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**UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA  
SOUTHERN DIVISION**

16 PAUL WOOD, Individually And On Behalf of )  
17 All Others Similarly Situated, )  
18 Plaintiff, )

19 vs. )

) **CIVIL ACTION NO. \_\_\_\_\_**

) **CLASS ACTION COMPLAINT**  
) **FOR VIOLATIONS OF**  
) **FEDERAL SECURITIES LAWS**

) **JURY TRIAL DEMANDED**

21 NEW CENTURY FINANCIAL  
22 CORPORATION, BRAD A. MORRICE,  
23 ROBERT K. COLE and PATTI M. DODGE,

24 Defendants  
25 \_\_\_\_\_

26  
27 **CLASS ACTION COMPLAINT**  
28

1 Plaintiff makes the following allegations, except as to allegations specifically pertaining  
2 to Plaintiff and Plaintiff's counsel, based upon the investigation conducted by Plaintiff's counsel,  
3 which included, among other things, a review and analysis of New Century Financial  
4 Corporation ( "New Century" or the "Company") filings with the United States Securities and  
5 Exchange Commission (the "SEC"), news articles and other media reports, press releases and  
6 other matters of public record. Except as alleged herein, information concerning Defendants'  
7 actions and the particulars thereof is not available to the public and lies within the possession and  
8 control of Defendants.  
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### 11 NATURE OF THE ACTION

12 1. This is a class action on behalf of all purchasers of the common stock of New  
13 Century Financial Corporation ("New Century" or the "Company") between May 4, 2006 and  
14 February 7, 2007 inclusive, (the "Class Period"), seeking to pursue remedies under the Securities  
15 Exchange Act of 1934 (the "Exchange Act").  
16

17 2. New Century Financial Corporation is a real estate investment trust, providing  
18 mortgage products to borrowers nationwide through its operating subsidiaries. One of New  
19 Century's specializations is providing loans to customers in the sub-prime, higher risk loan  
20 market. Throughout the Class Period, defendants reported quarter after quarter of seemingly  
21 strong financial results, despite a difficult operating environment in the mortgage industry. As a  
22 result, the stock traded as high as \$51.22 per share during the Class Period.  
23

24 3. On February 7, 2007, after the market closed, defendants shocked the market by  
25 announcing that 2007 loan production would fall short of expectations. The company said it now  
26 expects 2007 loan production to be 20% below 2006 levels, in contrast to previous forecasts that  
27 it would be flat, as the level of early-payment defaults and loan repurchases have led to tighter  
28

1 underwriting guidelines. The company also said it would restate results for the quarters ending  
2 March 31 through Sept. 30 to correct accounting errors related to loan repurchase losses, and  
3 admitted to having material weaknesses in its financial controls. In response, the stock price  
4 dropped dramatically, falling from over \$30 per share on February 7, to slightly over \$19 per  
5 share on February 8, 2007, on unusually high trading volumes of 25 million shares traded, vastly  
6 higher than the average trading volume of approximately 1.5 million shares. In fact, the true  
7 magnitude of losses to investors is still unknown as the Company has yet to quantify the amount  
8 of the restatements. However, before the truth concerning the Company's true financial  
9 condition was revealed, insiders, including defendant Cole and Edward Gotschall, a cofounder of  
10 the Company and Vice President of Finance, *sold enormous quantities of their own stock, for*  
11 *proceeds of over \$24 million.*

#### 12 JURISDICTION AND VENUE

13  
14  
15  
16 4. This Court has jurisdiction over the subject matter of this action pursuant to 28  
17 U.S.C. §§1331, 1337 and 1367 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

18  
19 5. This action arises under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C.  
20 §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b 5).

21  
22 6. Venue is proper in this District pursuant to Section 27 of the Exchange Act (15  
23 U.S.C. § 78aa) and 28 U.S.C. § 1391(b) and (c). Substantial acts in furtherance of the alleged  
24 fraud and/or its effects have occurred within this District and New Century maintains its  
25 corporate headquarters in this District at 1800 Von Karman, Suite 1000, Irvine, California  
26 92612.

27  
28 7. In connection with the acts and omissions alleged in this complaint, defendants,  
directly or indirectly, used the means and instrumentalities of interstate commerce, including, but

1 not limited to, the mails, interstate telephone communications, and the facilities of the national  
2 securities markets.

3  
4  
5 **PARTIES**

6 8. Plaintiff purchased New Century common stock during the Class Period as set  
7 forth in the accompanying certification, and was damaged thereby.

8 9. Defendant New Century by its own description is a “real estate investment trust,  
9 providing mortgage products to borrowers nationwide through its operating subsidiaries, New  
10 Century Mortgage Corporation and Home123 Corporation.”

11 10. The individual defendants, at all times relevant to this action, served in the  
12 capacities listed below and received substantial compensation:  
13  
14

15

Name	Position
Brad A. Morrice	President and Chief Executive Officer
Patti M. Dodge	Executive Vice President and Chief Financial Officer
Robert K. Cole	Chairman and Chief Executive Officer until November, 2006

16  
17  
18  
19

20 11. The Individual Defendants, as senior officers and/or directors of New Century  
21 were controlling persons of the Company and were aware of the Company’s actual and projected  
22 sales figures, and closely monitored the Company’s operations. Each exercised their power and  
23 influence to cause New Century to engage in the fraudulent practices complained of herein.  
24

25 12. Each of the defendants is liable as a participant in a fraudulent scheme and course  
26 of business that operated as a fraud or deceit on purchasers of New Century common stock, by  
27 disseminating materially false and misleading statements and/or concealing material adverse  
28 facts.

1  
2 **FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD**

3 13. The Class Period begins on May 4, 2006. On that date, defendants issued a press  
4 release reporting financial results for the first quarter of 2006. The press release stated:  
5

6 First Quarter 2006 Highlights

- 7
- 8 • Earnings-per-share (EPS) of \$1.79
  - 9 • REIT taxable income(1) of \$1.78 per share fully covered the corresponding dividend of \$1.75 per share
  - 10 • After-tax return on equity(2) was 19.5 percent
  - 11 • Securitized \$1.7 billion of mortgage loans at the REIT
  - 12 • Total loan production was \$13.4 billion in the first quarter 2006 and \$4.7 billion in April 2006
  - 13 • Maintained non-prime loan acquisition costs (LAC) at 1.66 percent
  - 14 • Reaffirms 2006 dividend guidance of \$7.30 per share

15  
16 14. The press release added:

17 "We achieved strong first quarter 2006 results highlighted by 21 percent  
18 growth in EPS, a 17 percent increase in REIT taxable income, and 31  
19 percent growth in mortgage loan production compared with the same  
20 period last year," said Robert K. Cole, Chairman and Chief Executive  
21 Officer. "We are also pleased to have maintained low loan acquisition  
22 costs, achieved our targeted net operating margin range for the quarter,  
23 and added mortgage loans to our REIT portfolio, which will contribute to  
24 our ability to pay our projected dividend of \$7.30 per share for 2006."  
25 The company reported net earnings of \$103.7 million, or \$1.79 per share,  
26 for the first quarter of 2006, compared with \$84.8 million, or \$1.48 per  
27 share, for the same period in 2005. The year-over-year increase in net  
28 earnings was primarily attributable to the growth in mortgage loan  
production volume and greater contributions to net earnings from the  
company's REIT portfolio.

26 Mortgage Loan Portfolios

27 During the first quarter of 2006, the company completed two  
28 securitizations structured as financings totaling \$1.7 billion in mortgage  
loans at the REIT, including one securitization consisting solely of \$0.3

1 billion of second lien collateral. Substantially all of the collateral in the  
2 \$0.3 billion securitization represents second mortgage loans originated in  
3 connection with the company's 80/20-mortgage product. "We believe the  
4 securitization of second trust deeds allowed us to capture the full  
5 economic value of that particular pool of loans," said Kevin M. Cloyd,  
6 President of NC Capital Corporation, the company's secondary marketing  
7 subsidiary. "The remaining \$1.4 billion of mortgage loans securitized was  
8 representative of our core non-prime mortgage loan production and  
9 received favorable credit enhancement from rating agencies as a result of  
10 lower loss coverage requirements."

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

27 **Mortgage Loan Production by Channel -- Non-Prime, Prime and Alt-A**  
28 The company originates and purchases mortgage loans through two  
channels -- Wholesale and Retail. The Wholesale channel originates and  
purchases mortgage loans through a network of independent mortgage  
brokers and correspondent lenders solicited by its Account Executives.  
The company's Retail channel originates mortgage loans directly through  
its 240 branch offices and its central telemarketing unit, as well as through  
relationships that are referred or solicited through builders and realtors.

#### Total Mortgage Loan Production

29 Total mortgage loan production for the first quarter of 2006 was \$13.4  
30 billion, a 31 percent increase over the same period a year ago. "Our key  
31 objectives this year include maximizing the capabilities of the prime and  
32 Alt-A platform we acquired in 2005 for future growth and utilizing that  
33 acquisition as a catalyst for expanding the mortgage products we offer  
34 through each of our delivery channels," said Brad A. Morrice, Vice  
35 Chairman, President and Chief Operating Officer. "This quarter's  
36 mortgage loan production results were enhanced by \$1.9 billion in prime

1 and Alt-A originations and we expect to see even stronger results as we  
2 continue the expansion of our product lines across all channels."

3 Total mortgage loan production for April 2006 was approximately \$4.7  
4 billion, or \$0.235 billion in average daily volume, including \$4.0 billion of  
5 Wholesale mortgage loan production and \$0.7 billion of Retail mortgage  
6 loan production. This compares with \$4.5 billion, or \$0.214 in average  
7 daily volume, for April 2005. The weighted average coupon for non-prime  
8 production in April 2006 was 8.5 percent.

#### 9 Wholesale Channel

10 In the first quarter of 2006, the company originated \$11.4 billion in loans  
11 through its Wholesale channel, representing a 25 percent increase over the  
12 first quarter of 2005. "The growth in Wholesale mortgage loan production  
13 was the result of the superior efforts of our top-tier Account Executives.

14 As a result, I'm proud to report that our Wholesale business ranked as the  
15 #1 non-prime wholesale lender and #4 wholesale lender in the overall  
16 mortgage market in 2005," said Mr. Morrice.

17 In February 2006, the company purchased Access Lending Corporation's  
18 platform that provides warehouse lines of credit to middle-market  
19 residential-mortgage bankers. "This acquisition enables us to offer  
20 warehouse lending services to our Wholesale customers. We are excited  
21 about entering this growing market," said Mr. Cloyd.

#### 22 Retail Channel

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

28 TRS Operating Results -- Non-Prime

#### Gain-on-Sale

In the first quarter of 2006, the company sold \$11.2 billion of non-prime  
loans at a gain-on-sale of 1.67 percent. Gain-on-sale decreased four basis  
points from 1.71 percent for the fourth quarter of 2005 as a result of loans  
sold in the first quarter of 2006 pursuant to forward-sale commitments  
entered into during the fourth quarter of 2005, when the secondary market  
was very weak. However, gain-on-sale progressively improved during  
each of the months in the first quarter of 2006. Continuing this trend, the  
company expects non-prime gain-on-sale to improve in future quarters of  
2006 based on stronger secondary market demand for its product and  
forward-sale commitments extending into the third quarter of 2006.

#### LAC

First quarter 2006 LAC of 1.66 percent was effectively unchanged  
compared with the fourth quarter of 2005 despite the seasonal decrease in

1 mortgage loan production volume. The operating expense component of  
2 LAC increased nine basis points and was offset by an eight basis point  
3 decrease in the points and fees component. "We are particularly pleased  
4 that we were able to maintain our loan acquisition costs at this low level  
5 given the decrease in mortgage loan production that typically occurs in the  
6 first quarter of the year," said Patti M. Dodge, Executive Vice President  
7 and Chief Financial Officer.

8 LAC is a non-GAAP financial measure within the meaning of Regulation  
9 G promulgated by the Securities and Exchange Commission. A  
10 reconciliation of LAC to the most directly comparable GAAP financial  
11 measure is set forth in the table attached as Schedule 3 to this press  
12 release.

### 13 Net Operating Margin

14 "Our net operating margin was 50 basis points for the first quarter of 2006,  
15 which was in-line with our previously announced guidance range. Given  
16 our forward-sale commitments and focus on maintaining low loan  
17 acquisition costs, we expect our net operating margin will improve in the  
18 second quarter of 2006 to a range of 60 to 75 basis points," said Ms.  
19 Dodge.

### 20 TRS Operating Results -- Prime and Alt-A

21 In the first quarter of 2006, the company closed \$2.0 billion in loans  
22 through the prime and Alt-A mortgage loan origination platform and acted  
23 as a broker for an additional \$0.3 billion to third parties. The results from  
24 this platform were a \$0.8 million loss for the quarter, which is a significant  
25 improvement over the \$4.3 million loss in the previous quarter. "We are  
26 pleased to see such progress as we fully integrate this mortgage loan  
27 origination platform and we continue to believe this business is well  
28 positioned to be accretive to EPS in 2006," continued Mr. Morrice.  
The company has provided the gain-on-sale, LAC and net operating  
margin of these operations in tables set forth later in this press release.

### 2006 Outlook

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

"At the REIT, we expect to execute up to \$2 billion in securitizations in  
the second quarter of 2006, subject to our evaluation of secondary market  
opportunities. At the TRS, we anticipate our net operating margin to

1 improve in the second quarter of 2006 reflecting a stronger secondary  
2 market for our loans and our continued efforts to control operating costs.  
3 Additionally, we anticipate growing our second quarter 2006 production  
4 volume over the first quarter 2006 level.

5 "We have continued confidence in our ability to pay a 2006 dividend of  
6 \$7.30 per share as a result of this year's REIT portfolio additions, the  
7 carry-over of REIT taxable income from 2005, and, if necessary,  
8 contributions from our TRS," concluded Mr. Morrice.

9 15. On May 10, 2006, defendants filed a quarterly report on Form 10-Q for the first  
10 quarter of 2006. This 10-Q, as well as the quarterly reports filed thereafter during the Class  
11 Period, included the following certifications which served to assure investors that the financial  
12 information contained in the SEC filings was accurate:

13 I, Patti M. Dodge, certify that:

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

1 external purposes in accordance with generally accepted accounting  
2 principles;

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

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

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

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

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

24 16. The 10-Q also included a certification affirming that the Company's financial  
25 controls were adequate, stating:

26 As of March 31, 2006, the end of our first quarter, our management,  
27 including our Chief Executive Officer, Chief Financial Officer and  
28 President and Chief Operating Officer, has evaluated the effectiveness of  
our disclosure controls and procedures, as such term is defined in  
Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934,  
as amended. Based on that evaluation, our Chief Executive Officer, Chief  
Financial Officer and President and Chief Operating Officer concluded, as  
of March 31, 2006, that our disclosure controls and procedures were  
effective to ensure that information required to be disclosed by us in  
reports that we file or submit under the Securities Exchange Act of 1934 is  
recorded, processed, summarized and reported within the time periods  
specified in Securities and Exchange Commission rules and forms. There  
was no change in our internal control over financial reporting during the  
quarter ended March 31, 2006 that materially affected, or is reasonably  
likely to materially affect, our internal control over financial reporting.

1           17.     The press release emphasized the quarter's financial highlights in the following  
2 bullet list:

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

15           18.     Commenting on the financial results, defendant Morrice stated:

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

28           19.     With respect to the Company's mortgage loan portfolios, the Company stated:

29           During the second quarter of 2006, the company completed \$1.7 billion in  
30           securitizations structured as financings at the REIT level, including the  
31           company's first Alt-A loan securitization of \$0.5 billion and a \$1.2 billion  
32           securitization of non-prime product. "The Alt-A transaction enhanced our  
33           secondary market execution and diversified our REIT portfolio of  
34           mortgage loans with a new asset class," said Kevin M. Cloyd, President of  
35           NC Capital Corporation, the company's secondary marketing subsidiary.  
36           At June 30, 2006, the balance of the mortgage loan portfolio was \$16.0  
37           billion. The allowance for losses on loans held for investment was \$209.9  
38           million, representing 1.31 percent of the unpaid principal balance of the  
39           portfolio. This compares with 0.79 percent of the unpaid principal balance  
40           of the portfolio at June 30, 2005 and 1.30 percent of the portfolio at March

1 31, 2006. Delinquency rates as of June 30, 2006 in the company's portfolio  
2 continue to be significantly lower than historical experience. The  
3 company's 60-plus day delinquency rate as of June 30, 2006 was 4.61  
4 percent compared with 4.50 percent in the previous quarter. The  
5 company's 2005 and 2006 vintages are experiencing more normalized  
6 delinquency trends than the 2003 and 2004 vintages, which have  
7 performed exceptionally well when compared with historical experience.  
8 "We are comfortable with our current loan loss reserve levels, which take  
9 into consideration not only normal portfolio seasoning but also our higher  
10 cumulative loss expectations for the newer vintages," said Patti M. Dodge,  
11 Executive Vice President and Chief Financial Officer.

12 REIT portfolio income declined to \$52.0 million in the second quarter of  
13 2006 compared with \$83.3 million in the first quarter. REIT portfolio  
14 income was \$79.2 million in the second quarter of 2005. The sequential  
15 decrease in REIT portfolio income is primarily the result of a lower return-  
16 on-assets ("ROA") in the second quarter when compared to the first  
17 quarter. ROA declined to 1.49 percent in the second quarter from 2.34  
18 percent in the first quarter as a result of a decrease in interest spread  
19 attributable to portfolio seasoning and the expected spread compression  
20 that comes with such seasoning. In addition, the company's shift in 2006  
21 to embedding swaps in its securitization transactions, which results in a  
22 more level yield over the life of the transaction, also led to a decrease in  
23 interest spread. Lower prepayment income, hedge re-balancing gains and  
24 income from hedge ineffectiveness and other derivative instruments also  
25 had a significant impact on ROA.

26 Mortgage Loan Production by Channel -- Non-Prime, Prime and Alt-A  
27 The company originates and purchases mortgage loans through two  
28 channels - Wholesale and Retail. The Wholesale channel originates and  
purchases mortgage loans through a network of independent mortgage  
brokers and correspondent lenders solicited by its Account Executives.  
The company's Retail channel originates mortgage loans directly through  
its 246 branch offices and its central telemarketing unit, as well as through  
relationships that are referred or solicited through builders and realtors.

#### 29 Total Mortgage Loan Production

30 Total mortgage loan production for the second quarter of 2006 was \$16.2  
31 billion, a 20 percent increase over the same period a year ago and a 21  
32 percent increase over the first quarter of 2006. Excluding the prime and  
33 Alt- A loan origination platform that was acquired in the third quarter of  
34 2005, second quarter loan production increased 5 percent year-over-year.  
35 For the quarter, the company's Wholesale channel originated \$13.8 billion  
36 of mortgage loans and the Retail channel originated \$2.4 billion. "We are  
37 pleased with the second quarter's strong loan production volume, which  
38 resulted from modest growth in our core non-prime product coupled with  
the addition of our Prime and Alt-A products," said Mr. Morrice.

1 "Additionally, we introduced a new credit grade during the quarter that  
2 serves borrowers with qualifications between Alt-A and non-prime. We  
3 believe this AAA credit grade is rapidly gaining acceptance in the market  
4 place."

5 Total mortgage loan production for July 2006 was approximately \$5.3  
6 billion, including \$4.6 billion of Wholesale mortgage loan production and  
7 \$0.7 billion of Retail mortgage loan production. This compares with \$4.6  
8 billion for July 2005.

## 9 TRS Operating Results -- Non-Prime

### 10 Gain-on-Sale

11 In the second quarter of 2006, the company sold \$10.3 billion of non-  
12 prime loans, or 73 percent of the quarter's non-prime production, at a gross  
13 premium of 2.31 percent and a net gain-on-sale of 2.10 percent. Second  
14 quarter net gain-on-sale increased by 43 basis points compared with 1.67  
15 percent for the first quarter as a result of improved secondary market  
16 execution, which was primarily driven by a higher weighted average  
17 coupon on the company's loans, a more favorable product mix and  
18 stronger secondary market appetite, partly offset by increases in swap  
19 rates that outpaced coupon growth. Additionally, second quarter net gain-  
20 on-sale included 9 basis points of unanticipated hedging gains.

### 21 Loan Acquisition Costs (LAC)

22 Second quarter 2006 LAC was 1.51 percent compared with 1.66 percent in  
23 the previous quarter. The 15 basis point decline was primarily a result of  
24 the operating expense component of LAC declining 17 basis points,  
25 slightly offset by a modest increase in the points and fees component.

26 "In the current environment, we believe it is becoming increasingly  
27 important to be a low-cost originator," continued Ms. Dodge. "Our record  
28 low LAC of 1.51 percent is evidence of our ability to use our size and  
scale to increase efficiencies and leverage fixed costs, which we believe is  
a distinct competitive advantage. I'm pleased that during a quarter in  
which loan production increased 22 percent, our cost controls kept  
expense growth to only 11 percent compared with the first quarter of  
2006."

LAC is a non-GAAP financial measure within the meaning of Regulation  
G promulgated by the Securities and Exchange Commission. A  
reconciliation of LAC to the most directly comparable GAAP financial  
measure is set forth in the table attached as Schedule 3 to this press  
release.

### Net Operating Margin

The company's net operating margin for its non-prime loans improved to  
1.01 percent in the second quarter of 2006 from 50 basis points in the first

1 quarter of 2006. "We are proud to have made such a significant  
2 improvement in our non-prime net operating margin this quarter," said  
3 Ms. Dodge. "We will continue to focus on reducing our LAC, but expect  
4 our operating margins to be negatively impacted on a go-forward basis by  
5 as much as 10 basis points as a result of the recent Standard and Poor's  
6 ABS model changes."

#### 7 TRS Operating Results -- Prime and Alt-A

8 In the second quarter of 2006, the company closed \$2.1 billion in loans  
9 through its prime and Alt-A mortgage loan origination platform and acted  
10 as a broker for an additional \$0.2 billion to third parties. The company has  
11 provided the gain-on-sale, LAC and net operating margin of these  
12 operations in tables set forth later in this press release.

13 "Consistent with our projections, our prime and Alt-A business became  
14 profitable in the second quarter and reported a net operating margin of 53  
15 basis points," said Mr. Morrice. "This quarter's net operating margin was  
16 higher than we anticipated as a result of hedging gains and pair-off fees. A  
17 more typical net operating margin for our prime and Alt-A platform is  
18 expected to be in the range of 15 to 20 basis points."

19 "The earnings from the current REIT portfolio, plus an estimated \$1.88  
20 per share carry-over of REIT taxable income from 2005, coupled with  
21 additions to the REIT portfolio and potential TRS contributions, gives us  
22 confidence that we will achieve our 2006 dividend guidance of \$7.30 per  
23 share," said Mr. Morrice.

#### 24 Outlook

25 "Our year-to-date results reflect the benefits of our combined REIT  
26 portfolio and TRS operations model, solid execution of our business plan  
27 and the overall strength and stability of our franchise. Looking forward,  
28 we feel that the environment will continue to favor mortgage lenders like  
New Century that have significant operating scale and low expense  
structures. As a result, we have continued confidence in our ability to  
deliver strong future performance and create per share value for our  
stockholders," said Mr. Morrice.

20. On November 2, 2006, defendants issued a press release reporting results for the  
quarter ended September 30, 2006. The press release stated:

#### Highlights

- Earnings-per-share (EPS) was \$1.12
- REIT taxable income(1) per share was \$0.84

- Total mortgage loan production was \$15.8 billion
- Non-prime net operating margin was 0.52 percent
- Record low non-prime loan acquisition costs (LAC) of 1.49 percent
- After-tax return-on-equity(2) was 12.7 percent
- Announces acquisition of Irwin Mortgage Corporation's servicing operations
- Raised \$107 million in gross proceeds of perpetual preferred and trust preferred capital
- Declared fourth quarter dividend of \$1.90 per share; results in total 2006 dividends of \$7.30 per share
- 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

21. Commenting on the third quarter results, defendant Morrice stated:

"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.

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

22. With respect to the Company's credit performance, the press release stated:

1 At September 30, 2006, the allowance for losses on mortgage loans held  
2 for investment and real estate owned was \$239.4 million compared with  
3 \$236.5 million at June 30, 2006. These amounts represent 1.68 percent  
4 and 1.47 percent of the unpaid principal balance of the mortgage loan  
5 portfolio, respectively. The company's 60-day-plus delinquency rate as of  
6 September 30, 2006 was 5.95 percent compared with 4.61 percent in the  
7 second quarter of 2006. The higher delinquency rate in the third quarter  
8 was the result of normal portfolio seasoning and higher delinquencies in  
9 the 2005 and 2006 vintages compared with the 2003 and 2004 vintages.  
10 The company planned for these higher delinquency rates and believes it is  
11 adequately reserved for the expected higher level of loan losses after  
12 giving consideration to the performance of its newer vintages.

13 The company recently announced its adoption of additional lending best  
14 practices. These guidelines include improved underwriting guidelines for  
15 its adjustable-rate and interest-only mortgage loan programs for potential  
16 borrowers in owner-occupied properties who have FICO scores below 580  
17 and loan-to-value ratios greater than 80 percent. The company is requiring  
18 these borrowers to qualify with a debt-to-income ratio that is less than 50  
19 percent and uses the fully-indexed rate minus 100 basis points rather than  
20 qualifying at the initial interest rate. Less than 4 percent of the company's  
21 recent loan production volume would not have qualified for a 30-year  
22 adjustable-rate or interest-only loan under these guidelines. "We believe  
23 the steps we are taking are prudent in light of the current market  
24 environment and are designed to help ensure that specific loan products  
25 are appropriate for the circumstances of individual borrowers and improve  
26 the overall credit quality of our loans. We plan to continue evaluating our  
27 product line with these goals in mind. While these underwriting changes  
28 may result in a modest decline in volume, we do not expect a meaningful  
impact to profitability," said Mr. Morrice.

23. The press release added with respect to loan sales:

20 Loan Sales - In the third quarter of 2006, the company sold \$13.9 billion  
21 of non-prime loans at a gross premium of 2.25 percent compared with \$9.9  
22 billion at a gross premium of 2.33 percent in the second quarter of 2006.  
23 Additionally, the company sold \$410.0 million of non-prime mortgage  
24 loans during the third quarter of 2006 at an average discount of 12.9  
25 percent of their outstanding principal balances compared with \$415.1  
26 million for the second quarter of 2006 at an average discount of 5.0  
27 percent. While the total volume of discounted loans sales decreased  
28 slightly, the severity of the discount increased due to the inclusion of a  
higher percentage of non-performing assets in these sales and a lower  
average price for loans with minor defects. Higher loan repurchases and  
discounted mortgage loan sales reduced the gain-on-sale margin by 48  
basis points.

1 "We expect the volume of discounted loan sales and the severity of the  
2 discount to continue to challenge originators in this industry," said Mr.  
3 Cloyd. "Loan buyers have become more vigilant, increasing the number of  
4 loan files reviewed in their due diligence process and decreasing the  
5 percentage of loans they ultimately purchase. In addition, loan repurchases  
6 have increased as a result of higher early payment defaults. While we  
7 expect this industry trend to continue in the near-term, we believe our  
8 additional underwriting guidelines and continual focus on process  
9 improvement will help mitigate this trend."

10 24. The press release added:

11 In the third quarter of 2006, the company closed \$2.0 billion in loans  
12 through its prime and Alt-A mortgage loan origination platform and acted  
13 as a broker for an additional \$184.1 million to third parties. The company  
14 has provided the gain-on-sale, LAC and net operating margin of these  
15 operations in tables set forth later in this press release.

#### 16 Servicer Rating Upgrade

17 On October 27, 2006, Fitch Ratings upgraded the company's residential  
18 primary servicer rating to RPS3+ from RPS3 for its non-prime product.  
19 Fitch based the rating upgrade on the company's management team,  
20 established servicing platform, capable default technology and enhanced  
21 cross-functional training programs.

#### 22 Acquisition of Irwin Mortgage Corporation's Servicing Operations

23 The company announced today that it has entered into a definitive  
24 agreement to purchase certain assets and assume certain related liabilities  
25 of Irwin Mortgage Corporation's servicing operations, an indirect  
26 subsidiary of Irwin Financial Corporation. The Irwin Mortgage servicing  
27 operation has approximately 100 employees and is located in Fishers,  
28 Indiana. The company expects the cash purchase price to be minimal and  
29 expects the transaction to close in January 2007.

30 "We are excited about the prospects of enhancing our capabilities with  
31 Irwin Mortgage's highly-experienced servicing team and its top-ratings  
32 from HUD and Fannie Mae as well as its 'Tier One Gold' servicer rating  
33 from Freddie Mac," said Mr. Cloyd. "This transaction will allow us to  
34 increase scalability, reduce servicing costs and improve time zone  
35 management while also expanding our expertise in servicing Alt-A and  
36 prime mortgage loans. Additionally, by maintaining this operation in  
37 Indiana, we will establish a fully-functional, redundant servicing platform  
38 for disaster recovery. We look forward to welcoming Irwin Mortgage's  
39 servicing employees to New Century's robust servicing team."

#### 40 Capital Raising Activities

1 During the third quarter of 2006, the company issued 2.3 million shares of  
2 its 9.75 percent Series B Cumulative Redeemable Preferred Stock at \$25  
3 per share and also completed a \$50 million private placement of trust  
4 preferred securities. "We are pleased to have shown a continued ability to  
5 access the capital markets, as we raised \$107 million in gross proceeds  
6 during the quarter through a combination of perpetual preferred and trust  
7 preferred securities. In addition, we ended the quarter with approximately  
8 \$17 billion in warehouse capacity. We believe that our continued ability to  
9 access a variety of funding sources is a key competitive differentiator in  
10 this environment," said Ms. Dodge.

11 25. With respect to the outlook for 2007, the press release stated:

12 "We expect 2007 will be a year of continued industry evolution and  
13 opportunity for New Century. Our strategy for next year focuses on  
14 maximizing our core mortgage origination franchise through process  
15 innovation, enhanced productivity and increased efficiencies. We believe  
16 that we are well- positioned to meet the challenges next year. We expect  
17 overall mortgage market volume to decline approximately 10 percent in  
18 2007, yet we believe our size, scale, financial resources, low loan  
19 acquisition costs and reputation will enable us to compete successfully and  
20 profitably gain market share in this consolidating industry. This  
21 environment calls for a financial strategy that is flexible enough to  
22 capitalize on the opportunities that arise during 2007 giving consideration  
23 to secondary and capital market conditions.

24 "We believe that mortgage banking remains an excellent business for the  
25 long-term, and we remain committed to delivering long-term value to  
26 stockholders. REIT status and the portfolio are tools that help us execute  
27 our mortgage banking strategy but we do not expect to add to the portfolio  
28 simply to support a specific dividend target. We expect to continue to  
29 evaluate whole loan sales versus securitizations on a case-by-case basis  
30 based on whole loan prices relative to our view of the risk-adjusted returns  
31 on capital available through securitization.

32 "During 2007, we plan to distribute capital to stockholders through a  
33 combination of dividends and stock repurchases, which will be dependent  
34 on market conditions and the relative return of each. It is not possible to  
35 predict these market conditions in advance. Therefore, rather than  
36 providing specific dividend guidance, we are announcing our plan to  
37 distribute \$400 million or more to stockholders in 2007 in some form,"  
38 concluded Mr. Morrice.

39 26. The statements detailed above in New Century's SEC filings and press releases  
40 were materially false and misleading because, as detailed below: (1) loan production values had  
41 declined materially during the Class Period; and (2) the Company's financial results for the first

1 three quarters of 2006 were overstated because of defendants' failure to properly account for  
2 loan losses. As defendants have now admitted, New Century's previously filed financial  
3 statements for the quarters ended March 31, June 30 and September 30, 2006 require restatement  
4 to correct violations of GAAP regarding the registrant's allowance for loan repurchase losses. As  
5 a result, the Company has stated that its previously issued consolidated financial statements for  
6 these quarters, as well as all earnings-related press releases for those quarters, should no longer  
7 be relied upon. According to a Form 8-K filing on February 7, 2007:

8  
9  
10 Although the registrant's full review of the legal, accounting and tax  
11 impact of the restatements is ongoing, at this time the registrant expects  
12 that, once restated, its net earnings for each of the first three quarters of  
13 2006 will be reduced.

14 Revised financial statements for the periods referenced above will be  
15 included in amended Quarterly Reports on Form 10-Q for the quarters  
16 ended March 31, June 30 and September 30, 2006. The registrant expects  
17 to file the amended Quarterly Reports on Form 10-Q as soon as  
18 practicable and prior to the filing of the registrant's Annual Report on  
19 Form 10-K for the year ended December 31, 2006.

20 The registrant establishes an allowance for repurchase losses on loans  
21 sold, which is a reserve for expenses and losses that may be incurred by  
22 the registrant due to the potential repurchase of loans resulting from early  
23 payment defaults by the underlying borrowers or based on alleged  
24 violations of representations and warranties in connection with the sale of  
25 these loans. When the registrant repurchases loans, it adds the repurchased  
26 loans to its balance sheet as mortgage loans held for sale at their estimated  
27 fair values, and reduces the repurchase reserve by the amount the  
28 repurchase prices exceed the fair values. During the second and third  
quarters of 2006, the registrant'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 registrant did not include the expected  
discount upon disposition of loans when estimating its allowance for loan  
repurchase losses.

In addition, the registrant'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

1 increasing pace of repurchase requests that occurred in 2006, compounded  
2 by the increasing length of time between the whole loan sales and the  
3 receipt and processing of the repurchase requests.

4 The registrant is evaluating the impact of this matter on its internal control  
5 over financial reporting and disclosure controls and procedures for the  
6 applicable periods. The registrant expects to conclude that the errors  
7 leading to these restatements constitute material weaknesses in its internal  
8 control over financial reporting for the year ended December 31, 2006.  
9 However, the registrant has taken significant steps to remediate these  
10 weaknesses and anticipates remediating them as soon as practicable. A  
11 material weakness is a control deficiency, or combination of control  
12 deficiencies, that results in more than a remote likelihood that a material  
13 misstatement of the annual or interim financial statements will not be  
14 prevented or detected.

#### 11 **VIOLATIONS OF GAAP AND SEC REPORTING RULES**

12 27. During the Class period, defendants materially misled the investing public,  
13 thereby inflating the price of the Company's securities, by publicly issuing false and misleading  
14 statements and omitting to disclose material facts necessary to make defendants' statements, as  
15 set forth herein, not false and misleading. Said statements and omissions were materially false  
16 and misleading in that they failed to disclose material adverse information and misrepresented  
17 the truth about the Company, its financial performance, accounting, reporting, and financial  
18 condition in violation of the federal securities laws and generally accepted accounting principles.  
19

20 28. Generally accepted accounting principles consists of those principles recognized  
21 by the accounting profession as the conventions, rules, and procedures necessary to define  
22 accepted accounting practice at the particular time. Regulation S-X, to which the Company is  
23 subject as a registrant under the Exchange Act, 17 C.F.R. 210.4-01(a)(1), provides that financial  
24 statements filed with the SEC which are not prepared in compliance with GAAP, are presumed  
25 to be misleading and inaccurate. SEC Rule 13a-13 requires issuers to file quarterly reports.  
26  
27  
28

1           29.     SEC Rule 12b-20 requires that periodic reports contain such further information  
2 as is necessary to make the required statements, in light of the circumstances under which they  
3 are made, not misleading.  
4

5           30.     In addition, pursuant to generally accepted accounting principles, for interim  
6 periods, the Management Division and Analysis Section ("MD&A") must include, among other  
7 things, a discussion of any material changes in the registrant's results of operations with respect  
8 to the most recent fiscal year-to-date period for which an income statement is provided.

9 Instructions to Item 303 require that the this discussion identify any significant elements of  
10 registrant's income or loss from continuing operations that are not necessarily representative of  
11 the registrant's ongoing business. Item 303(a)(2)(ii) to Regulation S-K requires the following  
12 discussion in the MD&A of a company's publicly filed reports with the SEC:  
13

14                   Describe any known trends or uncertainties that have had or that the  
15 registrant reasonably expects will have a material favorable or unfavorable  
16 impact on net sales or revenues or income from continuing operations. If  
17 the registrant knows of events that will cause a material change in the  
18 relationship between costs and revenues (such as known future increases  
19 in costs of labor or materials or price increases or inventory adjustments),  
20 the change in relationship shall be disclosed.

21           31.     Paragraph 3 of the Instructions to Item 303 states in relevant part:

22                   The discussion and analysis shall focus specifically on material events and  
23 uncertainties known to management that would cause reported financial  
24 information not to be necessarily indicative of future operating results or  
25 of future financial condition. This would include descriptions and  
26 amounts of (A) matters that would have an impact on future operations  
27 and have not had an impact in the past...

28           32.     The generally accepted accounting principles relating to the recognition adequate  
provisions for foreseeable costs and an associated allowances applies to interim financial  
statements as is required by Accounting Principles Board Opinion No. 28. Paragraph 17 of this  
authoritative pronouncement states that:

1 The amounts of certain costs and expenses are frequently subjected to  
2 year-end adjustments even though they can be reasonably approximated at  
3 interim dates. To the extent possible such adjustments should be  
4 estimated and the estimated costs and expenses assigned to interim periods  
5 so that the interim periods bear a reasonable portion of the anticipated  
6 annual amount.

7 33. For example, Statements of Financial Accounting Standards No. 5, Accounting  
8 for Contingencies ("FASB 5"), states that:

9 An estimated loss from a loss contingency... shall be accrued by a charge  
10 to income if both of the following conditions are met:

11 a. Information available prior to issuance of the financial  
12 statements indicates that an asset had been impaired or that a liability had  
13 been incurred at the date of the financial statements. It is implicit in this  
14 condition that it must be probable that one or more future events will  
15 occur confirming the fact of the loss; and

16 b. The amount of the loss can be reasonably estimated.

17 34. These financial statements and announcements were knowingly and recklessly  
18 false and misleading when made for the reasons stated herein.

19 35. The Company's financial statements contained in the fiscal first, second and third  
20 quarter quarterly reports filed with the SEC on Forms 10-Q for the quarterly periods throughout  
21 the Class Period were presented in a manner that violated the principle of fair financial reporting  
22 and the following generally accepted accounting principles, among others:

23 a. The principle that financial reporting should provide  
24 information that is useful to present and potential investors and creditors and other  
25 users in making rational investment, credit and similar decisions.

26 b. The principle that financial reporting should provide  
27 information about an enterprise's financial performance during a period.  
28

1                   c.       The principle that financial reporting should be reliable in  
2 that it represents what it purports to represent.

3                   d.       The principle of completeness, which means that nothing  
4 material is left out of the information that may be necessary to ensure that it  
5 validly represents underlying events and conditions.  
6

7                   e.       The principle that conservatism be used as a prudent  
8 reaction to uncertainty to try to ensure that uncertainties and risks inherent in  
9 business situations are adequately considered.  
10

11                  f.       The principle that disclosure of accounting policies should  
12 identify and describe the accounting principles followed by the reporting entity  
13 and the methods of applying those principles that materially affect the financial  
14 statements.  
15

16                  g.       The principle that losses be accrued for when a loss  
17 contingency exists.

18                  h.       The principle that if no accrual is made for a loss  
19 contingency, then disclosure of the contingency shall be made when there is at  
20 least a reasonable possibility that a loss or an additional loss may have been  
21 incurred.  
22

23                  i.       The principle that contingencies and other uncertainties that  
24 affect the fairness of presentation of financial data at an interim date shall be  
25 disclosed in interim reports in the same manner required for annual reports.  
26  
27  
28

1                   j.       The principle that disclosures of contingencies shall be  
2 repeated in interim and annual reports until the contingencies have been removed,  
3 resolved, or have become immaterial.  
4

5                   k.       The principle that management should provide commentary  
6 relating to the effects of significant events upon the interim financial results.

7       36.     In addition, during the Class Period, defendants violated SEC disclosure rules:

8                   a.       defendants failed to disclose the existence of known trends,  
9 events or uncertainties that they reasonably expected would have a material,  
10 unfavorable impact on net revenues or income or that were reasonably likely to  
11 result in the Company's liquidity decreasing in a material way and that failure to  
12 disclose the information rendered the statements that were made during the Class  
13 Period materially false and misleading; and  
14

15                   b.       by failing to file financial statements with the SEC that  
16 conformed to the requirements of generally accepted accounting principles, such  
17 financial statements were presumptively misleading and inaccurate.  
18

19       37.     Defendants were required to disclose in the Company's financial statements the  
20 existence of the material facts described herein and to appropriately recognize and report assets,  
21 revenues, and expenses in conformity with generally accepted accounting principles. The  
22 Company failed to make such disclosures and to account for and to report its financial statements  
23 in conformity with generally accepted accounting principles. Defendants knew, or were reckless  
24 in not knowing, the facts which indicated that all of the Company's interim financial statements,  
25 press releases, public statements, and filings with the SEC, which were disseminated to the  
26 investing public during the Class Period, were materially false and misleading for the reasons set  
27  
28

1 forth herein. Had the true financial position and results of operations of the Company been  
2 disclosed during the Class Period, the Company's common stock would have traded at prices  
3 well below that which it did.  
4

5 38. On February 7, 2007, after the close of the market, defendants issued a press  
6 release stating:

7 New CenturyFinancial Corporation (NYSE: NEW), a real estate  
8 investment trust (REIT), today announced that total mortgage loan  
9 production for January 2007 was \$4.2 billion, reflecting a 5.0 percent  
10 increase compared with \$4.0 billion in January 2006.

11 "Given the current environment and our recently tightened underwriting  
12 guidelines, we are pleased with the year-over-year loan production growth  
13 in January," said Brad A. Morrice, President and Chief Executive Officer.

14 "However, in response to the level of early-payment defaults and loan  
15 repurchases, as well as changing secondary market demand for certain  
16 products and product changes likely to be required by regulatory  
17 authorities, we have intensified our focus on tightening our underwriting  
18 guidelines and taking other steps to further improve fraud detection and  
19 risk management. While we expect the impact of these developments to be  
20 partially offset by our growth initiatives, including the roll-out of our Alt-  
21 A product through our Wholesale channel, we no longer expect our loan  
22 production to be flat in 2007 compared with the \$59.8 billion originated in  
23 2006; rather, our revised outlook for 2007 loan production is to be down  
24 approximately 20 percent compared with 2006. Importantly, it is difficult  
25 to predict the impact of the steps we continue to take in response to  
26 changing market conditions."  
27

28 39. On the same day, defendants revealed that the Company would have to restate its  
29 previously issued financial statements for the first three quarters of 2006. The press release  
30 stated:

31 New CenturyFinancial Corporation (NYSE: NEW), a real estate  
32 investment trust (REIT), today announced that it will restate its  
33 consolidated financial results for the quarters ended March 31, June 30  
34 and September 30, 2006 to correct errors the company discovered in its  
35 application of generally accepted accounting principles regarding the  
36 company's allowance for loan repurchase losses.

37 The company establishes an allowance for repurchase losses on loans sold,  
38 which is a reserve for expenses and losses that may be incurred by the  
39 company due to the potential repurchase of loans resulting from early-

1 payment defaults by the underlying borrowers or based on alleged  
2 violations of representations and warranties in connection with the sale of  
3 these loans. When the company repurchases loans, it adds the repurchased  
4 loans to its balance sheet as mortgage loans held for sale at their estimated  
5 fair values, and reduces the repurchase reserve by the amount the  
6 repurchase prices exceed the fair values. During the second and third  
7 quarters of 2006, the company's accounting policies incorrectly applied  
8 Statement of Financial Accounting Standards No. 140 - Accounting for  
9 Transfers and Servicing of Financial Assets and Extinguishment of  
10 Liabilities. Specifically, the company did not include the expected  
11 discount upon disposition of loans when estimating its allowance for loan  
12 repurchase losses.

13 In addition, the company's methodology for estimating the volume of  
14 repurchase claims to be included in the repurchase reserve calculation did  
15 not properly consider, in each of the first three quarters of 2006, the  
16 growing volume of repurchase claims outstanding that resulted from the  
17 increasing pace of repurchase requests that occurred in 2006, compounded  
18 by the increasing length of time between the whole loan sales and the  
19 receipt and processing of the repurchase request.  
20 Importantly, the foregoing adjustments are generally non-cash in nature.  
21 Moreover, the company had cash and liquidity in excess of \$350 million at  
22 December 31, 2006.

23 Although the company's full review of the legal, accounting and tax  
24 impact of the restatements is ongoing, at this time the company expects  
25 that, once restated, its net earnings for each of the first three quarters of  
26 2006 will be reduced.

27 In light of the pending restatements, the company's previously filed  
28 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.

1 Fourth Quarter 2006 Developments

2 The increasing industry trend of early-payment defaults and, consequently,  
3 loan repurchases intensified in the fourth quarter of 2006. The company  
4 continued to observe this increased trend in its early-payment default  
5 experience in the fourth quarter, and the volume of repurchased loans and  
6 repurchase claims remains high.

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

14 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

15 40. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil  
16 Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all persons who purchased or  
17 otherwise acquired New Century common stock between May 4, 2006 and February 7, 2007,  
18 inclusive (the "Class Period"), and who were damaged thereby. Excluded from the Class are  
19 defendants, members of the immediate family of each of the Individual Defendants, any  
20 subsidiary or affiliate of New Century and the directors, officers and employees of New Century  
21 or its subsidiaries or affiliates, or any entity in which any excluded person has a controlling  
22 interest, and the legal representatives, heirs, successors and assigns of any excluded person.

23 41. The members of the Class are so numerous that joinder of all members is  
24 impracticable. While the exact number of Class members is unknown to plaintiff at this time and  
25 can only be ascertained through appropriate discovery, plaintiff believes that there are thousands  
26 of members of the Class located throughout the United States. Throughout the Class Period,  
27 New Century common stock was actively traded on the NYSE (an open and efficient market)  
28 under the symbol "NEW". Record owners and other members of the Class may be identified  
from records maintained by New Century and/or its transfer agents and may be notified of the

1 pendency of this action by mail, using a form of notice similar to that customarily used in  
2 securities class actions.

3 42. Plaintiff's claims are typical of the claims of the other members of the Class as all  
4 members of the Class were similarly affected by defendants' wrongful conduct in violation of  
5 federal law that is complained of herein.  
6

7 43. Plaintiff will fairly and adequately protect the interests of the members of the  
8 Class and have retained counsel competent and experienced in class and securities litigation.  
9

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

- 13
- 14 a) whether the federal securities laws were violated by defendants' acts and  
15 omissions as alleged herein;  
16
  - 17 b) whether defendants participated in and pursued the common course of conduct  
18 complained of herein;  
19
  - 20 c) whether documents, press releases, and other statements disseminated to the  
21 investing public and the Company's shareholders during the Class Period  
22 misrepresented material facts about the business, finances, financial condition and  
23 prospects of New Century ;  
24
  - 25 d) whether statements made by defendants to the investing public during the Class  
26 Period misrepresented and/or omitted to disclose material facts about the  
27 business, finances, value, performance and prospects of New Century;  
28

- 1 e) whether the market price of New Century common stock during the Class Period  
2 was artificially inflated due to the material misrepresentations and failures to  
3 correct the material misrepresentations complained of herein; and  
4  
5 f) the extent to which the members of the Class have sustained damages and the  
6 proper measure of damages.  
7

8 45. A class action is superior to all other available methods for the fair and efficient  
9 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as  
10 the damages suffered by individual Class members may be relatively small, the expense and  
11 burden of individual litigation make it impossible for members of the Class to individually  
12 redress the wrongs done to them. There will be no difficulty in the management of this suit as a  
13 class action.  
14

#### 15 **UNDISCLOSED ADVERSE INFORMATION**

16  
17 46. The market for New Century securities was open, well-developed and efficient at  
18 all relevant times. As a result of these materially false and misleading statements and failures to  
19 disclose, New Century securities traded at artificially inflated prices during the Class Period.  
20 The artificial inflation continued until the time New Century admitted that it was experiencing  
21 declining sales and these admissions were communicated to, and/or digested by, the securities  
22 markets. Plaintiff and other members of the Class purchased or otherwise acquired New Century  
23 securities relying upon the integrity of the market price of New Century securities and market  
24 information relating to New Century, and have been damaged thereby.  
25

26  
27 47. During the Class Period, defendants materially misled the investing public,  
28 thereby inflating the price of New Century securities, by publicly issuing false and misleading

1 statements and omitting to disclose material facts necessary to make defendants' statements, as  
2 set forth herein, not false and misleading. Said statements and omissions were materially false  
3 and misleading in that they failed to disclose material adverse information and misrepresented  
4 the truth about the Company, its business and operations.  
5

6 48. At all relevant times, the material misrepresentations and omissions particularized  
7 in this Complaint directly or proximately caused or were a substantial contributing cause of the  
8 damages sustained by plaintiff and other members of the Class. As described herein, during the  
9 Class Period, defendants made or caused to be made a series of materially false or misleading  
10 statements about New Century's business, prospects and operations. These material  
11 misstatements and omissions had the cause and effect of creating in the market an unrealistically  
12 positive assessment of New Century and its business, prospects and operations, thus causing the  
13 Company's securities to be overvalued and artificially inflated at all relevant times. Defendants'  
14 materially false and misleading statements during the Class Period resulted in plaintiff and other  
15 members of the Class purchasing the Company's securities at artificially inflated prices, thus  
16 causing the damages complained of herein.  
17  
18

#### 19 **STATUTORY SAFE HARBOR**

20  
21 49. The federal statutory safe harbor provided for forward-looking statements under  
22 certain circumstances does not apply to any of the allegedly false statements pleaded in this  
23 Complaint. Further, none of the statements pleaded herein which were forward-looking  
24 statements were identified as "forward-looking statements" when made. Nor was it stated that  
25 actual results "could differ materially from those projected." Nor were the forward-looking  
26 statements pleaded accompanied by meaningful cautionary statements identifying important  
27 factors that could cause actual results to differ materially from the statements made therein.  
28

1 Defendants are liable for the forward-looking statements pleaded because, at the time each of  
2 those forward-looking statements was made, the speaker knew the forward-looking statement  
3 was false and the forward-looking statement was authorized and/or approved by an executive  
4 officer of New Century who knew that those statements were false when made.  
5

6 **APPLICABILITY OF PRESUMPTION OF RELIANCE:**  
7 **FRAUD ON THE MARKET DOCTRINE**

8 50. At all relevant times, the market for New Century stock was an efficient market  
9 for the following reasons, among others:  
10

- 11 a) New Century stock met the requirements for listing, and was listed and actively  
12 traded, on the New York Stock Exchange, a highly efficient market;  
13
- 14 b) As a regulated issuer, New Century filed periodic public reports with the SEC and  
15 the NASD;  
16
- 17 c) New Century stock was followed by securities analysts employed by major  
18 brokerage firms who wrote reports which were distributed to the sales force and  
19 certain customers of their respective brokerage firms. Each of these reports was  
20 publicly available and entered the public marketplace; and  
21
- 22 d) New Century regularly issued press releases which were carried by national  
23 newswires. Each of these releases was publicly available and entered the public  
24 marketplace.  
25

26 51. As a result, the market for New Century securities promptly digested current  
27 information with respect to New Century from all publicly-available sources and reflected such  
28

1 information in New Century's stock price. Under these circumstances, all purchasers of New  
2 Century securities during the Class Period suffered similar injury through their purchase of stock  
3 at artificially inflated prices and a presumption of reliance applies.  
4

5 **COUNT I**  
6 **For Violations Of Section 10(b) Of The 1934 Act**  
7 **And Rule 10b-5 Promulgated Thereunder Against All Defendants**

8 52. Plaintiff repeats and realleges the allegations set forth above as though fully set  
9 forth herein. This claim is asserted against all defendants.

10 53. During the Class Period, New Century and the Individual Defendants, and each of  
11 them, carried out a plan, scheme and course of conduct which was intended to and, throughout  
12 the Class Period, did: (i) deceive the investing public, including plaintiff and other Class  
13 members, as alleged herein; (ii) artificially inflate and maintain the market price of New Century  
14 common stock; and (iii) cause plaintiff and other members of the Class to purchase New Century  
15 stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of  
16 conduct, defendants New Century and the Individual Defendants, and each of them, took the  
17 actions set forth herein.  
18

19 54. These defendants: (a) employed devices, schemes, and artifices to defraud; (b)  
20 made untrue statements of material fact and/or omitted to state material facts necessary to make  
21 the statements not misleading; and (c) engaged in acts, practices and a course of business which  
22 operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to  
23 maintain artificially high market prices for New Century securities in violation of Section 10(b)  
24 of the Exchange Act and Rule 10b-5. These defendants are sued as primary participants in the  
25 wrongful and illegal conduct charged herein. The Individual Defendants are also sued herein as  
26 controlling persons of New Century, as alleged below.  
27  
28

1           55.     In addition to the duties of full disclosure imposed on defendants as a result of  
2 their making of affirmative statements and reports, or participation in the making of affirmative  
3 statements and reports to the investing public, they each had a duty to promptly disseminate  
4 truthful information that would be material to investors in compliance with the integrated  
5 disclosure provisions of the SEC as embodied in SEC Regulation S X (17 C.F.R. § 210.01 et  
6 seq.) and S-K (17 C.F.R. § 229.10 et seq.) and other SEC regulations, including accurate and  
7 truthful information with respect to the Company's operations, financial condition and  
8 performance so that the market prices of the Company's publicly traded securities would be  
9 based on truthful, complete and accurate information.  
10

11  
12           56.     New Century and the Individual Defendants, individually and in concert, directly  
13 and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the  
14 mails, engaged and participated in a continuous course of conduct to conceal adverse material  
15 information about the business, business practices, performance, operations and future prospects  
16 of New Century as specified herein. These defendants employed devices, schemes and artifices  
17 to defraud, while in possession of material adverse non-public information and engaged in acts,  
18 practices, and a course of conduct as alleged herein in an effort to assure investors of New  
19 Century's value and performance and substantial growth, which included the making of, or the  
20 participation in the making of, untrue statements of material facts and omitting to state material  
21 facts necessary in order to make the statements made about New Century and its business,  
22 operations and future prospects in the light of the circumstances under which they were made,  
23 not misleading, as set forth more particularly herein, and engaged in transactions, practices and a  
24 course of business which operated as a fraud and deceit upon the purchasers of New Century  
25 securities during the Class Period.  
26  
27  
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1           57. Each of the Individual Defendants' primary liability, and controlling person  
2 liability, arises from the following facts: (i) each of the Individual Defendants was a high-level  
3 executive and/or director at the Company during the Class Period; (ii) each of the Individual  
4 Defendants, by virtue of his responsibilities and activities as a senior executive officer and/or  
5 director of the Company, was privy to and participated in the creation, development and  
6 reporting of the Company's internal budgets, plans, projections and/or reports; (iii) the Individual  
7 Defendants enjoyed significant personal contact and familiarity with each other and were advised  
8 of and had access to other members of the Company's management team, internal reports, and  
9 other data and information about the Company's financial condition and performance at all  
10 relevant times; and (iv) the Individual Defendants were aware of the Company's dissemination of  
11 information to the investing public which they knew or recklessly disregarded was materially  
12 false and misleading.  
13  
14

15           58. These defendants had actual knowledge of the misrepresentations and omissions  
16 of material facts set forth herein, or acted with reckless disregard for the truth in that they failed  
17 to ascertain and to disclose such facts, even though such facts were readily available to them.  
18 Such defendants' material misrepresentations and/or omissions were done knowingly or  
19 recklessly and for the purpose and effect of concealing New Century's operating condition,  
20 business practices and future business prospects from the investing public and supporting the  
21 artificially inflated price of its stock. As demonstrated by their overstatements and  
22 misstatements of the Company's financial condition and performance throughout the Class  
23 Period, the Individual Defendants, if they did not have actual knowledge of the  
24 misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by  
25  
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28

1 deliberately refraining from taking those steps necessary to discover whether those statements  
2 were false or misleading.

3           59. As a result of the dissemination of the materially false and misleading information  
4 and failure to disclose material facts, as set forth above, the market price of New Century  
5 securities were artificially inflated during the Class Period. In ignorance of the fact that the  
6 market price of New Century shares were artificially inflated, and relying directly or indirectly  
7 on the false and misleading statements made by defendants, or upon the integrity of the market in  
8 which the securities trade, and/or on the absence of material adverse information that was known  
9 to or recklessly disregarded by defendants but not disclosed in public statements by defendants  
10 during the Class Period, plaintiff and the other members of the Class acquired New Century  
11 securities during the Class Period at artificially inflated high prices and were damaged thereby.

12           60. At the time of said misrepresentations and omissions, plaintiff and other members  
13 of the Class were ignorant of their falsity, and believed them to be true. Had plaintiff and the  
14 other members of the Class and the marketplace known of the true performance, business  
15 practices, future prospects and intrinsic value of New Century, which were not disclosed by  
16 defendants, plaintiff and other members of the Class would not have purchased or otherwise  
17 acquired their New Century securities during the Class Period, or, if they had acquired such  
18 securities during the Class Period, they would not have done so at the artificially inflated prices  
19 which they paid.

20           61. By virtue of the foregoing, New Century and the Individual Defendants each  
21 violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.  
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