

**UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK**

MICHELLE POSNER, Individually and On Behalf of All Others Similarly Situated,)	
)	CIVIL ACTION NO.
Plaintiff,)	
)	
vs.)	CLASS ACTION COMPLAINT
)	FOR VIOLATIONS OF FEDERAL
FRIEDMAN, BILLINGS, RAMSEY GROUP, INC., ERIC F. BILLINGS, EMANUEL J. FRIEDMAN and KURT R. HARRINGTON,)	SECURITIES LAWS
)	
Defendants.)	<u>JURY TRIAL DEMANDED</u>

Plaintiff, by her undersigned counsel, for plaintiff’s Class Action Complaint, alleges the following upon personal knowledge as to plaintiff and plaintiff’s own acts, and upon information and belief based upon the investigation of plaintiff’s attorneys as to all other matters. The investigation includes the thorough review and analysis of public statements, publicly filed documents of Friedman, Billings, Ramsey Group, Inc. (“FBR” or the “Company”), press releases, news articles and the review and analysis of accounting rules and related literature. Plaintiff believes that further substantial evidentiary support will exist for the allegations set forth below after a reasonable opportunity for discovery

NATURE OF THE ACTION

1. This is a federal class action on behalf of persons who purchased the securities of FBR between January 29, 2003 and April 25, 2005, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

JURISDICTION AND VENUE

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

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

4. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Moreover, the Company maintains an office in the district.

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

PARTIES

6. Plaintiff, Michelle Posner, as set forth in the accompanying certification, incorporated by reference herein, purchased FBR securities at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant FBR is an investment bank with its investment banking business based in New York, New York, (at 299 Park Avenue, 7th Floor, New York, NY 10171) that provides institutional brokerage, investment banking and asset management services, and invests as principal in MBS and merchant banking investments.

8. Defendant Emanuel J. Friedman (“Friedman”) was, at all relevant times, the Company’s Co-Chairman and Co-Chief Executive Officer.

9. Defendant Eric F. Billings (“Billings”) was, at all relevant times, the Company’s Co-Chief Executive Officer and Co-Chairman.

10. Defendant Kurt R. Harrington (“Harrington”) was, at all relevant times, the Company’s Chief Financial Officer.

11. Defendants Billings, Friedman, and Harrington are collectively referred to hereinafter as the “Individual Defendants.” During the Class Period, each of the individual defendants, as senior executive officers and/or directors of FBR was privy to non-public information concerning its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded the fact that adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

12. Because of the Individual Defendants' positions with the Company, they had access to the adverse undisclosed information about the Company’s business, operations, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including the Company’s operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

13. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers of FBR, by virtue of his or her high-level position with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

14. As officers and controlling persons of a publicly-held company whose securities were and are registered with the SEC pursuant to the Exchange Act, and was traded on the New York Stock Exchange ("NYSE") and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate accurate and truthful information promptly with respect to the Company's financial condition and performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

15. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with FBR, each of the Individual Defendants had access to the adverse undisclosed information about FBR financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about FBR and its business issued or adopted by the Company materially false and misleading.

16. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

17. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of FBR securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme (i) deceived the investing public regarding FBR business, operations, management and the intrinsic value

of FBR securities; and (ii) caused Plaintiff and other members of the Class to purchase FBR securities at artificially inflated prices.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

18. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the securities of FBR between January 29, 2003 and April 25, 2005, or the Class Period, and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

19. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, FBR's securities were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by FBR or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

20. Plaintiff's claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

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

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

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of FBR; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

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

SUBSTANTIVE ALLEGATIONS

Background

24. FBR is an investment bank that provides investment banking, institutional brokerage and asset management services, and invests as principal in mortgage-backed securities (“MBS”) and merchant banking investments. In March 2003, the Company was formed through the merger of two existing companies, both engaged in related business and both managed by the FBR management team.

Materially False And Misleading

Statements Issued During The Class Period

25. The class period commences on January 29, 2003. At that time, FBR issued a press release entitled "Friedman, Billings, Ramsey Group Reports Fourth Quarter 2002 Results Net Income of \$10.1 million, or \$0.22 per Share (Basic) for the Quarter." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. (NYSE: FBR) today reported net income after tax of \$10.1 million, or \$0.22 (basic), \$0.21 (diluted) per share on revenues of \$58.9 million, for the quarter ended December 31, 2002, compared to net income before extraordinary gain of \$9.6 million, or \$0.21 (basic and diluted) per share on revenues of \$61.4 million in the fourth quarter of 2001. The company fully utilized its operating loss carry forwards and began recording income tax expense during the second half of 2002; pre-tax net income for the fourth quarter 2002 was \$10.8 million, compared to \$7.8 million before extraordinary gain for the fourth quarter of 2001.

These results do not include any impact from the planned re-deployment of \$70 million of excess capital into a leveraged mortgage backed security (MBS) investment strategy that the company began to implement at the end of the fourth quarter. The company closed on the first tranche of MBS purchases this week with the purchase of \$350 million of MBS, utilizing \$35 million of re-deployed equity capital.

For the full year 2002, FBR reported net income before extraordinary gain of \$52.4 million or \$1.14 (basic), \$1.08 (diluted) per share, on revenues of \$268.2 million, compared to a net loss before extraordinary gain of \$(13.9) million or \$(0.29) (basic and diluted) per share on revenues of \$160.8 million the previous year.

"FBR's record annual results were driven by continued revenue growth across investment banking, institutional brokerage and asset management," said Emanuel J. Friedman, Chairman and Co-CEO. "For full year 2002 revenue growth was 67% compared to 2001, including revenue growth of 73% in investment banking, 18% in institutional brokerage and 264% in asset management. We continue to actively hire senior producers across our business."

"We are gratified with our 2002 results which confirm the success of our continued expansion, and which run counter to the performance of many in our industry," said Vice Chairman and Co-CEO Eric F. Billings. "FBR remains strongly positioned to grow revenues, offering innovative capital solutions and independent research views. The combination of over \$269 million in equity (including employee stock purchase loans) with virtually no leverage, prudent hiring and cost discipline allow us to achieve good cash returns on our equity capital, even in a difficult market -- as evidenced by our return on average equity for the year of 25%."

26. On March 28, 2003, FBR filed its annual report with the SEC on Form 10-K. The Company's Form 10-K was signed by Individual Defendants and reaffirmed the FBR's previously announced financial results.

27. On May 7, 2003, FBR issued a press release entitled "FBR Reports First Quarter 2003 Net Income of \$5.7 Million, or \$0.12 Per Share (Basic)." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. today reported net income after tax of \$5.7 million, or \$0.12 (basic and diluted) per share on revenues of \$49.5 million for the quarter ended March 31, 2003, compared to net income before extraordinary gain of \$8.9 million, or \$0.19 (basic and diluted) per share on revenues of \$54.4 million for the first quarter of 2002. In the first quarter of 2003, the company's results reflected a \$2.8 million income tax provision while in the first quarter of 2002, the company's results reflected no provision for income taxes due to operating loss carry forwards that were exhausted during 2002. Pre-tax income for the first quarter 2003 was \$8.6 million, compared to \$8.9 million before extraordinary gain for the first quarter 2002.

On March 31, 2003, FBR completed its merger with FBR Asset Investment Corporation, forming a new company known as Friedman, Billings, Ramsey Group, Inc. Accordingly, the company also is disclosing its results on a pro forma basis, in accordance with SEC Regulation S-X, Article 11, assuming the merger had occurred on January 1, 2002. On this basis, the company reported pro forma net income after tax of \$31.5 million, or \$0.24 (basic), \$0.23 (diluted) per

share on revenues of \$96.8 million for the quarter ended March 31, 2003.

The merger pro forma results for the first quarter 2003 include:

-- merger-related expenses of \$2.8 million, or \$0.02 per share (basic), and

-- the negative impact of purchase accounting adjustments resulting from the merger, of \$3.0 million, or \$0.02 per share (basic).

-- In addition, average mortgage-backed securities (MBS) assets during the quarter were \$5.7 billion at an average net interest spread of 2.30%. As of today, the company has contracted for additional MBS purchases that would result in a portfolio of approximately \$7.5 billion by June 30, meeting the company's targeted asset levels.

"We clearly expect that our earnings in the coming quarters will support our \$0.34 quarterly dividend with the deployment of our excess capital at targeted leverage levels in the mortgage-backed portfolio," said Emanuel J. Friedman, Co-Chairman and Co-CEO.

"As a result of the merger, we are already seeing a very positive impact in the second quarter in our capital markets business, especially in our success in attracting investment banking business," said Co-Chairman and Co-CEO Eric F. Billings. "As of today, we are engaged on 31 lead-managed capital raising and M&A transactions representing more than \$3.5 billion of potential transaction value. In the first quarter of 2003 we completed two lead-managed transactions and five M&A transactions totaling \$355 million in transaction value. We are therefore highly optimistic that our capital markets business, which was close to break-even level in the first quarter, can provide the growth and retained earnings that we expect over future quarters, in addition to the cash dividends supported primarily by the MBS portfolio."

At March 31, 2003, FBR's MBS portfolio, representing the aggregate of the former FBR Asset's portfolio and FBR Group's own MBS portfolio, totaled \$5.0 billion at fair value and the company's corresponding repurchase agreement liabilities were \$4.3 billion, resulting in leverage to allocated capital of 6.5 to 1 in the MBS portfolio. The company targets leverage of 6 to 11 times in the MBS portfolio.

The weighted average annualized yield of FBR's MBS portfolio was 4.07% during the first quarter and the company's weighted average cost of financing for the mortgage-backed securities was 1.77%

(including the cost of hedging) resulting in an average net interest spread of 2.30% (combining the portfolios of FBR Asset and FBR Group pre-merger). The spread in the first quarter was down slightly from FBR Asset's spread of 2.47% during the fourth quarter 2002 as a result of lower asset yields, partially offset by a lower cost of funds. Starting in mid-July 2003, approximately \$3 billion of one-year interest rate swaps will expire with a cash basis funding cost of 2.15% which has been substantially replaced with funding that will expire in April 2004 with a funding cost of 1.35%.

Prior to the merger, FBR Asset's MBS portfolio premium equaled 1.7%. Purchase accounting adjustments recorded at the date of the merger resulted in an increase in the premium of the MBS portfolio to 2.7%. The increased premium will be amortized against the coupon of the securities in future periods, and such amortization is also reflected in the merger pro forma. The increased premium amortization will have no impact on the cash equivalent earnings generated by the portfolio.

28. On May 15, 2003, FBR filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by defendant Harrington and reaffirmed FBR's previously announced financial results.

29. On July 29, 2003, FBR issued a press release entitled "FBR Reports Second Quarter 2003 Net Income of \$58.8 Million, or \$.43 per Share (Basic and Diluted)." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. today reported net income after tax of \$58.8 million, or \$.43 (basic and diluted) per share on gross revenues of \$148.4 million for the quarter ended June 30, 2003, compared to net income of \$17.8 million, or \$.39 (basic), \$.36 (diluted) per share on gross revenues of \$73.3 million for the second quarter of 2002.

On March 31, 2003, FBR completed its merger with FBR Asset Investment Corporation, forming a new company known as Friedman, Billings, Ramsey Group, Inc. Accordingly, the company also is disclosing its results on a pro forma basis, in accordance with SEC Regulation S-X, Article 11, assuming the merger had occurred on

January 1, 2002. On this basis, for the quarter ended June 30, 2002 the company reported pro forma net income before extraordinary gain of \$31.6 million, or \$.30 (basic), \$.29 (diluted) per share on pro forma gross revenues of \$98.8 million.

“The quarter visibly demonstrated our merged company’s business model, with our balance sheet businesses more than covering our \$.34 quarterly dividend, and our capital markets and asset management businesses retaining approximately \$10 million in after-tax earnings and maintaining the company’s dynamic growth characteristic,” said Co-Chairman and Co-CEO Emanuel J. Friedman. “During the quarter, we grew the mortgage-backed securities (MBS) portfolio from only \$5.0 billion at March 31 to \$8.1 billion at June 30, with an average spread during the quarter of 1.99%. At these levels, we reasonably expect our balance sheet businesses alone to cover our dividend.”

“We are extremely pleased by the impact that the merger has already had on our business, particularly investment banking, institutional brokerage and merchant banking,” said Co-Chairman and Co-CEO Eric F. Billings. “While we expected to see these benefits over time, it seems that the merger has already transformed our company, and our customers’ understanding of the company and the unique strengths of our franchise in the very first quarter after the merger. For example, our investment banking backlog exceeds anything we have seen in our history.”

30. On August 14, 2003, FBR filed its quarterly report with the SEC on Form 10-Q. The Company’s Form 10-Q was signed by defendant Harrington and reaffirmed FBR’s previously announced financial results.

31. On October 28, 2003, FBR issued a press release entitled “FBR Reports Third Quarter 2003 Net Income of \$57 Million, or \$0.42 (Basic) and \$0.41 (Diluted) Per Share \$0.41 (Diluted) Per Share.” Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. today reported net income after tax of \$57 million, or \$0.42 (basic) and \$0.41 (diluted) per share, on gross revenues of \$185 million for the quarter ended September 30, 2003, compared to net income of \$15.1 million, or \$0.33 (basic)

and \$0.31 (diluted) per share on gross revenues of \$81.7million for the third quarter of 2002.

Reflected in these results is the negative impact of purchase accounting adjustments related to FBR's merger with FBR Asset Investment Corporation on March 31, 2003. As a result of the purchase accounting step-up in the basis of the mortgage-backed securities (MBS) owned by FBR Asset at the time of the merger, non-cash premium amortization is greater than it would have been without these adjustments. The impact of the increased amortization (the "Merger Amortization") associated with the step-up reduced net interest income by \$0.07 per share during the quarter. In addition, following the merger and the establishment of a quarterly dividend payment by FBR Group, FBR treats as compensation expense the dividends paid on employee-owned shares pledged in connection with stock incentive loans to those employees. The impact of this additional compensation expense was \$0.02 per share during the quarter. The company believes this is important because it currently plans to sell these loans, eliminating this expense.

Adjusting for the above two items, diluted earnings per share of \$0.41 would increase by \$0.09 to \$0.50 per share for the third quarter.

In the institutional brokerage business, revenues continued to grow despite a continued reduction in spreads throughout the securities industry. Brokerage revenue for the quarter of \$19.7 million exceeded revenue during the same quarter last year by 37%. The company believes that in addition to growing market share in both its investment banking and institutional brokerage businesses, in the future institutional brokerage revenues will grow at a faster rate as its market share becomes more comparable with that of investment banking.

In its asset management business, FBR recorded fee revenues of \$7.2 million, including base management and administration fees of \$5.6 million and non-cash incentive income of \$1.6 million. Net assets under management totaled \$1.8 billion as of September 30, 2003, representing a 28% increase from September 30, 2002.

"In addition to the continued growth of each of our operating businesses, FBR completed several strategic initiatives during the third

quarter,” added Emanuel J. Friedman, Co-Chairman and Co-CEO. “In July we added a team of ABS bankers providing FBR with its first entry into the structured finance fixed-income business. This group will focus on the securitization of non-prime mortgage assets. This is an industry where FBR maintains the leadership position in equity underwriting and has extensive issuer relationships. Also during the quarter, FBR established a \$5 billion A1+/P1 rated asset-backed commercial paper vehicle called Georgetown Funding, which has strengthened and diversified our funding sources for our agency-backed MBS portfolio.”

32. On November 14, 2003, FBR filed its quarterly report with the SEC on Form 10-Q. The Company’s Form 10-Q was signed by defendant Harrington and reaffirmed FBR’s previously announced financial results.

33. On February 4, 2004, FBR issued a press release entitled “FBR Reports Record Earnings per Share of \$0.49 (Diluted) for the Fourth Quarter 2003.” Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. today announced record earnings for full year 2003 and for the quarter ended December 31, 2003. Net income was \$201.4 million, or \$1.68 (basic) and \$1.63 (diluted) per share, for the year ended December 31, 2003 compared to \$53.3 million, or \$1.16 (basic) and \$1.10 (diluted) per share, for the year ended December 31, 2002. For the quarter ended December 31, 2003, net income was \$80 million, or \$0.50 (basic) and \$0.49 (diluted) per share, compared to \$10.1 million, or \$0.22 (basic) and \$0.21 (diluted) per share, for the prior year’s comparable period.

Reflected in these results is the negative impact of purchase accounting adjustments related to FBR’s merger with FBR Asset Investment Corporation (FBR Asset) on March 31, 2003. Adjusting for the impact of these purchase accounting adjustments on asset yields and cost of funds would increase the full year diluted earnings per share of \$1.63 by \$0.10 to \$1.73 and the fourth quarter diluted earnings per share of \$0.49 by \$0.01 to \$0.50.

The company had 165.2 million shares outstanding at December 31, 2003 and weighted average diluted shares outstanding during the year

were 123.3 million. FBR declared a quarterly dividend of \$0.34 per share on December 11, 2003, to shareholders of record as of December 31, 2003. For the full year, the company declared a total of \$1.36 per share in dividends and increased its book value per share by 78% from \$5.28 at December 31, 2002 to \$9.41 at December 31, 2003. The dividends and increase in book value per share provided a 104% total return on equity to shareholders in 2003.

FBR's record performance in 2003 is attributable to a number of factors, including the company's merger with FBR Asset at the end of the first quarter, the continued growth and success of each of the company's operating businesses, particularly its investment and merchant banking businesses, and the strong performance of the company's mortgage-backed securities (MBS) business despite a challenging third quarter environment.

The company's fourth quarter reflected continued strong performance in its investment banking business and a normalization of the net interest margin in its mortgage-backed securities business as the extremely high prepayment speeds in the third quarter moderated significantly in the last three months of 2003. In addition, the company achieved record earnings during the quarter despite running lower than its targeted leverage in the MBS portfolio as it invested proceeds from its \$450 million follow-on offering in October. Additionally, the company realized no gains in its merchant banking business during the quarter. Unrealized gains, however, did increase from \$50.7 million at September 30, 2003 to \$96 million at December 31, 2003.

“The last three months of 2003 represented a record quarter for the company and the culmination of a record year. In reflecting on 2003, several things clearly contributed to our success. First and foremost, our merger with FBR Asset represented a historic event for our company. In addition, our unwavering discipline has allowed us to continue our industry-leading after-market performance, and is further evidenced by the returns and performance in all aspects of our business. Finally, this discipline and performance has allowed us to create a company that possesses what we believe is the broadest, deepest institutional distribution for equity securities in the United States today. These factors, together, have allowed us to become one of the leading investment banking firms in the United States,” said Eric F. Billings, Co-Chairman and Co-CEO. “With regard to our balance sheet businesses, as we predicted in the third quarter call, prepayment speeds slowed considerably in the fourth quarter allowing

the net interest spread in our MBS portfolio to trend back closer to historical averages. As of the end of December we have fully deployed the capital we raised in October in our merchant banking and MBS portfolios. Consequently, we expect higher earnings in the first quarter of 2004 from both our MBS portfolio, as we anticipate operating with full leverage, and our merchant banking business, assuming normalized realized income from this portfolio.”

34. On March 15, 2004, FBR filed its annual report with the SEC on Form 10-K. The Company’s Form 10-K was signed by Individual Defendants and reaffirmed the FBR’s previously announced financial results.

35. On April 27, 2004, FBR issued a press release entitled “FBR Reports Record Earnings per Share of \$0.54 (Basic and Diluted) for the First Quarter of 2004; Earnings Per Share Up 350% Versus Same Period Last Year.” Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. today announced record earnings for the quarter ended March 31, 2004. Net income after tax for the quarter ended March 31, 2004 was \$89.6 million, or \$0.54 per share (basic and diluted), compared to \$5.7 million, or \$0.12 per share (basic and diluted), for the first quarter of 2003.

“Just over a year ago, after completing the merger of our two companies, we advised our shareholders that the combination of our operating businesses and a strong balance sheet would have a profoundly positive impact on our entire firm. Since that time, we have profitably grown and broadened each of our lines of business. FBR’s record results for the first quarter are evidence that our strategy and execution have been effective,” said Eric F. Billings, Co-Chairman and Co-Chief Executive Officer. “Our progress into the second quarter is keeping us solidly on track to meet our goals for 2004. The investment banking backlog continues to exceed five billion dollars, and we remain confident in our ability to execute our investment banking assignments through financial sector and interest rate volatility. We also expect our strategies for managing our mortgage-backed securities portfolio will continue to deliver resilient returns.”

Results for the first quarter of 2004 include expenditures of approximately \$10 million related to FBR's sponsorship of its PGA TOUR event, The FBR Open, and associated advertising and promotional expenses. FBR anticipates that the benefits resulting from the recognition achieved through these first quarter efforts will continue to accrue to the company throughout this year and future years.

FBR had 165.6 million shares outstanding on March 31, 2004 and there were 167.3 million weighted average diluted shares outstanding during the quarter. On March 10, 2004, the company declared a quarterly dividend of \$0.34 per share, payable on April 30, 2004 to shareholders of record as of March 31, 2004. The company intends to continue quarterly dividends of this amount and to the extent that REIT earnings exceed the regular dividend amount, will consider declaring an additional special dividend in June and in December.

36. On May 10, 2004, FBR filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by defendant Harrington and reaffirmed FBR's previously announced financial results.

37. On August 3, 2004, FBR issued a press release entitled "FBR Reports Net Income of \$81.2 Million for the Second Quarter of 2004; Diluted Earnings per Share increase 11% to \$0.48, versus \$0.43 for the Same Period Last Year." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. today announced net income after tax for the quarter ended June 30, 2004 of \$81.2 million, or \$0.48 per share (diluted), compared to \$58.8 million, or \$0.43 per share (diluted), for the second quarter of 2003. Net revenues for the quarter were \$178.4 million, up 39% from net revenues of \$128.7 million in the second quarter of 2003.

On June 10, 2004, FBR declared a quarterly regular dividend of \$0.34 per share and a special dividend of \$0.12 per share, paid on July 30, 2004 to shareholders of record as of June 30, 2004. The company earned a total of \$170.8 million during the first six months of 2004, or \$1.01 per share (diluted), and declared \$0.80 per share of total dividends. During the first six months of 2003, the company declared \$0.68 per share of total dividends. FBR intends to continue regular

quarterly dividends and, to the extent that earnings from the REIT holding company exceed its regular quarterly dividend amount of \$0.34 per share, will consider declaring an additional special dividend in December.

“During the first half of 2004 we experienced over 100% revenue growth year-over-year in our taxable subsidiaries. Our overall earnings capability has been enhanced by our growing investor and issuer client bases, as well as the increased recognition of our franchise and brand name. Our second quarter investment banking revenues of \$62 million grew 66% compared to the same period in 2003 and were within our range of expectations for any given quarter. However, these results do demonstrate the quarter to quarter volatility associated with the investment banking business when compared with our first quarter revenues of \$91 million.

Importantly, third quarter revenue associated with transactions scheduled to close prior to August 6, 2004 will exceed that of the entire second quarter, and we continue to win new mandates from industry-leading clients and complete transactions from our backlog,” said Eric F. Billings, Co-Chairman and Co-Chief Executive Officer, Investment Banking

- FBR’s investment banking operations achieved revenues of \$62 million in the second quarter, an increase of 66% over the second quarter of 2003.
- In the second quarter of 2004, FBR raised \$2.6 billion for issuers, including:
 - \$445 million in six initial public offerings
 - \$1.3 billion in follow-on equity offerings
 - \$382 million in private equity placements
 - \$500 million in corporate debt and non-convertible preferred securities.
- During the quarter FBR completed its largest advisory assignment to date, totaling more than \$600 million in transaction value.

- FBR continues to be ranked number one in terms of the after-market performance of its equity underwritings over the trailing five year period ending June 30, 2004.
- FBR finished the first half of 2004 as the number six book-running manager of U.S. IPOs.
- During the second quarter of 2004 FBR grew its senior investment banking headcount by 14%.

“Our second quarter results reflect many of the strengths of our business model. More importantly, despite what is perceived as a difficult market for real estate related equities, we have already lead-managed over \$550 million of real estate-related offerings during the first part of the third quarter and continue to see strong activity in this sector. Additionally, we believe the contributions we experienced in the second quarter from the diversified industrials and technology, media and telecom sectors will continue into the third quarter,” said Emanuel J. Friedman, Co-Chairman and Co-Chief Executive Officer.

38. On August 9, 2004, FBR filed its quarterly report with the SEC on Form 10-Q. The Company’s Form 10-Q was signed by defendant Harrington and reaffirmed FBR’s previously announced financial results.

39. On October 26, 2004, FBR issued a press release entitled “FBR Announces Record Financial Results for the Third Quarter of 2004; Diluted Earnings Per Share Increase 34% to \$0.55, Versus \$0.41 for the Same Period Last Year.” Therein, the Company, in relevant part, stated.

Friedman, Billings, Ramsey Group, Inc. today announced net income after tax for the quarter ended September 30, 2004 of \$92.1 million, or \$0.55 per share (diluted), compared to \$57 million, or \$0.41 per share (diluted), for the third quarter of 2003. Net revenues for the quarter were \$243.7 million, up 50% from net revenues of \$162 million in the third quarter of 2003.

Third Quarter and Nine Month Results

Quarter ended September 30, 2004:

Record net earnings of \$92.1 million, a 62% increase compared to \$57 million for the third quarter of 2003

· Record earnings per share, up 34% to \$0.55 compared to \$0.41 for the third quarter of 2003

· A return on equity of 24.8% (23.5% excluding the impact of accumulated other comprehensive income (AOCI))

· Record net revenues of \$243.7 million, an increase of 50% above \$162 million for the third quarter of 2003

· Record capital markets revenues of \$164.4 million, up 51% versus the same period in 2003

· FBR's first book running lead managed asset-backed securities (ABS) underwriting totaling approximately \$720 million.

Nine months ended September 30, 2004:

· Net earnings up 116% to a record \$263 million, compared to \$121.5 million for the first nine months of 2003

· Earnings per share (diluted) were up 41% to a record \$1.56, compared to \$1.11 for the first nine months of 2003

· A return on equity of 22.6% (22.8% excluding the impact of OCI)

· A 90% increase in net revenues to a record \$642.8 million versus \$338.6 million for the first nine months of 2003

· Record capital markets revenues of \$379.1 million, up 98% versus the same period in 2003

“During the third quarter our capital markets businesses exhibited significant growth, even with a choppy market early in the period. Simultaneously, we were able to manage our more predictable spread-based business to yield appropriate returns in spite of a flattening yield curve,” said Eric F. Billings, Co-Chairman and Co-Chief Executive Officer.

On September 9, 2004, FBR declared a quarterly regular dividend of \$0.34 per share, to be paid on October 29, 2004. The company earned

a total of \$263 million during the first nine months of 2004, or \$1.56 per share (diluted), and declared \$1.14 per share of total dividends.

40. On November 9, 2004, FBR filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by defendant Harrington and reaffirmed FBR's previously announced financial results. Additionally, the Company's Form 10-Q disclosed the following about a SEC and NASD investigation into its broker-dealer subsidiary:

Friedman, Billings, Ramsey & Co., Inc. ("FBR & Co") is involved in investigations by the SEC and the NASD concerning its role in 2001 as a placement agent for an issuer in a PIPE (private investment in public equity) transaction. The Company has cooperated fully with the investigations. To date, neither the SEC nor the NASD has initiated proceeding against the Company or its employees in connection with the investigations.

In addition, one of the Company's investment adviser subsidiaries, Money Management Associates, Inc. ("MMA") and one of its now closed mutual funds, are involved in an investigation by the SEC with regard to certain losses sustained by the fund in 2003. The Company has cooperated fully with the investigation. To date, the SEC has not initiated proceedings against the Company or its employees in connection with the investigation.

Since no proceedings have been initiated in these investigations, it is inherently difficult to predict the outcome of the investigations or their affect on FBR & Co., MMA or the Company. Either or both agencies may initiate proceeding as a result of the investigations and such proceedings could result in adverse judgments, injunctions, fines, penalties or other relief against the Company or one or more of its employees.

41. On February 9, 2005, FBR issued a press release entitled "FBR Announces Record 2004 Financial Results: A 74% increase in Net Income to \$350 Million as Total Revenues Exceed \$1 Billion." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. (NYSE: FBR) today announced record financial results for 2004. For the year ended

December 31, 2004, FBR's total revenues exceeded \$1 billion, and net after-tax earnings grew 73.6% to \$349.6 million compared to \$201.4 million in 2003(1). Earnings per share (diluted) increased 27.0% to a record \$2.07, compared to \$1.63 in 2003.

For the full year, the company declared a total of \$1.53 per share in dividends and increased its book value per share from \$9.41 at December 31, 2003 to \$9.46 at December 31, 2004. Book value per share net of Accumulated Other Comprehensive Income (AOCI) increased 7.1% from \$9.04 at December 31, 2003 to \$9.68 at December 31, 2004. The dividends and increase in book value per share net of AOCI provided a 24.0% total return to shareholders in 2004.(2)

"During 2004 we achieved an industry leading ROE of 22.3% despite using the lowest level of leverage of any comparable capital markets company. What is particularly significant is that we achieved these results while making really substantial investments in our existing platform," said Eric F. Billings, Co-Chairman and Co-Chief Executive Officer. "We increased our headcount by more than 40%, we undertook expansions or relocations in six of our 16 offices, we expanded our asset-backed securities (ABS) banking unit, and took a major step toward building better brand awareness through advertising, conferences, and our ongoing sponsorship of the FBR Open. In addition, early in 2005 we created a fixed-income securities trading group and entered into an agreement to acquire First NLC Financial Services, LLC (FNLC), a rapidly growing non-conforming mortgage lender. We expect that the positive impact of all these steps will be seen in future earnings as we reposition our mortgage portfolio to include non-conforming mortgages and as we broaden and grow our capital markets businesses. The effect of these new initiatives combined with the strength of our historical business makes us very optimistic about our prospects for growth in 2005 and beyond."

"We are pleased with the results of our investment banking business. Our strategy to grow this business by adding talented bankers to our unique capital markets platform has proven effective. Our 2004 results also reflect our success in maintaining client relationships while expanding our client base into new areas. In particular, we are excited

about our success with financial sponsor groups in 2004 and believe this will be an area of continued growth for us in 2005," said Emanuel J. Friedman, Co-Chairman and Co-Chief Executive Officer.

42. On March 16, 2005, FBR filed its annual report with the SEC on Form 10-K. The Company's Form 10-K was signed by Individual Defendants and reaffirmed the FBR's previously announced financial results.

43. On April 4, 2005, FBR issued a press release entitled "FBR Says Emanuel J. Friedman Announces Plans to Retire at June Annual Meeting." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. (NYSE: FBR), a leading national investment bank, today said that Emanuel J. Friedman, 58, has announced he will retire from his roles as Co-Chairman and Co-Chief Executive Officer of FBR, member of the firm's Office of the Chief Executive, and director, effective June 9, 2005, the date of the firm's annual meeting of shareholders. Mr. Friedman co-founded FBR in 1989 with Eric Billings and Russell Ramsey.

Mr. Friedman said, "I have great confidence in FBR's future. Eric Billings' proven leadership, together with Rick Hendrix as President and Chief Operating Officer and Rock Tonkel as President and Head of Investment Banking, gives FBR an extremely strong and deep top management team."

"All of us at FBR owe Manny a tremendous debt of gratitude. Along with the rest of the Board and all the employees of FBR, I thank Manny for his countless contributions, dedication and tremendous leadership over the past fifteen years. We wish him the very best in his future endeavors," Mr. Billings said.

44. The statements contained in ¶¶ 25-43 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that the Company was being negatively impacted by its role as a placement agent for an insurer in a PIPE ("private investment in public equity") transaction in 2001; (2) that as a result of the 2001 transaction, the Company was

forced to take \$7.5 million dollar charge, which adversely affected FBR's earnings; and (3) that the Company's earnings were being adversely impacted by interest rate increases.

The Truth Begins To Emerge

45. On April 25, 2005, FBR issued a press release entitled "FBR Announces Preliminary Results for First Quarter 2005." Therein, the Company, in relevant part, stated:

Friedman, Billings, Ramsey Group, Inc. (NYSE: FBR) today announced preliminary financial results for the quarter that ended March 31, 2005. FBR expects to report net after-tax income of \$22 million to \$25 million, or \$0.13 to \$0.15 per share (diluted). FBR expects to report net revenues for the quarter of \$163 million compared to \$221 million for the first quarter 2004. Included in these results is a reserve of \$7.5 million for a potential settlement by the company's broker-dealer subsidiary related to a previously disclosed regulatory investigation concerning a PIPE transaction completed in 2001. Book value per share as of March 31, 2005 is anticipated to be \$8.62, and book value per share net of Accumulated Other Comprehensive Income (AOCI) is expected to be \$9.63.(1)

"While our first quarter results were clearly disappointing, we remain optimistic about our capital markets and principal investment portfolio businesses, and we remain confident that we will generate the earnings to maintain our core dividend payments," said Eric F. Billings, Co-Chairman and Co-Chief Executive Officer of FBR.

"As we discussed in our conference call on March 17, this quarter was negatively impacted by a lack of merchant banking gains, one-time transitional costs related to the acquisition of First NLC, and continuing spread compression in the mortgage-backed securities (MBS) portfolio," Mr. Billings said. "The principal reasons for the lower reported earnings following the call are the previously mentioned reserve for the PIPE transaction and related legal fees, anticipated revenues from an investment banking transaction and dividends from merchant banking which shifted from the first quarter into the second quarter. The banking transaction has subsequently been completed and the anticipated dividends have been declared."

46. News of this shocked the market. Shares of FBR fell \$1.87 per share or 13 percent per share, on April 26, 2005, to close at \$12.52 per share.

Post Class Announcements

47. On April 26, 2005, FBR issued a press release entitled "FBR Announces Proposed Settlement with the SEC and NASD." Therein the Company, in relevant part, stated:

Friedman Billings Ramsey Group, Inc. (NYSE: FBR) announced today that its broker-dealer subsidiary, FBR & Co., Inc. ("FBR & Co." or "the company") has made an offer of settlement to the staff of the Division of Enforcement ("SEC staff") of the Securities and Exchange Commission ("Commission") and the staff of the Department of Market Regulation of NASD ("NASD staff"), and that the company has requested the SEC and NASD staffs recommend such proposal to the Commission and NASD National Adjudicatory Council or NASD Office of Disciplinary Affairs, respectively, pending final negotiation of the settlement language, to resolve ongoing, previously disclosed investigations by the SEC and NASD staffs. The proposed settlement concerns insider trading and other charges concerning the Company's trading in a company account and the offering of a private investment in public equity ("PIPE") on behalf of CompuDyne, Inc. ("CDCY") in October 2001.

Following discussions with both the SEC and NASD staffs, the company made an offer of settlement in order to resolve this matter. In the SEC proceeding, the company, without admitting or denying any wrongdoing, offered to pay disgorgement, civil penalties, and prejudgment interest totaling approximately \$3.5 million and to consent to the entry of a permanent injunction with respect to violations of the antifraud provisions of the federal securities laws. The company also agreed to consent to an administrative proceeding under Section 15(b) of the Securities Exchange Act of 1934 in which the company would be subjected to a censure and would agree to certain undertakings, including review by an independent consultant of its Chinese Wall procedures and implementation of any recommended improvements. FBR & Co. has requested that the SEC staff recommend to the Commission that such an offer of settlement be approved, pending final negotiation of the settlement language. The offer of settlement is subject to approval by the Commission, and the Commission may accept, reject or impose further conditions or other

modifications to some or all of the terms of the proposed settlement. Furthermore, the SEC staff is unable to make any assurances regarding the Commission's consideration or determination of any offer of settlement, and no settlement is final unless and until approved by the Commission.

Three individuals, including Emanuel J. Friedman, who recently announced his retirement as Co-Chairman and Co-Chief Executive Officer of FBR and is no longer involved in the operations of the broker-dealer, are in discussions with the staffs of the SEC and NASD regarding this matter. The other two individuals in discussions with the regulators were the company's head trader and chief compliance officer. Both the head trader and chief compliance officer have retired from the company. The company has named their replacements.

UNDISCLOSED ADVERSE FACTS

48. The market for FBR's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, FBR's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired FBR securities relying upon the integrity of the market price of FBR's securities and market information relating to FBR, and have been damaged thereby.

49. During the Class Period, defendants materially misled the investing public, thereby inflating the price of FBR's securities, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

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

ADDITIONAL SCIENTER ALLEGATIONS

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

52. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The ongoing fraudulent scheme described in this complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

53. This scheme deceived the investing public regarding FBR's business, financial results, growth, operations and the intrinsic value of FBR stock and allowed defendants to complete the acquisition of First NLS Financial Services, LLC ("First NLS") in February 2005 using inflated stock as part of the purchase price, and raise \$374 million in a secondary stock offering in October 2003.

**Applicability Of Presumption Of Reliance:
Fraud-On-The-Market Doctrine**

54. At all relevant times, the market for FBR securities was an efficient market for the following reasons, among others:

(a) FBR stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, FBR filed periodic public reports with the SEC and the NYSE;

(c) FBR regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) FBR was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

55. As a result of the foregoing, the market for FBR securities promptly digested current information regarding FBR from all publicly-available sources and reflected such information in FBR's stock price. Under these circumstances, all purchasers of FBR securities during the Class Period suffered similar injury through their purchase of FBR securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

56. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of FBR who knew that those statements were false when made.

FIRST CLAIM
Violation Of Section 10(b) Of
The Exchange Act Against And Rule 10b-5
Promulgated Thereunder Against All Defendants

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

58. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase FBR securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

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

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

61. These defendants employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of FBR value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about FBR and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of FBR securities during the Class Period.

62. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his or her responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

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

64. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of FBR securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of FBR's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired FBR securities during the Class Period at artificially high prices and were damaged thereby.

65. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that FBR was

experiencing, which were not disclosed by defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their FBR securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

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

67. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM
Violation Of Section 20(a) Of
The Exchange Act Against the Individual Defendants

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

69. The Individual Defendants acted as controlling persons of FBR within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be

misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

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

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

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

(a) Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: May 17, 2005

MURRAY FRANK & SAILER LLP

Eric Belfi
275 Madison Avenue, Suite 801
New York, New York 10016
Telephone: (212) 682-1818
Facsimile: (212) 682-1892

GLANCY BINKOW & GOLDBERG LLP

Lionel Z. Glancy
Michael Goldberg
1801 Avenue of the Stars, Suite 311
Los Angeles, California 90067
Telephone: (310) 201-9150
Facsimile: (310) 201-9160

Attorneys for Plaintiff