Lead Plaintiff, Locals 302 and 612 of the International Union of Operating Engineers – Employers Construction Industry Retirement Trust ("Lead Plaintiff" or "Plaintiff") has alleged the following based upon the investigation of Plaintiffs' Counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by Friedman, Billings, Ramsey Group, Inc. ("FBR" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

**NATURE OF ACTION**

1. This is a federal securities class action on behalf of purchasers of 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").

2. Defendant 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. This case concerns FBR's involvement in the PIPE (private investment in public equity) market.

3. In the typical PIPE offering, the underwriter or placement agent privately places restricted securities of a public company with accredited investors. The accredited investors agree to purchase a certain number of shares and the issuer agrees to file a resale registration statement with the SEC within a certain time period so that the investors can resell their shares to the public. PIPE investors do not pay for the shares purchased until shortly before the resale registration statement is declared effective by the SEC. Over the past few years, the PIPE market has grown into a multi-billion dollar industry and FBR has been a central player in that market.
4. In 2004, the SEC and the National Association of Securities Dealers (the "NASD") initiated wide-ranging investigations into the PIPE market and participants in that market. As result of those efforts, and as investigations and settlements have been announced, it has become clear that PIPE offerings have been rife with fraudulent and deceptive practices – insider trading, market manipulation and unregistered sales of securities.

5. Unfortunately for investors of FBR, FBR, Emanuel J. Friedman, a founding partner of FBR, and other FBR high level employees are at the center of the one of the most prominent PIPE-related investigations, CompuDyne Corporation’s ("CompuDyne") 2001 PIPE offering. In the fall of 2001, FBR acted as placement agent for CompuDyne and helped it raise $12 million in a PIPE offering. As detailed herein, Defendants knew, or recklessly disregarded, that purchasers in the CompuDyne PIPE offering, including FBR proprietary hedge funds, were illegally shorting CompuDyne common stock in advance of the completion of the offering, that this constituted illegal insider trading as well as the sale of unregistered securities and that they were aiding such purchasers in their illegal conduct (the "CompuDyne PIPE Trading Scheme").

6. During the Class Period, FBR issued numerous statements and filed reports with the SEC which failed to disclose, among other things, FBR’s involvement in the CompuDyne PIPE Trading Scheme, knowingly understated the regulatory, legal and reputational risks facing the Company and falsely represented that the Individual Defendants, as defined herein, were not aware of “any fraud” at FBR when, in truth, and in fact, they were aware of FBR’s involvement in the CompuDyne PIPE Trading Scheme.

7. When the market began to learn of FBR’s involvement in the CompuDyne PIPE offering and the related investigations, the price of FBR stock began to decline. On November 9, 2004, FBR filed its Form 10-Q for the third quarter of 2004, the period ended September 30, 2004
with the SEC. In the Form 10-Q, FBR revealed for the first time that it was “involved in investigations by the SEC and NASD concerning its role as a placement agent” in a PIPE offering.

The Form 10-Q stated in pertinent part as follows:

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.

8. In response to this disclosure, the price of FBR stock dropped from $17.59 per share to $16.93 per share – a decline of approximately 4%. However, Defendants continued to conceal the seriousness of the investigation and the underlying improper conduct, which reached to the highest levels of FBR management.

9. On April 4, 2005, Emanuel J. Friedman, the CEO and a namesake of the Company, resigned at the age of 58. News reports tied his resignation to the regulatory investigations relating to the CompuDyne PIPE Scheme. In reaction to this announcement, the price of FBR common stock dropped from $15.53 per share to $13.97 per share, a decline of 10%, on extremely heavy trading volume.
10. Then, on April 25, 2005, after the market closed, FBR announced disappointing preliminary results for the first quarter 2005 and attributed the poor financial results, in part, to a $7.5 million charge to set up a reserve for its liability in a “PIPE offering transaction.” In the press release, Defendant Billings commented on the results, stating in pertinent part as follows:

“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.” [Emphasis added.]

On this news, the price of FBR stock dropped from $14.39 per share to $12.52 per share on extremely high trading volume.

JURISDICTION AND VENUE

11. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission (“SEC”) [17 C.F.R. §240.10b-5].

12. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and §27 of the Exchange Act.

13. Venue is proper in this District pursuant to §27 of the Exchange Act, and 28 U.S.C. §1391(b), because the defendants maintain an office in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

14. 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.
PARTIES

15. Lead Plaintiff purchased the common stock of FBR at artificially inflated prices during the Class Period, as set forth in the certification previously filed in this case and incorporated herein by reference, and has been damaged thereby.

16. Defendant FBR is an investment bank with its investment banking business based in New York, New York, that provides institutional brokerage, investment banking and asset management services, and invests as principal in MBS and merchant banking investments. FBR is publicly traded on the NYSE under the ticker symbol “FBR.”

17. Defendant Eric F. Billings (“Billings”) was, at all relevant times, Co-Chief Executive Officer and Co-Chairman of FBR.

18. Defendant Emanuel J. Friedman (“Friedman”) was, at all relevant times, Co-Chairman and Co-Chief Executive Officer of FBR. As detailed further herein, Friedman resigned his positions in April 2005.

19. Defendant Kurt R. Harrington (“Harrington”) was, at all relevant times, CFO of FBR.

20. The defendants referenced above in ¶¶17-19 are referred to herein as the “Individual Defendants.”

21. Because of the Individual Defendants’ positions with the Company, they had access to the adverse undisclosed information about its business, operations, products, 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.
22. 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 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. 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.

23. 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, and was traded on the NYSE and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly 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 had become materially misleading or untrue, so that the market prices of the Company's common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.
24. 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.

25. 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 common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding FBR’s business, operations, management and the intrinsic value of FBR stock; (ii) enabled Defendants to raise $374 million in a secondary public stock offering; and (iii) caused Plaintiff and other members of the Class to purchase FBR common stock at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

The CompuDyne PIPE Offering


27. In and around September 2001, CompuDyne retained FBR to act as its financial advisor and underwriter for a PIPE offering of CompuDyne common stock. Through its brokers, FBR marketed the CompuDyne PIPE offering and advised prospective purchasers that the shares
would be priced at a discount to the market and that the fact that CompuDyne was conducting a PIPE offering was confidential, non-public information.

28. In connection with the PIPE offering, CompuDyne prepared a Confidential Private Placement Memorandum ("PPM") which was distributed by FBR to prospective investors. The PPM stated that it was "strictly confidential" and that "the federal securities laws impose restrictions on trading based on information regarding the offering." In addition, the purchase agreement that needed to be signed by investors in the PIPE offering required signatories thereto to represent and warrant, among other things, that they had kept information regarding the PIPE offering confidential and that purchasers had "no present intention of distributing such shares."

29. On or around October 8, 2001, CompuDyne and FBR priced the PIPE offering at $12 per share. That day, CompuDyne stock had closed at $17.38 per share. Thus, investors in the PIPE offering were receiving shares at a significant discount to the then-prevailing market price of CompuDyne stock.

30. On October 9, 2001, CompuDyne and FBR announced the completion of the PIPE offering. In response to the announcement, the price of CompuDyne stock declined and continued to decline over the next few weeks.

31. On October 29, 2001, after the close of the market, the SEC declared the resale registration statement for the CompuDyne PIPE offering effective, thereby enabling investors in the PIPE offering to resell their new shares to the public.

32. Unbeknownst to the market, the CompuDyne PIPE offering was beset by insider trading and other violations of the securities laws. Numerous purchasers in the CompuDyne PIPE offering sold short CompuDyne common stock prior to the announcement of the CompuDyne PIPE offering and then covered their short sales with the CompuDyne stock that they had purchased in the
PIPE offering. These transactions constituted insider trading as at the time of the short sales, the PIPE purchaser was in possession of material non-public information about CompuDyne – namely that CompuDyne was in the process of pricing and selling a PIPE offering. In addition, the short sales constituted the unregistered sale of CompuDyne stock because the short sale was in truth and in fact the sale of the CompuDyne shares to be purchased in the CompuDyne PIPE offering which shares were not registered at the time of their actual sale.

33. Defendants and at least two other high level FBR executives, Scott Dreyer, head of trading at FBR, and Nicholas Nichols, FBR’s chief compliance officer, knew of the improper insider trading and unregistered securities sales that was occurring in connection with the CompuDyne PIPE offering and provided those engaged in the improper trading with substantial assistance, thereby aiding and abetting them in their violations of the federal securities laws.

34. As described further herein, the SEC and NASD have brought several enforcement actions against purchasers in the CompuDyne PIPE offering which center on allegations of insider trading and the unregistered sale of stock. FBR first revealed its involvement in the regulatory investigations regarding the CompuDyne PIPE offering in November 2004. Six months later, in April 2005, Defendant Friedman resigned his positions with FBR, after learning that the SEC and NASD were seeking to charge him with aiding and abetting insider trading in connection with the CompuDyne PIPE offering. Several weeks later, FBR announced that it had offered to settle the CompuDyne-related investigations with the SEC and NASD and was taking a $7.5 million charge in connection therewith. At present, FBR’s settlement offers remain outstanding.

MATERIALLY FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

of $10.1 million, or $0.22 per share (Basic) for the quarter. Defendant Friedman commented on the results, stating in pertinent part as follows:

FBR’s record annual results were driven by continued revenue growth across investment banking, institutional brokerage and asset management. . . 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.

Defendants Billings also commented on the results, stating in pertinent part as follows:

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. . . . 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%.

36. On March 28, 2003, FBR filed its Form 10-K for the fiscal year ended December 31, 2002, with the SEC which was signed by the Individual Defendants, among others (the “2002 10-K”). The 2002 10-K represented that FBR was subject to a “range of risks” in conducting its business including “compliance”, “legal” and “reputational” risk and represented that the Company had a “corporate wide risk management program,” specifically, the 2002 10-K stated in pertinent part as follows:

We have a corporate wide risk management program approved by our Board of Directors. This program sets forth various risk management policies, provides for a risk management committee and assigns risk management responsibilities. The program is designed to focus on the following:

- Identifying, assessing and reporting on corporate risk exposures and trends.
- Establishing and revising as necessary policies, procedures and risk limits.
- Monitoring and reporting on adherence with risk policies and limits.
- Developing and applying new measurement methods to the risk process as appropriate.
• Approving new product developments or business initiatives.

We cannot provide assurance that our risk management program or our internal controls will prevent or reduce the risks to which we are exposed.

The 2002 10-K also represented that FBR was subject to extensive government regulation, stating in pertinent part as follows:

We are subject to extensive government regulation which could adversely affect our results and New FBR’s results, which may, in turn, affect the market price of the shares of its common stock and its ability to distribute dividends.

The securities business is subject to extensive regulation under federal and state laws in the United States, and also is subject to regulation in the foreign countries in which we will conduct investment banking and securities brokerage and asset management activities. Compliance with these laws can be expensive, and any failure to comply could have a material adverse effect on our operating results.

Compliance with many of the regulations applicable to FBR involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, governmental regulators and self-regulatory organizations such as the National Association of Securities Dealers may institute administrative or judicial proceedings that may result in:

• censure, fines or civil penalties (including treble damages in the case of insider trading violations);

• issuance of cease-and-desist orders;

• deregistration or suspension of the non-compliant broker-dealer or investment adviser;

• suspension or disqualification of the broker-dealer’s officers or employees; or

• other adverse consequences.

The imposition of any penalties or orders on us or New FBR could have a material adverse effect on our and its operating results and financial condition. The investment banking and brokerage businesses have recently come under intense scrutiny at both the state and federal level and the cost of compliance and the potential liability for non-compliance has increased as a result.

The 2002 10-K also contained certifications from Defendants Friedman, Billings and Harrington which each represented that:
The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

37. The statements referenced above in ¶¶35-36 were each materially false and misleading because they failed to disclose and misrepresented the following material adverse facts:

(a) that FBR, Friedman and other FBR executives had participated in the CompuDyne PIPE offering and in connection therewith aided and abetted certain purchase in the offering with their violations of the federal securities laws;

(b) given Friedman's direct involvement in the improper trading surrounding the CompuDyne PIPE offering, the legal, regulatory and reputational risks facing FBR were much more pronounced and definitive. In other words, the risks facing FBR were far more serious because Friedman, the Company's CEO and founder, would be directly at risk should the true facts about the CompuDyne PIPE offering be discovered;

(c) FBR lacked an effective compliance program as evidenced by the fact that its CEO and founder, Friedman, and its chief compliance officer, Nicholas, were involved in and aided and abetted violations of the federal securities laws in connection with the CompuDyne PIPE offering; and

(d) Defendants Friedman, Billings and Harrington falsely represented that they had disclosed "any fraud" that "involves management" to the FBR audit committee or its auditors, but they had not disclosed the CompuDyne PIPE Trading Scheme.
38. On May 7, 2003, FBR issued a press release announcing its financial results for the first quarter of 2003. The Company reported net income of $5.7 million, or $0.12 per share (Basic) for the first quarter. The press release stated in part:

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.”

39. On May 15, 2003, FBR filed its Form 10-Q for the period ending March 31, 2003, with the SEC which was signed by Defendant Harrington, among others, and confirmed the previously announced financial results. The Form 10-Q contained certifications from Defendants Friedman, Billings and Harrington which each represented that:

The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions);
a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls.

... [Emphasis added.]

40. The statements referenced above in ¶¶38-39 were materially false and misleading for the reasons set forth above in ¶37.

41. On July 29, 2003, FBR issued a press release announcing its financial results for the second quarter of 2003. The Company reported net income of $58.8 million, or $.43 per share (Basic and Diluted) for the quarter. Defendant Friedman commented on the results, stating in pertinent part as follow:

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. ... 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.

Defendant Billings also commented on the results, stating in pertinent part as follows:

We are extremely pleased by the impact that the merger has already had on our business, particularly investment banking, institutional brokerage and merchant banking ... 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.

42. On August 14, 2003, FBR filed its Form 10-Q for the period ending June 30, 2003, with the SEC which was signed by Defendant Harrington, among others, and confirmed the previously announced financial results. The Form 10-Q contained certifications from Defendants Friedman, Billings and Harrington which each represented that:
The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

  a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

  b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls.

... [Emphasis added.]

43. The statements referenced above in ¶¶41 and 42 were materially false and misleading for the reasons set forth above in ¶37.

44. On October 3, 2003, FBR completed a secondary offering of 23 million shares of its stock at $17 per share for proceeds of $373.9 million (the "Secondary offering"). In connection with the Secondary offering, FBR filed a registration statement (the "Registration Statement"). The Registration Statement incorporated by reference FBR’s prior SEC filings, thereby repeating the misrepresentations and omissions contained therein.

45. On October 28, 2003, FBR issued a press release announcing its financial results for the third quarter of 2003. The Company reported net income of $57 million, or $0.42 (Basic) and $0.41 (Diluted) per share for the quarter. Defendant Friedman commented on the results, stating in pertinent part as follows:

In addition to the continued growth of each of our operating businesses, FBR completed several strategic initiatives during the third quarter. . . 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.
46. On November 14, 2003, FBR filed its Form 10-Q for the period ending September 30, 2003, with the SEC which was signed by Defendant Harrington, among others, and confirmed the previously announced financial results. The Form 10-Q contained certifications from Defendants Friedman, Billings and Harrington which each represented that:

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

47. The statements referenced above in ¶¶45 and 46 were materially false and misleading for the reasons set forth above in ¶37.

48. On February 4, 2004, FBR issued a press release announcing its financial results for the fourth quarter of 2003. The Company reported earnings per share of $0.49 (Diluted) for the fourth quarter of 2003. Defendant Billings commented on the results, stating in pertinent part as follows:

"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 . . . 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.”

(Footnote omitted.)

49. On March 15, 2004, FBR filed its Form 10-K for the fiscal year ended December 31, 2003, with the SEC which was signed by the Individual Defendants, among others (the “2003 10-K”). The 2003 10-K represented that FBR was subject to a “range of risks” in conducting its business including “compliance”, “legal” and “reputational” risk and represented that the Company had a “corporate wide risk management program,” stating in pertinent part as follows:

We have a corporate wide risk management program approved by our Board of Directors. This program sets forth various risk management policies, provides for a risk management committee and assigns risk management responsibilities. The program is designed to focus on the following:

- Identifying, assessing and reporting on corporate risk exposures and trends.
- Establishing and revising as necessary policies, procedures and risk limits.
- Monitoring and reporting on adherence with risk policies and limits.
- Developing and applying new measurement methods to the risk process as appropriate.
- Approving new product developments or business initiatives.

We cannot provide assurance that our risk management program or our internal controls will prevent or reduce the risks to which we are exposed.

The 2003 10-K also represented that FBR was subject to extensive government regulation, stating in pertinent part as follows:

We are subject to extensive government regulation which could adversely affect our results and New FBR’s results, which may, in turn, affect the market price of the shares of its common stock and its ability to distribute dividends.

The securities business is subject to extensive regulation under federal and state laws in the United States, and also is subject to regulation in the foreign
countries in which we will conduct investment banking and securities brokerage and asset management activities. Compliance with these laws can be expensive, and any failure to comply could have a material adverse effect on our operating results.

Compliance with many of the regulations applicable to FBR involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, governmental regulators and self-regulatory organizations such as the National Association of Securities Dealers may institute administrative or judicial proceedings that may result in:

- censure, fines or civil penalties (including treble damages in the case of insider trading violations);
- issuance of cease-and-desist orders;
- deregistration or suspension of the non-compliant broker-dealer or investment adviser;
- suspension or disqualification of the broker-dealer’s officers or employees; or
- other adverse consequences.

The imposition of any penalties or orders on us or New FBR could have a material adverse effect on our and its operating results and financial condition. The investment banking and brokerage businesses have recently come under intense scrutiny at both the state and federal level and the cost of compliance and the potential liability for non-compliance has increased as a result.

The 2003 10-K also contained certifications from Defendants Friedman, Billings and Harrington which each represented that:

The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions);

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls . . . . [Emphasis added.]
The statements referenced above in ¶¶48 and 49 were materially false and misleading for the reasons set forth above in ¶37.

On April 27, 2004, FBR issued a press release announcing its financial results for the first quarter of 2004. The Company reported earnings per share of $0.54 for the first quarter of 2004. Defendant Billings commented on the results, stating in pertinent part as follows:

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 . . . 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.

On May 10, 2004, FBR filed its Form 10-Q for the period ending March 30, 2004, with the SEC which was signed by Defendant Harrington, among others, and confirmed the previously announced financial results. The Form 10-Q contained certifications from Defendants Friedman, Billings and Harrington which each represented that:

The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions);

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls . . . [Emphasis added.]

The statements referenced above in ¶¶51 and 52 were materially false and misleading for the reasons set forth above in ¶37.
54. On August 3, 2004, FBR issued a press release announcing its financial results for the second quarter of 2004. The Company reported net income of $81.2 million for the second quarter of 2004. Defendant Friedman commented on the results, stating in pertinent part as follows:

   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. . . .

55. On August 9, 2004, FBR filed its Form 10-Q for the period ending June 30, 2004, with the SEC which was signed by Defendant Harrington, among others, and confirmed the previously announced financial results. The Form 10-Q contained certifications from Defendants Friedman, Billings and Harrington which each represented that:

   The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls. . . . [Emphasis added.]

56. The statements referenced above in ¶54 and 55 were materially false and misleading for the reasons set forth above in ¶37.

57. On October 26, 2004, FBR issued a press release announcing its financial results for the third quarter of 2004. The Company reported diluted earnings per share of $0.55. Defendant Billings commented on the results, stating in pertinent part as follows:
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.

58. Then, on November 9, 2004, FBR filed its third quarter 2004 Form 10-Q in which it disclosed an SEC and NASD investigation into its broker-dealer subsidiary FBR & Co. The Form 10-Q stated in pertinent part as follows:

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.

59. TheStreet.com reported on November 10, 2004:

A 10-month regulatory investigation into the murky world of private placements and hedge funds might have found its first target in Friedman Billings Ramsey.

The Arlington, VA., investment firm disclosed late Tuesday that the Securities and Exchange Commission and the NASD are jointly investigating the firm’s role as the placement agent for a private stock deal in 2001.

This spring, the SEC issued subpoenas and requests for documents to 20 brokerages that have arranged so-called PIPE deals -- private placements in public equity -- for cash-strapped companies. Regulators subsequently issued subpoenas to about 10 hedge funds, seeking information about their trading activity in certain PIPE transactions.
Friedman is the first Wall Street firm to publicly acknowledge that regulators are scrutinizing its role as a PIPE placement agent. Shares of the securities firm fell 64 cents, or 3.6%, to $16.95, on the news.

The investigation into the $14 billion PIPEs market is focusing on allegations of stock manipulation by hedge funds, which tend to be the biggest investors in these shadowy stock sales. PIPEs are popular with hedge funds because the buyers can get preferred stock or bonds that convert into shares at a discount to market prices. The deals often include sweeteners, such as warrants, that permit the private investors to buy additional shares at prices well below what ordinary investors would pay for them.

60. In response to FBR’s disclosures in the Form 10-Q, FBR’s stock dropped to $16.93 per share. However, market observers were unaware of the seriousness of the investigation and FBR stock continued to trade at artificially inflated levels.

61. On January 28, 2005, the first enforcement action related to the ongoing investigations of the CompuDyne PIPE offering was announced. On that date, the NASD announced that it had charged Hilary Shane, a former hedge fund manager at First New York Securities, with employing a “scheme or artifice to defraud” in connection with her purchases in the CompuDyne PIPE offering. The NASD complaint contends, among other things, that Shane shorted CompuDyne stock in advance of her purchases in the CompuDyne PIPE offering.

62. On February 9, 2005, FBR issued a press release announcing its financial results for the fourth quarter of 2004 and fiscal year ended December 31, 2004, the periods ending December 31, 2004. The Company reported that for the fourth quarter of 2004, net after-tax income was $86.6 million, or $0.51 per share (diluted), compared to $80.0 million, or $0.49 per share (diluted), in the final quarter of 2003. Defendant Billings commented on the results, stating in pertinent part as follows:

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. . . . 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.

Defendant Friedman also commented on the financial results stating in pertinent part as follows:

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. . . .

63. On February 16, 2005, FBR announced the completion of the acquisition of First NLC Financial Services, LLC, an affiliate of Sun Capital Partners and a non-conforming mortgage originator.

64. On April 4, 2005, FBR issued a press release announcing that Defendant Friedman, FBR’s Chairman, CEO and namesake, was resigning from his positions at the Company. The press release stated in pertinent part as follows:

Friedman, Billings, Ramsey Group, Inc., 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.

65. Although FBR’s press release provided no explanation for Friedman’s resignation, press reports linked it to the regulatory investigations over the CompuDyne PIPE offering. For example, on April 5, 2005, The Street.com, in a report entitled “Friedman Billings Co-CEO Retires Amid SEC Probe”, suggested that Friedman had resigned due to the regulatory investigations.
66. In reaction to the announcement of Friedman’s resignation amid the regulatory investigations, the price of FBR common stock dropped from $15.53 per share to $13.97 per share, a decline of 10%, on extremely heavy trading volume.

67. Then, on April 25, 2005, FBR issued a press release announcing its preliminary financial results for the first quarter 2005, the period ending March 31, 2005. The Company reported that for the first quarter of 2005 it expected to report earnings of between $0.13 and $0.15 per share. FBR also revealed that its first quarter financial results had been negatively impacted by its creation of a $7.5 million reserve for the potential settlement of the SEC and NASD investigations related to the CompuDyne PIPE offering. The press release stated the following in pertinent part:

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.

"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." [Emphasis added.]

68. On this news, the price of FBR common stock dropped from $14.39 per share to $12.52 on extremely high trading volume.
On April 26, 2005, FBR issued a press release announcing that it had proposed settlements to the SEC and NASD in connection with the CompuDyne PIPE offering and related investigations. The Company further announced that its settlement offers included, among other things, a payment of $7.1 million in total fines and penalties and the hiring of a consultant to review FBR's Chinese Wall procedures and implement improvements. The press release stated in pertinent part as follows:

Friedman Billings Ramsey Group, Inc. 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 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. . . .

In the parallel NASD proceeding, based upon the same circumstances described above, the company will submit a Letter of Acceptance, Waiver and Consent ("AWC"), pending final negotiation of appropriate language, proposing a settlement of alleged violations of the antifraud provisions of the federal securities laws and NASD Rules 2110, 2120, 3010 and 3370. The Company will also agree to the same undertakings provided for in the proposed settlement with the SEC, including agreeing to an independent consultant to review its Chinese Wall procedures and implementing any recommended improvements, and FBR & Co. offered to pay a fine of $4 million to NASD. The AWC must be reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory...
Council or the Office of Disciplinary Affairs. The proposed settlement of the proceedings and the injunctive actions is subject to the Company obtaining relief from certain statutory disqualifications, which result from the entry of the injunction and findings of violations in the proceedings. Any relief from the statutory disqualifications must be reviewed and approved by the Commission, and the SEC staff can make no assurance that any or all of the requested relief will be granted by the Commission. FBR has recorded a $7.5 million chart in its 2005 first quarter with respect to the offer of settlement to the SEC and the AWC to NASD.

Three individuals, including Emanuel J. Friedman, who recently announced is 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.

70. Following FBR’s announcements, the SEC and NASD ratcheted up their enforcement activity in connection with the CompuDyne PIPE offering investigations.

71. On May 18, 2005, the SEC announced that it too had charged Shane with insider trading and the unregistered sale of securities in connection with the CompuDyne PIPE offering and that Shane had agreed to settle the charges by being permanently enjoined from future violations of the securities laws, disgorgement of trading profits plus penalties totaling $1,075,015 and being barred from the broker-dealer industry and investment advisory industry (and settle the related NASD charges brought in January 2005). According to the SEC, among other things, Shane sold CompuDyne common stock short with knowledge of the impending CompuDyne PIPE offering and then covered her short sales with CompuDyne stock purchased in the CompuDyne PIPE offering. The SEC found that such conduct constituted insider trading and the unregistered sale of securities in violation of the federal securities laws.

72. Then, on December 20, 2005, the NASD announced that it had charged John Mangan (“Mangan”) with improper trading in CompuDyne stock in connection with the CompuDyne PIPE offering. The NASD also announced that Mangan had agreed to settle the charges by paying a
$125,000 fine and accepting a permanent ban from the brokerage business. At the time of the CompuDyne PIPE offering, Mangan was managing a group of proprietary hedge funds for FBR.

73. As of the date of the filing of this complaint, FBR’s offers of settlement to the SEC and NASD remain pending.

74. The markets for FBR’s securities were 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.

75. 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.

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 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 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 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

77. 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.

Applicability of Presumption of Reliance:

Fraud on the Market Doctrine

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

(a) FBR’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, 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.

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

NO SAFE HARBOR

80. 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.
LOSS CAUSATION/ECONOMIC LOSS

81. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated FBR’s stock price and operated as a fraud or deceit on Class Period purchasers of FBR securities by concealing the extent and seriousness of manipulations involving the CompuDyne PIPE offering and the involvement of FBR and its junior management. Later, however, when Defendants’ prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price of FBR stock fell precipitously as the prior artificial inflation came out of FBR’s stock price. As a result of their purchases of FBR stock during the Class Period, Plaintiff and other members of the Class suffered economic loss, i.e., damages under the federal securities laws.

82. By improperly concealing its conduct, Defendants presented a misleading picture of FBR’s business and prospects. Thus, instead of truthfully disclosing the risks and uncertainties facing FBR, Defendants caused FBR to conceal its violation of SEC and NASD rules.

83. Defendants’ false and misleading statements had the intended effect and caused FBR stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $28.70 per share.

84. On April 4, 2005, Defendants were forced to publicly disclose that Defendant Friedman was resigning his positions at the Company and press reports tied his resignation to the investigations into the CompuDyne PIPE offering. On April 25, 2005, Defendants had to admit that FBR’s first quarter financial results would be much worse than prior representations and that it had recorded a charge related to proposed settlements of the regulatory investigations into the CompuDyne PIPE offering. These public revelations indicated the level of FBR’s involvement in the CompuDyne PIPE Trading Scheme and that its involvement reached to the highest level of its
management. As investors and the market became aware of these issues, the prior artificial inflation came out of FBR’s stock price, damaging investors.

85. As a direct result of Defendants’ admissions and the public revelations regarding the truth about FBR’s involvement in the improper trading surrounding the CompuDyne PIPE offering, FBR’s stock price plummeted 37%, falling from $19.28 in early March 2005 to $11.04 per share on May 3, 2005, a drop of $8.24 per share. This drop removed the inflation from FBR’s stock price, causing real economic loss to investors who had purchased the securities during the Class Period. Analysts following the Company were shocked by these adverse revelations, with Barron’s reporting:

You know the good times are over when the costs of sponsoring a golf tournament put your earnings in the rough.

But that’s about the least of the worries lately for Friedman, Billings Ramsey Group. Joined at the hip to the volatile mortgage-securities sector, FBR’s fundamentals have weakened markedly as interest rates have moved higher and margins on its mortgage portfolio have narrowed.

FBR, a small Arlington, VA.-based investment bank that merged a few years ago with its leveraged mortgage-securities-based real estate investment trust . . . is now paying the price as the yield curve flattens and its spreads tighten.

Moreover, an ongoing government probe into insider trading and activities surrounding the firm’s role in managing a private sale of CompuDyne stock in 2001 has led to the recent abrupt departure of Emanual [sic] “Manny” Friedman, a Talmudic scholar who had been co-chairman and co-chief executive along with Eric Billings. Billings remains a sole chairman and chief executive. The head trader and chief of compliance also have left the firm as a result of the same investigation.

Meanwhile, FBR last week forecast first-quarter net income of $22 million to $25 million, or 13 cents to 15 cents a share, less than half the 31 cents a share Wall Street had been expecting, and sharply down from the 54 cents a share the firm earned in the year-ago quarter. Revenue is projected to be $163 million, compared with $221 million in the year-ago period.

FBR blamed a lack of merchant-banking gains, costs related to its February acquisition of First NLC, a subprime residential-mortgage lender, and compressed spreads in its mortgage-backed-securities portfolio. Expenses associated with its sponsorship of the FBR Open, a PGA tournament held in Scottsdale, Ariz., also hurt
results. That’s despite charging FBR’s guests at the tournament $5,000 to play a round with pro Phil Mickelson or $850 for a gift bag filled with golf balls.

And in a bid to put the taint of the investigation behind it, FBR last week made the unusual move of offering to settle with the Securities and Exchange Commission and the National Association of Securities Dealers and announced its own terms. The company offered to pay $7.5 million in fines, which it plans to charge against first-quarter earnings.

In the SEC case, FBR offered to pay about $3.5 million in disgorgement, civil penalties and prejudgment interest.

Without admitting or denying any wrongdoing, the firm also said it would consent to a permanent injunction based on violations of the antifraud provisions of federal securities laws.

In addition, the company also agreed to a censure proceeding that would result in an independent review of its so-called Chinese Wall provisions that are designed to prevent leaks of inside information that could lead to conflicts of interests.

FBR also offered to settle the alleged violations of the federal antifraud provisions with the NASD and offered to pay $4 million in fines to that agency.

Amid the tumult, a few weeks ago the firm fired one of its highest-profile faces, telecommunications analyst Susan Kalla in a separate matter, charging she failed to comply with internal policies and procedures related to trading activity and disclosures. Kalla denies the charges.

Interestingly, the very chief compliance officer who accused Kalla of violating firm policy left the firm two weeks later in connection with the ongoing insider-trading probe, but not before installing his two sons in FBR’s compliance department. (An inside joke at the firm is that FBR stands for “Friends, Brothers & Relatives,” a reference to the firm’s long-standing clanish employment practices.)

Closing trading for the week at $12.09 a share, FBR stock is off about 36% so far this year. That’s also a 52-week low and down sharply from its 52-week high of 22.

Even at current levels, some observers think it may have further to go.

86. In sum, as the truth about Defendants’ fraud and FBR’s business performance was revealed, the Company’s stock price plummeted, the artificial inflation came out of the stock and Plaintiff and other members of the Class were damaged, suffering economic losses of up to $8.24 per share.
The 37% decline in FBR’s stock price at the end of the Class Period was a direct result of the nature and extent of Defendants’ fraud finally being revealed to investors and the market. The timing and magnitude of FBR’s stock price declines negate any inference that the loss suffered by Plaintiff and other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the Defendants’ fraudulent conduct. During the same period in which FBR’s stock price fell 37% from $19.28 per share as a result of Defendants’ fraud being revealed, the Standard & Poor’s 500 securities index was essentially flat. The economic loss, i.e., damages, suffered by Plaintiff and other members of the Class was a direct result of Defendants’ fraudulent scheme to artificially inflate FBR’s stock price and the subsequent significant decline in the value of FBR’s stock when Defendants’ prior misrepresentations and other fraudulent conduct was revealed.

COUNT II
For Violation of §10(b) of the Exchange Act and Rule 10b-5 Against All Defendants

88. Plaintiff incorporates ¶1-87 by reference.

89. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were materially false and misleading in that they contained material misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

90. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;
(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of FBR common stock during the Class Period.

91. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for FBR common stock. Plaintiff and the Class would not have purchased FBR common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants’ misleading statements and omissions.

92. As a direct and proximate result of these Defendants’ wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of FBR common stock during the Class Period.

COUNT III

For Violation of §20(a) of the Exchange Act
Against the Individual Defendants


94. The executive officers of FBR prepared, or were responsible for preparing, the Company’s press releases and SEC filings. The Individual Defendants controlled other employees of FBR. FBR controlled the Individual Defendants and each of its officers, executives and all of its employees. By reason of such conduct, the Individual Defendants are liable pursuant to §20(a) of the Exchange Act.
CLASS ACTION ALLEGATIONS

95. 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 during the Class Period and who were damaged thereby (the “Class”). 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.

96. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, FBR 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.

97. 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.

98. 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.

99. 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.

100. 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.
PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; awarding reasonable costs, including attorneys' fees; and such equitable/injunctive or other relief as the Court may deem proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

DATED: April 3, 2006

LERACH COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
SAMUEL H. RUDMAN (SR-7957)
DAVID A. ROSENFELD (DR-7564)

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Lead Counsel for Plaintiffs
CERTIFICATE OF SERVICE

I hereby certify that on April 3, 2006, a copy of the foregoing CONSOLIDATED AMENDED COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS was sent, via U.S. Mail, postage prepaid to the following parties on the attached service list.

Mario Alba, Jr.

[Signature]
Counsel For Defendant(s)

Seymour Glanzer  
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