

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF NEW YORK**

KT INVESTMENTS, LLC, on behalf of itself  
and all others similarly situated,

Plaintiff,

vs.

MICHAEL STRAUSS, NICHOLAS R.  
MARFINO, MICHAEL A. McMANUS, JR.,  
CATHLEEN C. RAFFAELI, JOHN A.  
JOHNSTON, IRVING J. THAU, KRISTIAN R.  
SALOVAARA, and STEVEN A. HOZIE,

Defendants.

Civil Action No.

**CLASS ACTION COMPLAINT**

**JURY TRIAL DEMANDED**

Plaintiff, KT Investments, LLC, on behalf of itself and a Class (defined below) comprised of all other persons similarly situated, alleges upon the investigation made by and through its counsel, which includes, *inter alia*, a review of relevant public filings made by American Home Mortgage Investment Corp. (“AHM” or the “Company”) with the Securities and Exchange Commission (“SEC”), as well as teleconferences, press releases, news articles, analysts’ reports, and media reports concerning the Company. This Complaint is based upon plaintiff’s personal knowledge as to its own acts, and upon information and belief as to all other matters, based upon the aforementioned investigation.

**I. SUMMARY OF ACTION**

1. This is a class action on behalf of all persons, other than defendants, who purchased AHM common stock between April 19, 2005, and July 27, 2007, inclusive (the “Class Period”), to recover damages caused by defendants’ violations of the federal securities law.

2. AHM is a real estate investment trust (REIT) that engages in the investment and

origination of residential mortgage loans in the United States.

3. Throughout the Class Period, defendants issued numerous, positive financial statements, annual and quarterly financial reports filed with the SEC that described the Company's financial performance, press releases, and other public statements. These public statements were materially false and misleading because they misrepresented and failed to disclose the following adverse facts, among others, that: (a) the Company was experiencing an increasing number of loan delinquencies; (b) the Company failed to take adequate reserves against known or knowable future losses, including losses as a result loan delinquencies; (c) the Company failed to write down on its financial statements the value of certain loans that had substantially declined, thereby increasing the Company's overall exposure to loss; (d) as a result of the increased delinquencies, it was becoming increasingly more difficult for the Company to sell its loans absent sharp price discounts, thus reducing profit margins and profit; (e) even at reduced prices, the Company was unable sell many of its loans and was forced to hold them, thereby increasing its exposure; and (f) as a result of the foregoing, the Company reported overstated financial results and concealed from the investing public, including plaintiff and other members of the Class, the true nature and extent of the undisclosed credit risk facing the Company.

4. As a result of defendants' false statements, AHM's stock traded at artificially inflated price during the Class Period, reaching a high of \$39.84 per share on August 2, 2005. However, on July 31, 2007, when the Company issued a press release announcing its true financial condition and its inability to fund its lending obligations, the Company's stock price plummeted to an all time low of per share to \$1.04 per share.

## **II. JURISDICTION AND VENUE**

5. This Court has subject-matter jurisdiction pursuant to Section 27 of the Securities Exchange Act of 1934, 15 U.S.C. § 78aa, and 28 U.S.C. §§ 1331 and 1337.

6. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1391(b). AHM maintains its corporate headquarters in this judicial district at 538 Broadhollow Road, Melville, New York. In addition, many of the acts and practices complained of herein occurred in substantial part in this judicial district.

7. In connection with the acts alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

## **III. PARTIES**

8. Plaintiff purchased the common stock of AHM as set forth more fully in the annexed certificate, and suffered economic damages.

9. Non-party AHM is a Maryland corporation with its principal place of business at 538 Broadhollow Road, Melville, New York. At all relevant times, the Company's securities traded in an orderly and efficient market on the New York Stock Exchange (NYSE).

10. Defendant Michael Strauss ("Strauss") founded the Company in 1988 and at all relevant times has served as the Chairman of the Board of Directors, Chief Executive Officer and President.

11. Defendant Nicholas R. Marfino ("Marfino") has served as a director of AHM since July 2001.

12. Defendant Michael A. McManus, Jr. ("McManus") has served as a director of

AHM since December 2001.

13. Defendant Cathleen C. Raffaelli (“Raffaelli”) has served as a director of AHM since October 1999.

14. Defendant John A. Johnston (“Johnston”) has served as a director of AHM since March 2000.

15. Defendant Irving J. Thau (“Thau”) has served as a director of AHM since April 2004.

16. Defendant Kristian R. Salovaara (“Salovaara”) has served as a director of AHM since June 2006.

17. Defendant Stephen A. Hozie (“Hozie”) has served as the Company’s Executive Vice President and Chief Financial Officer since March 2002.

18. Defendants Strauss, Marfino, McManus, Raffaelli, Johnston, Thau, Salovaara, and Hozie are sometimes referred to herein as the “Individual Defendants.” Because of the Individual Defendants’ positions as directors or senior officers of the Company, each had access to the material 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/or Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

19. 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 them, by virtue of their high-level positions 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, products, growth, financial statements, and financial condition, as alleged herein. Each was involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, was 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.

20. As officers and controlling persons of a publicly held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, was traded on the NYSE, and is governed by the provisions of the federal securities laws, each defendant had a duty to disseminate timely, accurate, and truthful information with respect to the Company's financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings, and present and future business prospects, and to correct any previously issued statements that became 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.

21. The Individual Defendants participated in the drafting, preparation, 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 or executive and managerial positions with AHM, each of the Individual Defendants had access to the adverse undisclosed information about the Company's business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations, made by or about AHM and its business, issued or adopted by the Company, materially false and misleading.

22. The Individual Defendants, because of their positions of control and authority as officers 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 or had the ability and/or opportunity to prevent their issuance or cause them to be corrected.

23. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases alleged herein, and is therefore primarily liable for the representations contained therein.

24. Each of the defendants is also liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of AHM securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme (a) deceived the investing public regarding the Company's business, operations, and the intrinsic value of AHM's publicly traded securities, and (b) caused plaintiffs and other members of the Class to purchase AHM's publicly traded securities and to do so at artificially inflated prices.

#### **IV. PLAINTIFF'S CLASS ACTION ALLEGATIONS**

25. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of all those persons who purchased AHM securities during the Class Period and who suffered damages thereby (the "Class"). Excluded from the Class are defendants, the officers and directors of the Company, 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.

26. The members of the Class are so numerous that joinder of all members is impracticable. According to the Company's most recent quarterly financial statement filed with the SEC on Form 10-Q, on May 10, 2007, as of May 4, 2007, AHM had 54,278,645 shares of common stock outstanding. 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 the Company 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.

27. 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.

28. 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.

29. 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 financial condition of the Company;
- c. whether defendants acted knowingly or recklessly in making materially false and misleading statements during the Class Period;
- d. whether the market prices of the Company's common stock was artificially inflated or distorted during the Class Period because of defendants' conduct complained of herein; and
- e. to what extent the members of the Class have sustained damages and the proper measure of damages.

30. 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.

## **V. SUBSTANTIVE ALLEGATIONS**

31. AHM primarily originates and sells securitized adjustable-rate mortgage loans, as well as engages in the sale of mortgage loans to institutional investors and servicing mortgage loans owned by others. Its products also comprise conventional conforming fixed rate loans,

“Alternate-A” rated loans, jumbo fixed rate loans, home equity or second mortgage loans, government fixed rate loans, non-prime loans, construction loans, and bridge loans.

32. While not necessarily characterized as “sub-prime,” a substantial percentage of the Company’s loans were made to borrowers with less than prime credit, increasing the Company’s exposure to loss in the event of a slow-down in the real estate market.

**Defendants’ False And Misleading Statements During The Class Period**

33. On April 19, 2005, AHM issued a press release announcing its financial results for the first quarter of 2005. This first set of purportedly reliable financial statements reported revenue of \$164 million and net earnings of \$54 million. In the press release, defendant Strauss was quoted as stating:

Based on our first quarter results and our projected earnings for the remainder of 2005, I am very pleased to announce that the Board of Directors has again raised the Company’s dividend policy with respect to its common stock to \$0.76 per quarter, or \$3.04 annualized. This is the ninth time the Company has raised its dividend policy since its initial dividend in April 2001. I am also pleased to report that based on our internal projections we are raising our earnings guidance for 2005.

34. On May 6, 2005, the Company filed with the SEC its Form 10-Q for the first quarter of 2005, which included the same financial results previously reported. The Form 10-Q also included a certification by defendant Strauss, as AHM’s CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the

financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

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

35. Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

36. On July 19, 2005, AHM issued a press release announcing its quarterly results for the quarter ending June 30, 2005. In addition to reporting revenues of \$203.3 million and net earnings of \$65.5 million, defendant Strauss also stated as follows:

I am very pleased with our company's strong results for the second quarter, including earnings per diluted share reaching \$1.52. During the quarter, our holdings and originations businesses earned solid profits, while our servicing segment experienced a loss as falling mortgage rates resulted in impairment of our servicing assets. Of special note in the quarter was the success of our origination business, which achieved loan production of \$10.8 billion and an estimated market share of 1.58%, both records for our company. I would like to congratulate and thank our production officers and staff for their continued exceptional performance.

During this third quarter, our company is making important changes in how we select the self-originated assets we choose to retain, and how we structure and consequently account for our securitizations. One specific change is that, going forward, we will structure our securitizations so they will be accounted for as financings rather than sales. These changes offer many potential benefits, including likely further enhancements to ongoing net interest income, but will reduce quarterly earnings in the near-term from what they otherwise might have been. I am happy to report, however, that the trends in our overall business are strong enough so that we now project that our 2005 earnings will exceed our previous 2005 earnings guidance, even given the impact of the changes we are making.

37. On July 29, 2005, the Company filed with the SEC its Form 10-Q for the second quarter of 2005, which included the same financial results previously reported. The Form 10-Q also included a certification by defendant Strauss, as AHM's CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the

Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

38. Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

39. On October 26, 2005, AHM issued a press release announcing its quarterly results for the quarter ended September 30, 2005. The Company reported revenues of \$204.8 million and net earnings of \$53.2 million. Defendant Strauss commented on the results as follows:

I am pleased by our company's overall results for the third quarter. During the quarter, our diluted earnings per share were \$1.09, slightly higher than expected. Earnings were driven by record high loan production of \$13.7 billion due to a record market share of 1.81% of national originations based on Freddie Mac estimates. As a result, our company's revenues from loan sales and warehouse interest income reached all time highs. Also, during the quarter, our company successfully embarked on the strategic shifts described during our second quarter earnings release. Specifically, we retained only a selected portion of the ARM loans we originated, while selling the balance of our ARM loan production. The \$1.3 billion of ARM loans we kept during the quarter, we believe, offer relatively high returns and less exposure to changes in prepayment speeds. The ARM loans we kept were accounted for as loans held for investment, and are carried at their cost basis rather than their market value. As a result, we expect ongoing enhanced net interest income from these loans. In the future, we expect that all of the loans we retain will be accounted for as loans held for investment, and will be carried at their cost basis.

40. On November 9, 2005, the Company filed with the SEC its Form 10-Q for the Third quarter of 2005, which included the same financial results previously reported. The Form

10-Q also included a certification by defendant Strauss, as AHM's CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

41. Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

42. On January 26, 2006, AHM issued a press release announcing the results for the fourth quarter of 2005. The Company reported revenues of \$150.5 million and net earnings for the quarter of \$16.7 million. Defendant Strauss commented on the results as follows:

During the fourth quarter, our company's income was negatively impacted by low gain on sale margins due to poor market conditions for whole loan sales at the end of the quarter. As a result, our revenue from loan sales was off substantially compared to the third quarter of 2005. In addition, credit spread widening and continued high repayment speeds caused write-downs of our junior mortgage securities, our inventory of newly originated loans and our pipeline of locked loan applications. The overall result was a highly disappointing quarter. During the quarter, however, our company did add \$2.1 billion of loans into its investment portfolio. The loans had a fair value in excess of their cost of \$30.2 million, which was not recognized in the fourth quarter's financial results. These loans are expected to benefit net interest income in future quarters. In addition, during the quarter our company's loan production was \$13.6 billion. This equates to a record market share for our company of 1.92% based on Freddie Mac's estimate of national origination volume during the fourth quarter.

43. On March 16, 2006, the Company filed with the SEC its Form 10-K for the fourth quarter and year ending December 31, 2005, which included the same financial results

previously reported. The Form 10-K also included a certification by defendant Strauss, as AHM's CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-K of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected,

or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

44. Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

45. On April 26, 2006, AHM issued a press release announcing the financial results for the first quarter of 2006. The Company reported revenues of \$233.1 million and net earnings for the quarter of \$54.5 million. Defendant Strauss commented on the results as follows:

During the first quarter of 2006 our company regained its financial footing, with revenues and income for the quarter coming in slightly better than anticipated. In particular, our company's first quarter gain on sale margin from loans sold to third parties returned to a more typical rate of 1.27%, resulting in revenue from loans sold to third parties of \$171.9 million. By contrast, in the fourth quarter of 2005, our gain on sale margin was 0.96%, resulting in revenue from loans sold to third parties of \$105.4 million.

46. On May 10, 2006, the Company filed with the SEC its Form 10-Q for the First quarter of 2006, which included the same financial results previously reported. The Form 10-Q also included a certification by Defendant Strauss that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the

Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

47. Defendant Hozie signed an identical certification that was also included in the Form 10-Q.

48. On July 26, 2006, AHM issued a press release announcing the financial results for the first quarter of 2006. The Company reported revenues of \$276.8 million and net earnings for the quarter of \$72.4 million. Defendant Strauss commented on the results as follows:

The second quarter of 2006 was highly successful for our company. During the quarter, our portfolio net interest income reached a record \$33.9 million, while our production business experienced record originations, record market share, a strong gain on sale margin and improved warehouse income. During the quarter, we continued to execute our strategy of retaining a portion of our loan production for our investment portfolio, by adding \$1.2 billion of loans to our portfolio at quarter-end. These loans are carried at cost, and are expected to enhance our future portfolio earnings. We also continued to adhere to our core risk mitigation strategies including targeting a duration-neutral "matched book," and purchasing mortgage insurance to protect against credit losses. Today approximately half of the loans we hold are insured, either through borrower or lender-paid mortgage insurance. In addition to these core risk mitigation strategies, we recently began hedging the value of our mortgage servicing assets against the possibility of declining interest rates.

Our company is again reaffirming our annual earnings guidance of \$4.85 to \$5.15 per diluted share. Our earnings guidance is based on, among other factors, annual loan originations of \$55 billion to \$60 billion. I am very pleased to report that, based on our company's performance and prospects, the Board of Directors has again voted to increase the dividend policy for our common

stockholders. The new policy is \$1.01 per share per quarter, or \$4.04 per share on an annualized basis. The increased dividend is expected to become effective for the dividend expected to be paid in October 2006.

49. On August 9, 2006, the Company filed with the SEC its Form 10-Q for the Second quarter of 2006, which included the same financial results previously reported. The Form 10-Q also included a certification by defendant Strauss as AHM's CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our

conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

50. Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

51. On October 26, 2006, AHM issued a press release announcing its financial results for the third quarter of 2006. The Company reported revenue of \$258.9 million and net earnings of \$72 million. Defendant Strauss commented on the results as follows:

I am pleased by our company's results during the third quarter. In particular, earnings per share were strong at \$1.36, while dividends and book value per share continued to advance from second quarter levels. Our company's third quarter results were accomplished during a period that was particularly difficult for our industry; a period that included the adverse impacts of an inverted yield curve, falling national housing prices, reduced national loan originations, and servicing write-downs due to lower interest rates. These difficult conditions are reflected in American Home's third quarter results which include a significant mortgage servicing asset write-down, a lower although still constructive gain-on-sale margin, high credit expense for reserving necessitated by sharply

higher delinquencies and loan repurchases, and finally, lower warehouse net interest due to a narrower spread between new loan yields and funding yields. These factors were offset in our company's third quarter results however, by record portfolio net interest income, record loan production and record servicing and ancillary fee income, as well as by lower expenses in our loan production business. In addition, our company did not experience a loss in its mortgage-backed securities portfolio as had been the case in several of the previous quarters, but instead had a net portfolio gain of \$3.4 million. I believe our company's strong results in this challenging environment illustrate the underlying earnings power of our businesses.

During the quarter, our company added \$906.8 million of newly originated loans to its portfolio of loans held for investment. These loans are carried at their cost, have an unrecognized fair value in excess of cost of \$15.5 million, and are projected to yield 7.01% over their estimated life. As investors know, one of our company's core strategies is to grow ongoing portfolio net interest income by increasing our holdings of self-originated loans benefited by a low cost basis.

Based on our third quarter results and our outlook for the fourth quarter, our company is reaffirming its 2006 earnings guidance of \$4.85 to \$5.15 per share, and its guidance for annual loan originations of \$55 billion to \$60 billion.

52. On November 9, 2006, the Company filed with the SEC its Form 10-Q for the Third quarter of 2006, which included the same financial results previously reported. The Form 10-Q also included a certification by defendant Strauss, as AMH's CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.
53. Defendant Hozie, as AHM's CFO, signed an identical certification that was also

included in the Form 10-Q.

54. On January 25, 2007, AHM issued a press release announcing its financial results for the fourth quarter of 2006. The Company reported revenue of \$257.7 million and net earnings of \$64.7 million. Defendant Strauss commented on the results as follows:

The fourth quarter was highly successful for our company with earnings of \$1.21 per diluted share. During the quarter, we added \$1.0 billion of recently originated loans to our portfolio, which are carried at cost. Loan origination volume was a record \$15.5 billion due to our company achieving a record market share of 2.48% of national originations. Net interest income was stable while our servicing portfolio produced record revenues. During the quarter, our company did however experience its highest delinquency related charges to date, which reduced our quarterly earnings.

The fourth quarter concluded a very successful year for our company, with earnings per diluted share reaching a record \$4.96. By comparison, diluted earnings per share were \$3.97 in 2005, \$3.74 in 2004, \$4.07 in 2003 and \$2.65 in 2002. A key financial goal for our company in 2007 is to continue our multi-year growth trend in earnings per share. During 2006, our company's return on average common equity was 22.7%, which surpassed our target of 20%, and compares favorably to 2005 when our adjusted return on average common equity was 19.7%. Also during 2006 our company originated \$58.9 billion of loans compared to \$45.3 billion in 2005. Finally, during 2006, our company reached a milestone as, for the first time; its revenues exceeded \$1.0 billion.

In this earnings release, our company is providing 2007 earnings guidance of \$5.40 to \$5.70 per fully diluted share with the earnings per diluted share for each quarter in 2007 projected to be approximately 9% to 15% higher than for the comparable quarter in 2006. Our earnings guidance is based on stable net interest margins applied to a growing portfolio of loans held for investment, loan production of \$68 billion to \$74 billion, and a reduction in gain on sale margins of approximately 12 basis points. Lower gain on sale margins are expected in part because delinquency losses on loans held for sale, including losses due to repurchases, are projected to continue at high levels throughout 2007. Projections for continued high losses are based on our company's view that while there are signs that housing prices are starting to stabilize, future abatements in foreclosure activity will lag a recovery in the housing market. As a result, our 2007 earnings guidance anticipates a highly stressed credit environment.

Not included in our earnings guidance are potential benefits from new strategies that offer the possibility of higher portfolio income, increased loan production and reduced income tax expense. Our company will keep investors apprised if material benefits from these strategies become likely.

I am very pleased to announce that based on our company's results and prospects, our Board of Directors has voted to increase our company's dividend policy by \$0.06 to \$1.12 per share per quarter or \$4.48 per share on an annualized basis.

55. On March 1, 2007, the Company filed with the SEC its Form 10-K for the fourth quarter and year ending December 31, 2006, which included the same financial results previously reported. The Form 10-K also included a certification by defendant Strauss, as AHM's CEO, that stated:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-K of American Home Mortgage Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

56. Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

57. On March 6, 2007, the Company issued a press release designed to create the false and misleading impression that it was on stronger financial footing than players in the struggling sub-prime mortgage arena. The press release contained a chart detailing AHM's portfolio's FICO credit scores, loan to value ratios, and mortgage insurance. This information concerned loans the Company originated and those loans it had originated and now held.

58. The result of this press release was that the Company's stock immediately gained \$1.82 (7.6%) to close at \$25.82 per share.

59. All of the foregoing statements, however, were materially false and misleading when made because the Company did not reveal: (a) that it was experiencing an increasing number of loan delinquencies, (b) that as a result of the increased delinquencies it was increasingly becoming more difficult for the Company to sell its loans absent sharp decrease prices, thus reducing profit margins and profit, (c) that even at reduced prices, the Company was unable sell many of its loans and was forced to hold them, thereby increasing its exposure, (d) that the Company failed to write-down the value on certain loans that had substantially declined, thereby increasing the Company's overall exposure, and (e) that as a result of the foregoing the Company reported overstated financial results.

#### **Initial Partial Disclosures**

60. On April 6, 2007, the Company issued a press release announcing that it expected lower income in the first quarter and full year 2007 than previously forecasted due to conditions in the secondary mortgage and mortgage-backed securities markets. Defendant Strauss commented on the announcement as follows:

During March, conditions in the secondary mortgage and mortgage securities markets changed sharply. In particular, these markets were characterized by far few buyers offering materially lower prices, both for loan pools and for "AA", "A", "BBB " and residual mortgage securities. These changes had a significant, adverse impact on our Company's first quarter results, reducing our gain on sale revenue and causing mark-to-market losses in our portfolio. While the market may recover, and while we will attempt to restore our gain on sale margins by raising interest rates charged to consumers, our working assumption must be that current market conditions will persist and that our gain on sale margins will not recover through the balance of the year. Consequently, I am disappointed to report that our Company is lowering its full year earnings guidance and its dividend policy.

The Company's first quarter results will be adversely affected by lower gain on sale margins. As March progressed, loan pools offered for sale by the Company received relatively few bids at lower than expected prices. As a result, those loans originated by the Company in late February and during March earned lower gain on sale revenues than were anticipated.

The Company's first quarter results will also be adversely affected by write-downs of its portfolio of low investment grade and residual securities. In particular, the Company's approximately \$484 million of securities rated "AA", "A" or "BBB" will be written down to account for an unusually large widening in the first quarter of the spread over LIBOR at which these securities trade;" and that it was experiencing "high delinquency related charges due to the Company establishing additional reserves for increases in non-performing loans.

61. Although by no means disclosing the full nature and extent of AHM's credit risk and loss problems, the announcement had an immediate effect on the Company's equity. On April 9, 2007, AHM shares declined from \$3.92 (or 15%) to \$21.92 per share on heavy trading volume and continued to decline to \$19.55 per share by April 10, 2007. Defendants, however, continued to conceal the full scope of the Company's problems.

62. In a further attempt to raise capital and disguise its serious problems, on April 30, 2007, AHM issued a press release announcing that it sold 4,000,000 shares at \$23.10 per share.

63. On May 2, 2007, AHM filed a prospectus supplement relating to the offering that failed to disclose the full extent of the Company's financial difficulties.

64. On May 10, 2007, the Company filed with the SEC its Form 10-Q for the first quarter of 2007. The Form 10-Q contained the financial information previously reported and the following certification by defendant Strauss, as AHM's CEO:

I, Michael Strauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Home Mortgage Investment Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

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

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

65. Again, Defendant Hozie, as AHM's CFO, signed an identical certification that was also included in the Form 10-Q.

66. On June 28, 2007, AHM issued another press release disclosing still more information – but by no means all material information – about the Company's problems. This time, the Company announced it would take “substantial charges for credit-related expenses in the second quarter.” The Company blamed its problems on “the three month ‘timely payment’ warranty the Company granted to loan buyers who purchased stated income loans with high loan to value ratios from the Company.” Defendant Strauss stated that such a practice had been discontinued and further commented that the:

[C]ompany's goal is to put the impact from the discontinued products behind us. A benefit of the substantial reserves we are establishing in the second quarter is that the discontinued product's impact on our future financial results is likely to diminish. As we put the impact from the discontinued products behind us, the positive contributions from our portfolio, mortgage origination franchise and loan servicing business will again drive our results. Altogether, the second quarter will be a period of “clean-up” as the impact from the discontinued products continues to wind down.

The Company further revealed that the charges to its second earnings will be “substantial” stating in pertinent part as follows:

The Company's delinquency-related charges in the second quarter will be substantial. In addition, the Company expects that it will reclassify a portion of its other comprehensive loss. The reclassification will be charged to current quarter earnings, but will reduce other comprehensive loss by a like amount, and

consequently will not affect the Company's equity. Altogether, the total amount of loss in the second quarter is expected to be contained. Specifically, the Company expects that its total stockholder's equity will actually be higher at the end of the second quarter compared to the first quarter of 2007.

67. Although the full nature and extent of the Company's problems continued to be concealed, in response to this announcement, on June 29, 2007, the price of AHM shares dropped \$2.53 (12%) to \$18.38 per share on heavy trading volume.

68. Then, on Friday, July 27, 2007, after the close of the market, AHM issued a press release announcing that its Board of Directors had determined to delay paying its dividend stating that the Board:

decided to delay payment of its quarterly cash dividend on the Company's common stock and anticipates delaying payment of its quarterly cash dividends on its Series A Cumulative Redeemable Preferred Stock and Series B Cumulative Redeemable Preferred Stock in order to preserve liquidity until it obtains a better understanding of the impact that current market conditions in the mortgage industry and the broader credit market will have on the Company's balance sheet and overall liquidity. The disruption in the credit markets in the past few weeks has been unprecedented in the Company's experience and has caused major write-downs of its loan and security portfolios and consequently has caused significant margin calls with respect to its credit facilities.

69. In response to this announcement, on Monday, July 30, 2007, the NYSE halted trading in American Home Mortgage stock before the market opened.

70. Finally, on July 31, 2007, AHM issued a press release announcing that it had no money to pay creditors, lacked access to credit, and thus could no longer fund home loans. The Company disclosed that it failed to fund \$300 million in loans on July 30, 2007, and would not be able to fund another \$450 to \$500 million in loans on July 31, 2007. The Company further disclosed it had "retained Milestone Advisors and Lazard to assist in evaluating its strategic options and advising with respect to the sourcing of additional liquidity including the orderly

liquidation of its assets.”

71. On this news, once trading resumed on July 31, 2007, the Company’s stock price plummeted 90% from \$10.47 per share to just \$1.04 per share.

72. On Monday, August 7, 2007, AHM shocked the investment community by filing for bankruptcy protection.

## **VI. UNDISCLOSED MATERIAL, ADVERSE FACTS**

73. The market for AHM’s common stock was open, well-developed, and efficient at all relevant times.

74. As a result of these materially false and misleading statements and failures to disclose, AHM’s common stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired AHM common stock relying upon the integrity of the market price of AHM’s common stock and market information relating to AHM, and have been damaged thereby.

75. During the Class Period, defendants materially misled the investing public, thereby inflating the price of AHM’s common stock, 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.

76. 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 stock purchases by Plaintiff and other members of the Class.

77. Each defendant is liable for (i) making false statements, or (ii) failing to disclose

adverse facts known to him about AHM. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of AHM common stock was a success, as it (i) deceived the investing public regarding AHM's prospects and business; (ii) artificially inflated the prices of AHM common stock; and (iii) caused plaintiff and other members of the Class to purchase AHM common stock at inflated prices.

## **VII. SCIENTER ALLEGATIONS**

78. As alleged herein, defendants acted with scienter, in that they knew the Company's public documents and statements issued or disseminated by or in the name of the Company were materially false and misleading; they knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public; and they knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violators of the federal securities laws.

79. As alleged herein in detail, by virtue of their receipt of information reflecting the true facts regarding AHM and its business practices, their control over or receipt of AHM's materially false and misleading statements, or their associations with the Company which made them privy to confidential proprietary information concerning AHM, defendants were active and culpable participants in the fraudulent scheme alleged herein.

80. Defendants knew or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public.

81. 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.

82. In particular, defendants Strauss and Hozie engaged in such a scheme to inflate the price of AHM securities in order to protect and enhance their executive positions, their own personal wealth in accumulated holdings of AHM stock, and the substantial compensation and prestige they obtained thereby, as demonstrated by the salary and bonuses they earned during the Class Period.

83. Warning signs of a down-turn or slow-down in the real estate market – which increases the likelihood of mortgage loan defaults and losses – began appearing as early as the end of 2004 or the beginning of 2005.

84. Some industry analysts, for example, expressed concern about sub-prime loan defaults as early as December, 2004.

85. According to financial and real estate trade publications, a slow-down began to affect the real estate as early as the first quarter of 2005.

86. By the first quarter of 2005, the Morgan Stanley REIT index 30-week moving average showed that the real estate run-up was ending and warned of an impending correction in the real estate market.

87. By May, 2005, the 5.4 percent of all sub-prime loans – the most likely loans to be adversely affected by a slow-down in the real estate market – were at least 90 days late, in foreclosure, or had the underlying property seized.

#### **VIII. APPLICABILITY OF PRESUMPTION OF RELIANCE UNDER THE FRAUD-ON-THE-MARKET DOCTRINE**

88. At all relevant times, the market for AHM securities was efficient for the following reasons, among others:

a. AHM's 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, AHM filed periodic public reports with the SEC; and

c. AHM 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.

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

#### **IX. NO SAFE HARBOR**

90. 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 AHM who knew that those statements were false when made.

### **COUNT ONE**

#### **Violation of Section 10(b) of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against All Defendants**

91. Plaintiff incorporates by reference paragraphs 1 through 90 above as if set forth herein.

92. 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 AHM 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.

93. 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 AHM securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

94. 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 AHM as specified herein.

95. 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 AHM 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 to make the statements made about AHM 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 AHM securities during the Class Period.

96. 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 their 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.

97. 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 AHM operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' 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.

98. 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 AHM securities was artificially inflated during the Class Period. In ignorance of the fact that the market prices of AHM 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 AHM securities during the Class Period at artificially high prices and were damaged thereby.

99. 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 true financial

position and operating conditions that AHM was experiencing, which were not disclosed by defendants, plaintiff and other members of the Class would not have purchased or otherwise acquired their AHM 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.

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

101. 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.

## **COUNT TWO**

### **Violation of Section 20(a) of The Exchange Act Against Defendants Strauss and Hozie**

102. Plaintiff incorporates by reference paragraphs 1 through 101 above as if set forth herein.

103. Defendants Strauss and Hozie acted as controlling persons of AHM 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 or awareness of the Company's operations or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, defendants Strauss and Hozie 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 contends are false and misleading.

104. Defendants Strauss and Hozie 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 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.

105. 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.

106. As set forth above, AHM and defendants Strauss and Hozie 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, defendants Strauss and Hozie are liable pursuant to Section 20(a) of the Exchange Act.

107. 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.

#### **PRAYER FOR RELIEF**

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 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**

Pursuant to Federal Rule of Civil Procedure 38(a), plaintiff hereby demands a trial by jury of all issues so triable.

Dated: August \_\_, 2007

**WOLF HALDENSTEIN ADLER  
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By: \_\_\_\_\_

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