶58-59);

18 (g) The principle of completeness, which means that nothing is left out
19 of the information that may be necessary to insure that it validly represents underlying
20 events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

21 (h) The principle that conservatism be used as a prudent reaction to
22 uncertainty to try to ensure that uncertainties and risks inherent in business situations
23 are adequately considered was violated. The best way to avoid injury to investors is to
24 try to ensure that what is reported represents what it purports to represent (FASB
25 Statement of Concepts No. 2, ¶¶95, 97).

26 42. Further, the undisclosed adverse information concealed by defendants
27 during the Class Period is the type of information which, because of SEC regulations,
28 regulations of the national stock exchanges and customary business practice, is

1 expected by investors and securities analysts to be disclosed and is known by
2 corporate officials and their legal and financial advisors to be the type of information
3 which is expected to be and must be disclosed.

4 **LOSS CAUSATION/ECONOMIC LOSS**

5 43. By misrepresenting its financial statements, the defendants presented a
6 misleading picture of New Century's business and prospects. Thus, instead of
7 truthfully disclosing during the Class Period that New Century's business was not as
8 healthy as represented, New Century falsely overstated its net income.

9 44. These claims of profitability caused and maintained the artificial inflation
10 in New Century's stock price throughout the Class Period and until the truth was
11 revealed to the market.

12 45. Defendants' false and misleading statements had the intended effect and
13 caused New Century stock to trade at artificially inflated levels throughout the Class
14 Period, reaching as high as \$51.22 per share.

15 46. On February 7, 2007, defendants were forced to publicly disclose that
16 New Century had improperly reported its income and that the Company had
17 discovered internal control problems, causing its stock to drop to \$19.24 per share.

18 47. As a direct result of defendants' admissions and the public revelations
19 regarding the truth about New Century's overstatement of income and its actual
20 business prospects going forward, New Century's stock price plummeted 36%, falling
21 from \$30.16 per share on February 7, 2007 to \$19.24 per share the following day, a
22 one day decline of \$10.92 per share. This drop removed the inflation from New
23 Century's stock price, causing real economic loss to investors who had purchased the
24 stock during the Class Period.

25 **COUNT I**

26 **For Violation of §10(b) of the 1934 Act and Rule 10b 5** 27 **Against All Defendants**

28 48. Plaintiffs incorporate ¶¶1-47 by reference.

1 its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of
2 the 1934 Act.

3 **CLASS ACTION ALLEGATIONS**

4 54. Plaintiffs bring this action as a class action pursuant to Rule 23 of the
5 Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise
6 acquired New Century common stock during the Class Period (the “Class”).
7 Excluded from the Class are defendants.

8 55. The members of the Class are so numerous that joinder of all members is
9 impracticable. The disposition of their claims in a class action will provide substantial
10 benefits to the parties and the Court. New Century has over 55 million shares of stock
11 outstanding, owned by hundreds if not thousands of persons.

12 56. There is a well-defined community of interest in the questions of law and
13 fact involved in this case. Questions of law and fact common to the members of the
14 Class which predominate over questions which may affect individual Class members
15 include:

- 16 (a) whether the 1934 Act was violated by defendants;
- 17 (b) whether defendants omitted and/or misrepresented material facts;
- 18 (c) whether defendants’ statements omitted material facts necessary to
19 make the statements made, in light of the circumstances under which they were made,
20 not misleading;
- 21 (d) whether defendants knew or deliberately disregarded that their
22 statements were false and misleading;
- 23 (e) whether the price of New Century’s common stock was artificially
24 inflated; and
- 25 (f) the extent of damage sustained by Class members and the
26 appropriate measure of damages.

27 57. Plaintiffs’ claims are typical of those of the Class because plaintiffs and
28 the Class sustained damages from defendants’ wrongful conduct.

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