

NEW CENTURY FINANCIAL CORP

Form PRE 14A

March 22, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**New Century Financial Corporation**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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- Fee paid previously with preliminary materials:
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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4) Date Filed:

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18400 Von Karman, Suite 1000  
Irvine, California 92612

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

Dear New Century Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of New Century Financial Corporation on May 10, 2006 at our headquarters located at 18400 Von Karman, Suite 1000, Irvine, California 92612. The Annual Meeting will begin at 9:00 a.m. Pacific Daylight Time.

If you were a stockholder of record at the close of business on March 15, 2006, you will be asked to consider and vote on the following at the Annual Meeting:

1. The re-election of Robert K. Cole, David Einhorn, Donald E. Lange and William J. Popejoy as Class III directors for three-year terms ending in 2009.
2. The approval of an amendment to the New Century Financial Corporation 2004 Performance Incentive Plan that would increase the number of shares issuable under the plan by 1,250,000 shares and amend certain other share limits under the plan, all as set forth in the New Century Financial Corporation 2004 Performance Incentive Plan attached as Annex A to the proxy statement accompanying this notice of annual meeting of stockholders.
3. The approval of an amendment to our charter that would increase the number of authorized shares of our preferred stock from 10,000,000 shares to 25,000,000 shares, as set forth in the Preferred Stock Charter Amendment attached as Annex B to the proxy statement accompanying this notice of annual meeting of stockholders.
4. The approval of an amendment to our charter that would make certain changes to the restrictions on transfer and ownership of capital stock contained in our charter, as set forth in the Ownership Restriction Charter Amendment attached as Annex C to the proxy statement accompanying this notice of annual meeting of stockholders.
5. The transaction of such other business as may be properly brought before the Annual Meeting and any adjournment or postponement.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. You need not be present at the Annual Meeting in order to vote. You may vote electronically through the Internet or by telephone. The instructions on your proxy card describe how to use these convenient services. If you prefer, you can vote by mail by signing and dating the enclosed proxy card and returning it in the enclosed postage-paid envelope. If you later decide to attend the Annual Meeting, you may withdraw your proxy and vote personally on each matter. Accordingly, we recommend that you vote your shares through the Internet, by telephone or by mail without delay.

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We are mailing the proxy statement and accompanying proxy card to you on or about April 7, 2006, as part of our board of directors solicitation of proxies to be voted at the Annual Meeting, and at any adjournments or postponements of that meeting. We are also enclosing a copy of our 2005 Annual Report to Stockholders, which includes our financial statements for 2005.

By Order of the Board of Directors,

/s/ Jennifer R. Jewett

Jennifer R. Jewett

Secretary

*This notice of Annual Meeting of Stockholders and proxy statement and form of proxy are being distributed on or about April 7, 2006.*

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**EXPLANATORY NOTE**

On April 5, 2004, the board of directors of New Century TRS Holdings, Inc., or New Century TRS, formerly known as New Century Financial Corporation, approved a plan to change its capital structure to enable it to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes. On April 19, 2004, the board of directors of New Century TRS approved certain legal and financial matters related to the proposed REIT conversion.

On April 12, 2004, New Century TRS formed New Century Financial Corporation, or New Century, a Maryland corporation formerly known as New Century REIT, Inc. On September 15, 2004, the stockholders of New Century TRS approved and adopted the merger agreement which implemented the restructuring of New Century TRS in order for it to qualify as a REIT.

Pursuant to the merger agreement, (i) a wholly-owned subsidiary of New Century merged with and into New Century TRS, with New Century TRS as the surviving corporation, (ii) each outstanding share of common stock of New Century TRS was converted into the right to receive one share of New Century common stock, (iii) New Century TRS changed its name to New Century TRS Holdings, Inc. and became a wholly-owned subsidiary of New Century and (iv) New Century changed its name to New Century Financial Corporation and became the publicly-traded New York Stock Exchange, or NYSE, -listed parent company that succeeded to and continued to operate substantially all of the existing businesses of New Century TRS. The merger was consummated and became effective on October 1, 2004.

The board of directors, committees of the board of directors and management of New Century immediately after the consummation of the merger had the same membership as the board of directors, committees of the board of directors and management of New Century TRS immediately prior to the consummation of the merger.

In this proxy statement, unless the context suggests otherwise, for time periods before October 1, 2004, the terms the company, our company, we, our and us refer to New Century TRS, and for time periods on and after October 1, 2004, the terms the company, our company, we, our and us refer to New Century.

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**QUESTIONS AND ANSWERS  
ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING**

**Q: Why am I receiving these materials?**

A: *We are providing these proxy materials to you in connection with the Annual Meeting, which will take place at 9:00 a.m. Pacific Daylight Time on May 10, 2006. As a holder of shares of our common stock at the close of business on the record date, March 15, 2006, you are invited to attend the Annual Meeting and are entitled to and requested to vote on the items of business described in this proxy statement.*

**Q: What information is contained in this proxy statement?**

A: *The information in this proxy statement relates to the Annual Meeting and to proposals by our board of directors to be voted on by the holders of our common stock at the Annual Meeting. The proxy materials also contain certain information concerning our board of directors and the committees of our board of directors, the compensation paid by us to our directors and the five most highly paid executive officers for 2005, and certain other information that we are required to include in this proxy statement.*

**Q: What am I voting on?**

A: *At the Annual Meeting, you will be asked to consider and vote on the following:*

*The re-election of Robert K. Cole, David Einhorn, Donald E. Lange and William J. Popejoy as Class III directors for a three-year term ending in 2009;*

*The approval of an amendment to our 2004 Performance Incentive Plan that would increase the number of shares issuable under the plan by 1,250,000 shares and amend certain other share limits under the plan;*

*The approval of an amendment to our charter that would increase the number of authorized shares of our preferred stock from 10,000,000 shares to 25,000,000 shares;*

*The approval of an amendment to our charter that would make certain changes to the restrictions on transfer and ownership of capital stock contained in our charter; and*

*The transaction of such other business as may be properly brought before the Annual Meeting and any adjournment or postponement.*

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**Q: How does the board of directors recommend I vote on the proposals?**

A: *Our board of directors unanimously recommends that you vote:*

*FOR the re-election of Robert K. Cole, David Einhorn, Donald E. Lange and William J. Popejoy as Class III directors;*

*FOR the approval of the amendment to our 2004 Performance Incentive Plan;*

*FOR the approval of the amendment to our charter to increase the number of authorized shares of our preferred stock from 10,000,000 shares to 25,000,000 shares; and*

*FOR the approval of the amendment to our charter to make certain changes to the restrictions on transfer and ownership of capital stock contained in our charter.*

**Q: Who is entitled to vote at the Annual Meeting?**

A: *Holders of shares of our common stock as of the close of business on the record date, March 15, 2006, are entitled to vote. Each share of our common stock entitles the holder of such share to one vote on each matter properly brought before the Annual Meeting.*

**Q: What shares can I vote?**

A: *Each share of our common stock issued and outstanding as of the close of business on March 15, 2006 is entitled to be voted at the Annual Meeting. You may vote all shares of our common stock owned by you as of that date, including (i) shares held directly in your name as the owner of record and (ii) shares held for you as the beneficial owner through a broker or other nominee.*

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

A: *If your shares are registered directly in your name with our transfer agent, Mellon Investors Services LLC, you are considered, with respect to those shares, the stockholder of record. The notice of annual meeting of stockholders, our proxy statement and accompanying proxy card, and our 2005 Annual Report on Form 10-K have been sent directly to you by us.*

*If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name. The notice of annual meeting of stockholders, this proxy statement and accompanying proxy card, and our 2005 Annual Report on Form 10-K should have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or on the Internet.*

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**Q: How do I vote?**

A: *Whether you hold shares directly as the owner of record or beneficially through a broker or other nominee, you may direct how your shares are voted.*

*If you hold shares of our common stock as a registered stockholder, you can vote in person at the Annual Meeting or you can vote your shares in any of the following ways:*

*through the Internet, by accessing the World Wide Web site at <http://www.proxyvoting.com/new>. Stockholders voting via the Internet need not return the enclosed proxy card;*

*by mail, by marking, signing and dating each proxy card you receive and returning it in the prepaid envelope prior to the Annual Meeting. If you vote by mail and return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted FOR each of the four director nominees and FOR each of the other three proposals; or*

*by telephone, by dialing the toll-free telephone number 1-866-540-5760, within the United States or Canada, and following the instructions. Stockholders voting by telephone need not return the enclosed proxy card.*

*If your shares are held beneficially through a broker or other nominee, such as a bank, you will receive voting instructions from your broker, nominee or bank describing the method for voting your shares. Shares held beneficially may be voted in person at the Annual Meeting only if you obtain a legal proxy from the broker, nominee or bank that holds your shares giving you the right to vote the shares.*

**Q: Can I change my vote after I have submitted my proxy through the Internet, by mail or by telephone?**

A: *Yes. You may change your vote at any time before your proxy is voted at the Annual Meeting. You can do so by giving written notice to our corporate secretary, by properly submitting another proxy through the Internet, by mail or by telephone with a later date, or by attending the Annual Meeting and voting in person.*

**Q: How will voting on any other business be conducted?**

A: *Other than the four proposals described in this proxy statement, we know of no other business to be considered at the Annual Meeting. However, if any other matters are properly presented at the Annual Meeting, your duly submitted proxy through the Internet, by mail or by telephone authorizes Robert K. Cole, our Chairman and Chief Executive Officer, and Brad A. Morrice, our Vice Chairman, President and Chief Operating Officer, to vote on those matters according to their best judgment.*

**Q: Who will count the votes?**

A: *Representatives of our transfer agent, Mellon Investor Services LLC, will tabulate the votes and act as the Inspector of Elections.*

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**Q: What does it mean if I receive more than one proxy card?**

A: *If you receive more than one proxy card, it probably means your shares are registered differently and are in more than one account. Please submit a proxy by mail, telephone or Internet for each of your registered accounts to ensure that all your shares are voted.*

**Q: How many shares can vote?**

A: *As of the record date, there were 55,964,299 shares of our common stock entitled to vote.*

**Q: How many votes are necessary to take action at the meeting?**

A: *To transact business at the Annual Meeting, a quorum of the voting power entitled to vote must be present, either in person or represented by proxy. Under our bylaws, a quorum requires that a majority of all of the votes entitled to be cast at the meeting as of the record date be present in person or represented by proxy at the Annual Meeting. Because there were 55,964,299 shares entitled to vote as of the record date, we will need at least 27,982,150 shares present, in person or represented by proxy, at the Annual Meeting to establish a quorum. Both abstentions and broker non-votes are considered present for purposes of determining the presence of a quorum. Provided that a quorum exists, the four nominees for director who receive the most votes will be elected. The proposal to amend our 2004 Performance Incentive Plan requires approval by the affirmative vote of a majority of the votes cast on the proposal by our stockholders, provided that the total vote cast on the proposal represents over 50% in interest of all of our shares entitled to vote on such proposal. The proposals to amend our charter each require approval by the affirmative vote of a majority of all votes entitled to be cast by our stockholders on the proposals. Finally, cumulative voting rights are not authorized and dissenters' rights are not applicable to the matters before the Annual Meeting.*

**Q: What happens if I abstain?**

A: *If you submit a properly executed proxy through the Internet, by mail or by telephone and indicate your intention to ABSTAIN on one or more proposals, your shares will still be considered present for purposes of determining whether a quorum is present.*

*An abstention will have no effect on the vote for election of directors.*

*An abstention will have the same effect as a vote cast against the proposed amendment to our 2004 Performance Incentive Plan unless holders of more than 50% in interest of all of our shares entitled to vote on the proposal cast votes, in which event an abstention will have no effect on the result of the vote.*

*An abstention will have the same effect as a vote cast against the proposals to amend our charter.*

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**Q: How will broker non-votes be treated?**

A: *In some cases, brokers and nominees will return proxy cards indicating that they did not receive specific voting instructions from the beneficial owner and that they lack the discretionary power to vote the shares on behalf of the beneficial owner. These are called broker non-votes. Like abstentions, broker non-votes are considered present for purposes of establishing a quorum.*

*For purposes of determining the outcome of the vote on the proposal to amend our 2004 Performance Incentive Plan, broker non-votes will have the same effect as votes against the proposal unless holders of more than 50% in interest of all of our shares entitled to vote on the proposal cast votes, in which event broker non-votes will have no effect on the result of the vote.*

*For purposes of determining the outcome of the vote on the proposals to amend our charter, broker non-votes will have the same effect as votes against the proposals.*

**Q: What if I want to attend the Annual Meeting in person?**

A: *All stockholders as of the record date can attend the Annual Meeting, although seating is limited. If your shares are issued in your name and not held through a brokerage account and you wish to attend the Annual Meeting, please check the box on your proxy card and return it in the enclosed prepaid envelope prior to the Annual Meeting. If your shares are held through a broker and you would like to attend, please (1) write to Carrie Marrelli, our vice president of investor relations, at 18400 Von Karman, Suite 1000, Irvine, California 92612, or send her an e-mail at cmarrell@ncen.com, and (2) bring a copy of your brokerage account statement or an omnibus proxy (which you can get from your broker) to the Annual Meeting.*

**Q: What is the deadline to propose actions for consideration at the 2007 annual meeting of stockholders or to nominate individuals to serve as directors?**

A: *You may submit proposals, including director nominations, for consideration at future stockholder meetings. Stockholder proposals for inclusion in our proxy statement. If you intend to have a proposal considered for inclusion in our proxy materials for presentation at the 2007 annual meeting of stockholders, you must submit your proposal in writing to our corporate secretary at New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. We must receive your proposal no later than December 1, 2006. If the date of the 2007 annual meeting of stockholders is changed by more than 30 days from the anniversary date of the 2006 annual meeting of stockholders, the deadline for receiving your proposal is a reasonable time before we begin to print and mail our proxy materials. For more information on how to include a proposal in the proxy statement for our 2007 annual meeting of stockholders, please see Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act.*

*Other stockholder proposals. To present any other proposal at the 2007 annual meeting of stockholders, you must provide timely notice to our corporate secretary in accordance with our bylaws. In general, our bylaws require that the notice be received by our corporate secretary at our principal executive offices: (i) not earlier than the close of business on January 10, 2007 and (ii) not later than*

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*the close of business on February 9, 2007. If the date of the 2007 annual meeting of stockholders is moved more than 30 days before or 60 days after the anniversary of the 2006 annual meeting of stockholders, then notice of a proposal that is not intended to be included in our proxy statement under Rule 14a-8 must be received no earlier than the close of business 120 days prior to the meeting and no later than the close of business on the later of the following two dates: (i) 90 days prior to the meeting and (ii) 10 days after our public announcement of the meeting date.*

*Nomination of director candidates. The policy of our governance and nominating committee is to consider candidates properly recommended by our stockholders. In evaluating any such candidates, our governance and nominating committee will consider the criteria set forth under Corporate Governance Director Nominations Qualification of Candidates and Board Independence on page 31 of this proxy statement. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to our corporate secretary, New Century Financial Corporation, 18400 Von Karman, Suite 1000, Irvine, California 92612. In addition, our bylaws permit our stockholders to nominate directors for election at our stockholder meetings. To nominate a director, you must give timely notice to our corporate secretary in accordance with our bylaws, which require that the notice be received by our corporate secretary within the time periods described above under Other stockholder proposals. In the event that the number of directors to be elected to our board of directors at the 2007 annual meeting of stockholders is increased and we do not publicly announce the increased size of our board of directors at least 100 days prior to the first anniversary of the 2006 annual meeting of stockholders, the notice shall be considered timely if (i) it is delivered to the corporate secretary at our principal executive offices no later than the close of business 10 days following the date on which we first publicly announce the increase and (ii) the notice relates only to nominees to fill any new position on our board of directors that was created by the increase in the number of directors.*

*Copy of bylaw provisions. For a free copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates, please visit the Investor Relations section of our World Wide Web site at <http://investorrelations.ncen.com/>, or you may write to Carrie Marrelli, our vice president of investor relations, at 18400 Von Karman, Suite 1000, Irvine, California 92612, or send her an e-mail at [cmarrell@ncen.com](mailto:cmarrell@ncen.com).*

**Q: How are proxies being solicited?**

*A: Our board of directors is soliciting your proxy for use at the Annual Meeting and any adjournment or postponement thereof by mailing this proxy statement and proxy card to our stockholders of record as of March 15, 2006. We will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. We have retained the services of Georgeson Shareholder Services to aid in the solicitation of proxies. We expect that the fee of the proxy solicitation company will not exceed \$15,000. In addition, some of our directors, officers and regular employees may, without extra pay, make additional solicitations by telephone or in person. We will also reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for expenses incurred in forwarding proxy materials to beneficial owners of shares of our common stock.*

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**Q: Whom should I call with questions?**

*A: If you have any questions about the proposals for the Annual Meeting, if you would like additional copies of this proxy statement, or our 2005 Annual Report on Form 10-K that is being mailed to you with this proxy statement, or if you would like a new proxy card, or if you have questions or need assistance with the completion of your proxy card, please contact us at:*

*New Century Financial Corporation*

*18400 Von Karman, Suite 1000*

*Irvine, California, 92612*

*Attention: Vice President of Investor Relations*

*(949) 224-5745*

*email: [cmarrell@ncen.com](mailto:cmarrell@ncen.com)*

*Free copies of this proxy statement and our 2005 Annual Report on Form 10-K are also available on the Investor Relations section of our World Wide Web site at <http://investorrelations.ncen.com/>.*

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**PROPOSALS YOU MAY VOTE ON**

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

Our board of directors currently has 10 members and, effective March 31, 2006, will have 11 members. Our board of directors is divided into three classes: Class I, Class II and Class III. Currently, there are three Class I directors, four Class II directors and three Class III directors. Effective March 31, 2006, there will be four Class III directors. The term of office of the current Class III directors expires after the Annual Meeting. The term of the current Class I directors expires after the 2007 annual meeting of stockholders and the term of the current Class II directors expires after the 2008 annual meeting of stockholders. The term of the Class III directors to be elected at the Annual Meeting will expire after the 2009 annual meeting of stockholders.

The nominees for election as Class III directors at the Annual Meeting are Robert K. Cole, David Einhorn, Donald E. Lange and William J. Popejoy. Messrs. Cole, Lange and Popejoy have previously served as directors of New Century. Effective March 31, 2006, Mr. Einhorn will serve as a director of New Century. Mr. Einhorn has been nominated pursuant to an agreement dated March 14, 2006, between our company and certain of our stockholders led by Greenlight Capital, Inc. ( Greenlight ), consisting of Greenlight, Greenlight Capital L.L.C., Greenlight Capital, L.P., DME Advisors, L.P., DME Advisors GP, L.L.C., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., and Mr. Einhorn (collectively, the Greenlight Parties ). The Greenlight Parties are directly or indirectly controlled by Mr. Einhorn. For additional information regarding the agreement, see the material under the heading Certain Relationships and Related Transactions below.

Each nominee has consented to be named in this proxy statement and to serve as a director if elected.

**NOMINEES FOR CLASS III DIRECTOR**

**ROBERT K. COLE**

Age 59

**Chairman and Chief Executive Officer**

Director since 1995

Mr. Cole, one of our co-founders, has been Chairman of our board of directors and Chief Executive Officer since December 1995 and one of our directors since November 1995. Mr. Cole also served as a director of New Century Mortgage Corporation, one of our wholly-owned operating subsidiaries, or New Century Mortgage, from November 1995 to April 2005. From February 1994 to March 1995, he was the President and Chief Operating Officer-Finance of Plaza Home Mortgage Corporation, a publicly-traded savings and loan holding company specializing in the origination and servicing of residential mortgage loans. In addition, Mr. Cole served as a director of Option One Mortgage Corporation, a subsidiary of Plaza Home Mortgage specializing in the origination, sale and servicing of non-prime mortgage loans. Previously, Mr. Cole was the President of operating subsidiaries of NBD Bancorp and Public Storage, Inc. Mr. Cole received a Masters of Business Administration degree from Wayne State University.

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Age 37

Director since 2006

Mr. Einhorn has served on our board of directors since March 2006. Since January 1996, Mr. Einhorn has served as President and a director of Greenlight Capital, Inc., a company which he co-founded and is the investment advisor to Greenlight Capital Offshore, Ltd. and provides certain management services to Greenlight Capital, L.P. and Greenlight Capital Qualified, L.P. The primary business of Greenlight Capital Offshore, Ltd., Greenlight Capital, L.P. and Greenlight Capital Qualified, L.P. is investing in and holding securities of various entities. Prior to founding Greenlight Capital, Inc., Mr. Einhorn worked as an investment analyst at Siegler, Collery & Co., an investment firm involved in both public and private investments. Prior to that experience, Mr. Einhorn was an analyst in the Investment Banking Group of Donaldson, Lufkin & Jenrette. Mr. Einhorn received his Bachelor of Arts in Government from Cornell University.

**DONALD E. LANGE****Director**

Age 60

Director since 2002

Mr. Lange has served on our board of directors since November 2002. Mr. Lange has served as the President and Chief Executive Officer of Pacific Financial Services, a mortgage banking and specialty finance company, since 1999. From March 2001 to February 2002, Mr. Lange served as President and Chief Executive Officer of OptiFI, a private company specializing in prepayment analytics. Previously, he served as the President and Chief Executive Officer of several specialty finance subsidiaries of Weyerhaeuser Company, including Weyerhaeuser Financial Services, Weyerhaeuser Mortgage Company and Weyerhaeuser Venture Company. Mr. Lange served as a director of Mortgage Electronic Registration System (MERS) from 1995 until 2002. In addition, he was a director of Pacific Gulf Properties from 1998 until 2001 and a director of Pedestal from 1999 until 2001. Mr. Lange was the President of the Mortgage Bankers Association of America in 1999. Mr. Lange received a bachelor's degree in Business and Agriculture from the University of Wisconsin.

**WILLIAM J. POPEJOY****Director**

Age 67

Director since 2002

Mr. Popejoy has served on our board of directors since November 2002. From 1999 to 2005, Mr. Popejoy was the Managing Member of Pacific Capital Investors, an investment partnership. From April 1997 to November 1998, Mr. Popejoy was the Chief Executive Officer and a director of the California State Lottery. Previously, he was the Chief Executive Officer of the County of Orange, Chairman and Chief Executive Officer of Financial Corporation of America and its subsidiary, American Savings, President and Chief Executive Officer of Financial Federation, Inc., the President of Far West Savings, the President of First Charter Financial and its subsidiary, American Savings & Loan Association, and the President and Chief Executive Officer of The Federal Home Loan Mortgage Corporation (Freddie Mac). In addition, Mr. Popejoy has served as a member of the board of trustees of PIMCO Funds and PIMCO Commercial Mortgage Securities, Inc. since 1996 and served as a director of Commonwealth Energy from 2001 until 2002. Mr. Popejoy received his undergraduate and masters degrees from Sacramento State University. Detailed information regarding each of the Class I and Class II directors is provided beginning on page 23.

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At the Annual Meeting, you will be asked to re-elect four Class III directors for terms of three years and until their successors are elected and qualify. Under our bylaws, a plurality of the votes cast by our stockholders is sufficient to elect a director. Therefore, the four candidates receiving the highest number of votes will be elected. If you choose to vote by mail and you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR each of the four director nominees. If any nominee becomes unavailable for any reason, the persons named in the proxy card will vote FOR the candidate that our board of directors selects to replace the nominee.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE FOUR NOMINEES ON THE ENCLOSED PROXY CARD.**

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**APPROVAL OF AN AMENDMENT TO THE  
NEW CENTURY FINANCIAL CORPORATION  
2004 PERFORMANCE INCENTIVE PLAN**

At the Annual Meeting, stockholders will be asked to approve the following amendment to the New Century Financial Corporation 2004 Performance Incentive Plan (the 2004 Plan ), which was adopted by our board of directors, subject to stockholder approval, on March 1, 2006:

**Increase in Aggregate Share Limit.** The proposed amendment would increase the number of shares of our common stock available for award grants under the 2004 Plan by an additional 1,250,000 shares.

**Increase in Sub-Limit on Full-Value Awards.** The proposed amendment would increase the limit on the number of shares of our common stock that may be subject to grants of full-value awards under the 2004 Plan from 250,000 shares to 1,400,000 shares. Full-value awards include all awards with an exercise price that is not less than the fair market value of our common stock on the date of grant. Full-value awards, however, do not include the following: (i) shares delivered in respect of compensation earned but deferred; and (ii) shares delivered pursuant to option or stock appreciation right grants the per share exercise or base price, as applicable, of which is at least equal to the fair market value of a share of our common stock at the time of grant of the award.

As of March 1, 2006, a total of 1,097,909 shares of our common stock were then subject to outstanding awards granted under the 2004 Plan, and an additional 824,939 shares of our common stock were then available for new award grants under the 2004 Plan. Our board of directors approved the additional share authority requested under the 2004 Plan based, in part, on a belief that the number of shares of our common stock currently available under the 2004 Plan does not give us sufficient authority and flexibility to adequately provide for future incentives. We will continue to have the authority to grant awards under the 2004 Plan, within the existing 2004 Plan share limits, even if stockholders do not approve this 2004 Plan proposal.

We have adopted a policy providing that, if stockholders approve the proposed amendment to the 2004 Plan, equity-based awards granted by us during 2006, 2007 and 2008 will be structured such that our average annual burn rate with respect to such grants will not exceed 2.31%. For this purpose, the burn rate for any one particular year means the total number of shares of our common stock issuable upon exercise or payment, as the case may be, of the equity-based awards granted by us in that year divided by our total number of shares of common stock issued and outstanding as of the end of that particular year. In calculating the burn rate, shares issuable upon exercise or payment, as the case may be, of awards other than options and stock appreciation rights shall be counted as 1.5 shares for each share actually issuable in respect of the award.

The following information may be relevant to your analysis of this proposal (information as of March 1, 2006):

Number of Shares Available for Issuance under the 2004 Plan	824,939
Number of Shares Available for Issuance under the 1995 Stock Option Plan	0
Total Number of Outstanding Options under the 2004 Plan	863,574
Total Number of Outstanding Options under the 1995 Stock Option Plan	2,864,171
Total Number of Shares of Outstanding Restricted Stock and Other Equity-Based Awards under the 2004 Plan	234,335

Total Number of Shares of Outstanding Restricted Stock and Other Equity-Based Awards under the 1995 Stock Option Plan	0
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Weighted Average Exercise Price of Outstanding Options under the 2004 Plan and 1995 Stock Option Plan	\$27.62
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Weighted Average Term Remaining for Outstanding Options under the 2004 Plan and 1995 Stock Option Plan	7.08 years
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**Summary Description of the 2004 Plan**

The principal terms of the 2004 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2004 Plan, which appears as Annex A to this proxy statement.

**Purpose.** The purpose of the 2004 Plan is to promote our success and the interests of our stockholders by providing an additional means for us to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and our improved financial performance. Equity-based awards are also intended to further align the interests of award recipients and our stockholders.

**Administration.** Our board of directors or one or more committees appointed by our board of directors administers the 2004 Plan. Our board of directors has delegated general administrative authority for the 2004 Plan to our compensation committee. A committee may delegate some or all of its authority with respect to the 2004 Plan to another committee of directors. The compensation committee has delegated certain limited authority to grant awards to employees under the 2004 Plan to our stock option committee. (The appropriate acting body, be it the board of directors or a committee within its delegated authority, is referred to in this proposal as the Administrator ). The Administrator has broad authority under the 2004 Plan with respect to award grants including, without limitation, the authority to:

select participants and determine the type(s) of award(s) that they are to receive;

determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award;

cancel, modify, or waive our rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consents;

accelerate or extend the vesting or exercisability or extend the term of any or all outstanding awards;

subject to the other provisions of the 2004 Plan, make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award; and

allow the purchase price of an award or shares of our common stock to be paid in the form of cash, check, or electronic funds transfer, by the delivery of already-owned shares of our common stock or by a reduction of the number of shares deliverable pursuant to the award, by services rendered by the recipient of the award, by notice in third party payment or cashless exercise on such terms as the Administrator may authorize, or any other form permitted by law.

**No Repricing.** In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by our stockholders) will any adjustment be made to a stock option or stock appreciation right award under the 2004 Plan (by amendment, cancellation and regrant, exchange or other means) that would constitute a repricing of the per share exercise or base price of the award.

**Eligibility.** Persons eligible to receive awards under the 2004 Plan include our officers or employees or any officers or employees of any of our subsidiaries or other affiliates in which we own a significant equity interest, our directors, and certain consultants and advisors to us or any of our subsidiaries or other affiliates in which we own a significant equity interest. Currently, approximately 7,200 officers and employees of New Century and our subsidiaries (including all of our named executive officers), and each of our seven non-employee directors, are considered eligible under the 2004 Plan at the present time.

**Authorized Shares; Limits on Awards.** As of March 1, 2006, the maximum number of shares of our common stock that may be issued or transferred pursuant to awards under the 2004 Plan is 1,922,848. If stockholders approve this proposal, the number of shares available for award grant purposes under the 2004 Plan will be increased by an additional 1,250,000 shares. The limit will also automatically increase by the number of any shares subject to stock



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which expire, or for any reason are cancelled or terminated, after March 1, 2006 without being exercised. As of March 1, 2006, 2,864,171 shares were subject to stock options then outstanding under the 1995 Stock Option Plan. The following other limits are also contained in the 2004 Plan:

the maximum number of shares of our common stock that may be delivered pursuant to options qualified as incentive stock options granted under the plan is 450,000 shares;

the maximum number of shares of our common stock subject to those options and stock appreciation rights that are granted during any calendar year to any individual under the plan is 750,000 shares; and

the maximum amount of compensation to be paid to any one participant in any one year with respect to all Performance-Based Awards under Section 5.2 of the 2004 Plan payable only in cash and not related to shares of our common stock will not exceed \$10,000,000.

If stockholders approve this 2004 Plan proposal, the maximum number of shares that may be delivered pursuant to awards granted under the 2004 Plan, other than in the circumstances described in the next sentence, is 1,400,000 shares. This limit on so-called full-value awards does not apply, however, to the following: (i) shares delivered in respect of compensation earned but deferred; and (ii) shares delivered pursuant to option or stock appreciation right grants the per share exercise or base price, as applicable, of which is at least equal to the fair market value of a share of our common stock at the time of grant of the award.

To the extent that an award is settled in cash or a form other than shares of our common stock, the shares of our common stock that would have been delivered had there been no such cash or other settlement will not be counted against the shares of our common stock available for issuance under the 2004 Plan. In the event that shares are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award will be counted against the share limits of the 2004 Plan. To the extent that shares are delivered pursuant to the exercise of a stock appreciation right or stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits, as opposed to only counting the shares actually issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares will be charged against the applicable share limits with respect to such exercise.) Shares of our common stock that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2004 Plan will again be available for subsequent awards under the 2004 Plan. In addition, the 2004 Plan generally provides that shares of our common stock issued in connection with awards that are granted by or become our obligations through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares of our common stock available for issuance under the 2004 Plan. We may not increase the applicable share limits of the 2004 Plan by repurchasing shares of common stock on the market (by using cash received through the exercise of stock options or otherwise).

***Types of Awards.*** The 2004 Plan authorizes stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in our common stock or units of our common stock, as well as cash bonus awards pursuant to Section 5.2 of the 2004 Plan. The 2004 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash. A stock option is the right to purchase shares of our common stock at a future date at a specified price per share, or the exercise price. The per share exercise price of each option will be determined by the Administrator at the time of grant of the award and may be less than the fair market value of a share of our common stock on the date of grant. The maximum term of an option is ten years from the date of grant. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock option benefits are taxed differently from nonqualified stock options, as described under *Federal Income Tax Consequences of Awards Under the 2004 Plan* below. Incentive stock options are also subject to more restrictive terms and are limited in amount by the

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U.S. Internal Revenue Code and the 2004 Plan. Incentive stock options may only be granted to our employees or any employees of our subsidiaries.

A stock appreciation right is the right to receive payment of an amount equal to the excess of the fair market value of one share of our common stock on the date of exercise of the stock appreciation right over the base price of the stock appreciation right. The base price will be established by the Administrator at the time of grant of the stock appreciation right. Stock appreciation rights may be granted in connection with other awards or independently. The maximum term of a stock appreciation right is ten years from the date of grant.

The other types of awards that may be granted under the 2004 Plan include, without limitation, stock bonuses, restricted stock, performance stock, stock units, dividend equivalents, or similar rights to purchase or acquire shares of our common stock, and cash awards granted consistent with Section 5.2 of the 2004 Plan as described below.

***Performance-Based Awards.*** The Administrator may grant awards that are intended to be performance-based awards within the meaning of Section 162(m) of the U.S. Internal Revenue Code ( *Performance-Based Awards* ).

Performance-Based Awards are in addition to any of the other types of awards that may be granted under the 2004 Plan (including options and stock appreciation rights which may also qualify as performance-based awards for Section 162(m) purposes). Performance-Based Awards may be in the form of restricted stock, performance stock, stock units, other rights, or cash bonus opportunities.

The vesting or payment of Performance-Based Awards (other than options or stock appreciation rights) will depend on our absolute or relative performance on a consolidated, subsidiary, segment, division, or business unit basis. The Administrator will establish the criterion or criteria and target(s) on which performance will be measured. The Administrator must establish criteria and targets in advance of applicable deadlines under the U.S. Internal Revenue Code while it is substantially uncertain whether the performance targets will be attained. The criteria that the Administrator may use for this purpose will include one or more of the following: before-tax net income (after deducting benefits payable under employee incentive compensation plans and excluding any income or loss from discontinued operations), cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), corporate overhead costs, delinquency rates, earnings per share, economic profit, number of employees, gain on sale of loans, liquidity management, loan losses, loan production volume, loan quality, operating margin, origination expenses, origination revenues, residual performance, return on assets, return on capital invested, return on equity, return on sales/revenue, stock price, total stockholders' equity, total stockholder return, or any combination thereof. These terms are defined in more detail in the 2004 Plan. The performance measurement period with respect to an award may range from three months to ten years. Performance targets will be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets.

Performance-Based Awards may be paid in stock or in cash (in either case, subject to the limits described under the heading *Authorized Shares; Limits on Awards* above). Before any Performance-Based Award (other than an option or stock appreciation right) is paid, the Administrator must certify that the performance target or targets have been satisfied. The Administrator has discretion to determine the performance target(s) and any other restrictions or other limitations of Performance-Based Awards and may reserve discretion to reduce payments below maximum award limits.

***Deferrals.*** The Administrator may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Administrator may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares of our common stock.

***Acceleration of Awards; Possible Early Termination of Awards.*** Generally, and subject to limited exceptions set forth in the 2004 Plan, if any person acquires more than 25% of our outstanding common stock or combined voting power, if certain changes in a majority of our board of directors occur over a period of not longer than two

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years, if our stockholders prior to a transaction do not continue to own more than 50% of our voting securities (or a successor or a parent) following a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving us or any of our subsidiaries, a sale or other disposition of all or substantially all of our assets or the acquisition of assets or stock of another entity by us or any of our subsidiaries, or if we are dissolved or liquidated, then awards then-outstanding under the 2004 Plan may become fully vested or paid, as applicable, and may terminate or be terminated in such circumstances. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2004 Plan. For example, the Administrator could provide for the acceleration of vesting or payment of an award in connection with a change in control event that is not described above and provide that any such acceleration shall be automatic upon the occurrence of any such event.

***Transfer Restrictions.*** Subject to certain exceptions contained in Section 5.7 of the 2004 Plan, awards under the 2004 Plan are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares of our common stock issuable pursuant to an award will be paid only to the recipient or the recipient's beneficiary or representative. The Administrator has discretion, however, to establish written conditions and procedures for the transfer of awards to other persons or entities, provided that such transfers comply with applicable federal and state securities laws.

***Adjustments.*** As is customary in incentive plans of this nature, each share limit and the number and kind of shares of our common stock available under the 2004 Plan and any outstanding awards, as well as the exercise or purchase prices of awards, and performance targets under certain types of performance-based awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to our stockholders.

***No Limit on Other Authority.*** The 2004 Plan does not limit the authority of our board of directors or any of its committees to grant awards or authorize any other compensation, with or without reference to our common stock, under any other plan or authority.

***Termination of or Changes to the 2004 Plan.*** Our board of directors may amend or terminate the 2004 Plan at any time and in any manner. Stockholder approval of an amendment will be required only to the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the U.S. Internal Revenue Code to preserve the intended tax consequences of the plan. For example, stockholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under the 2004 Plan. (Adjustments as a result of stock splits or similar events will not, however, be considered an amendment requiring stockholder approval.) Unless terminated earlier by our board of directors, the authority to grant new awards under the 2004 Plan will terminate on March 4, 2014. Outstanding awards, as well as the Administrator's authority with respect thereto, generally will continue following the expiration or termination of the 2004 Plan. Generally speaking, outstanding awards may be amended by the Administrator (except for a repricing), but the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

**Federal Income Tax Consequences of Awards under the 2004 Plan**

The U.S. federal income tax consequences of the 2004 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2004 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or international tax consequences.

With respect to nonqualified stock options, we are generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. With respect to incentive stock options, we are generally not entitled to a deduction nor does the participant recognize income at the time of exercise, although the participant may be subject to the U.S. federal alternative minimum tax.

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The current federal income tax consequences of other awards authorized under the 2004 Plan generally follow certain basic patterns: nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses, stock appreciation rights, cash and stock-based performance awards, dividend equivalents, stock units, and other types of awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, we will generally have a corresponding deduction at the time the participant recognizes income. If an award is accelerated under the 2004 Plan in connection with a change in control (as this term is used under the U.S. Internal Revenue Code), we may not be permitted to deduct the portion of the compensation attributable to the acceleration ( parachute payments ) if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards that are not performance-based within the meaning of Section 162(m) of the U.S. Internal Revenue Code may not be permitted to be deducted by us in certain circumstances.

**Specific Benefits under the 2004 Plan**

The Compensation Committee has approved certain grants of performance-based restricted stock awards under the 2004 Plan that are contingent on stockholder approval of the proposed increase in the sub-limit on full-value awards under the 2004 Plan. Each of these grants is set forth in the following table.

**2004 Performance Incentive Plan  
Awards Subject to Stockholder Approval of 2004 Plan Proposal**

Name and Position	Number of Shares Underlying Performance- Based Restricted Stock Awards <sup>(1)</sup>
<b>Executive Group</b>	
Robert K. Cole Chairman and Chief Executive Officer	0
Brad A. Morrice Vice Chairman, President and Chief Operating Officer	15,033 <sup>(2)</sup>
Edward F. Gotschall	