

In re New Century Securities Litigation

COURT: United States District Court, Central District of California
CASE NUMBER: 07-cv-00931
JUDGE: Hon. Dean D. Pregerson
CLASS PERIOD: 02/03/2005 - 03/13/2007
CASE CONTACTS: Salvatore J. Graziano, Hannah Ross, Lauren McMillen Ormsbee

Securities fraud class action filed on behalf of persons and entities that purchased or acquired the securities of New Century Financial Corp. (“New Century” or the “Company”) between May 5, 2005 and March 13, 2007 (the “Class Period”). On June 26, 2007, the Honorable Dean D. Pregerson appointed BLB&G client the New York State Teachers’ Retirement System as Lead Plaintiff and BLB&G as Lead Counsel for the Class.

Plaintiffs allege violations of the federal securities laws by New Century senior officers and directors, including Brad A. Morrice, Patti M. Dodge, Edward F. Gotschall and Robert K. Cole (the “Individual Defendants”), New Century’s auditor, KPMG LLP (“KPMG”), as well as certain underwriters (“Underwriter Defendants”) of New Century preferred shares during the Class Period. The case against New Century is stayed as a result of protections afforded by the federal bankruptcy laws.

This action arises from the sudden collapse of New Century, a now bankrupt mortgage finance company focused on the subprime market. Until recently, the Company’s common stock traded on the New York Stock Exchange (“NYSE”) under the symbol “NEW.”

Throughout the Class Period, defendants artificially inflated the price of the Company’s securities through false and misleading statements concerning the significant risks associated with its mortgage lending business. In particular, the Company and the Individual Defendants failed to disclose that New Century maintained grossly inadequate reserves against losses associated with loan defaults and delinquencies. These understated reserves, which detract directly from earnings, caused the Company to significantly overstate its publicly reported earnings. New Century and the Individual Defendants also falsely represented that internal controls relating to loan origination, loan underwriting and financial reporting existed, or were effective.

The investing public began to learn the true state of affairs on February 7, 2007, when New Century announced that it would restate its financials for the first three quarters of 2006 and would therefore delay the filing of its annual report for the fiscal year ended December 31, 2006. According to the Company, its “restated net income [would be] significantly lower than previously reported” for all three quarters as a result of numerous violations of generally accepted accounting principles (“GAAP”) related to the Company’s financial reserves for loan delinquencies. In essence, New Century admitted to overstating its financial performance by maintaining inadequate reserves to cover the bad loans for which it was liable. Subsequently, the Company admitted that its financial statements for prior periods were similarly misstated.

The February 7, 2007 announcement stunned the market, wiping out over \$600 million in market value in a one-day 36% drop from \$30.16 to \$19.24 per share, and commenced a steady decline in the price of New Century stock to nearly worthless levels. Since the first announcement disclosing the truth, over \$1.6 billion in market capitalization has been eliminated. Following these revelations, the Securities and Exchange Commission (“SEC”), U.S. Attorney’s Office, and the Market Trading Analysis Department of the NYSE all commenced investigations.

On February 29, 2008, the examiner in the New Century bankruptcy proceeding issued a final report regarding the events which led to the Company's downfall. The report, which was released publicly on March 26, 2008, consisted of over 550 pages and was based on voluminous document productions and 110 interviews of 85 fact witnesses. The report revealed shocking conduct, including that New Century had "a brazen obsession with increasing loan originations, without due regard to the risks associated with that business strategy" and that the Company extended loans "in an aggressive manner that elevated the risks to dangerous and ultimately fatal levels." The examiner characterized New Century's business practices as "a ticking time bomb that detonated in 2007."

On April 30, 2008, Lead Plaintiff filed the Second Amended Consolidated Class Action Complaint ("SAC"). On December 3, 2008, the Court sustained all claims in the SAC when it substantially denied all of defendants' motions to dismiss and KPMG's motion to strike certain portions of the SAC. Discovery commenced soon thereafter. On January 13, 2010, KPMG filed a motion for summary judgment, which Lead Plaintiff opposed on March 15, 2010.

Following extensive negotiations, the parties reached agreements to settle the litigation for a total of approximately \$125 million for the benefit of the Class, subject to Court approval. On July 30, 2010, Lead Plaintiff filed its motion for preliminary approval of the settlements. The Court granted preliminary approval of the settlement on August 10, 2010. On November 8, 2010, the Court granted final approval of the settlement.