CONSOLIDATED CLASS ACTION COMPLAINT

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COUNT SEVEN
For Violations of Section 20(a) of the Exchange Act,
Against Defendants Krinsky, Hantman and Holmes

PRAYER FOR RELIEF
Court-Appointed Lead Plaintiff Arkansas Teachers’ Retirement System (“Arkansas Teachers” or “Lead Plaintiff”) brings this federal securities law class action on behalf of itself and all other persons and entities, other than defendants and their affiliates, as specified below, who purchased or acquired the securities of SFBC International, Inc. (k/n/a PharmaNet Development Group, Inc.) (“SFBC” or the “Company”) between August 4, 2003 and December 15, 2005 (the “Class Period”), and were damaged by the conduct asserted herein.¹

I. INTRODUCTION

1. This is a case about a company that repeatedly misled investors about the most fundamental aspects of its business and operations. That company is SFBC, and throughout the Class Period, SFBC and its senior officers told investors that SFBC was a well-run business with highly-qualified management and significant competitive advantages in its field. In reality, however, SFBC suffered from a raft of undisclosed problems that infected its business and threatened the Company’s very survival.

2. SFBC is a global drug development services company that conducts clinical tests of development-stage drugs in human subjects. Throughout the Class Period, SFBC reported great success based principally on its ability to run large-scale drug trials involving hundreds of participants – a capability that was essential for SFBC’s clients, such as Merck & Co., Inc. and

¹ Pursuant to Local Civil Rule 10.1(a), the addresses of parties named herein are as follows: Arkansas Teachers Retirement System, 1400 West Third Street, Little Rock, AR 72201; SFBC International, Inc., k/n/a PharmaNet Development Group, Inc., 504 Carnegie Center, Princeton, NJ 08540-6242; Lisa Krinsky: 1131 Hillsboro Mile, Hillsboro Beach, FL 33062-1902; Arnold Hantman: 16181 West Troon Circle, Hialeah FL 33014-6548; Gregory B. Holmes: 21401 NE 38th Avenue, Unit 54, Aventura, FL 33180-4019; David Natan: 6720 NW 74th Court Apt. 74, Coral Springs, FL 33067-3945; Jack Levine: 16855 NE 2nd Avenue, Suite 303, North Miami Beach, FL 33162-1782; David Lucking: 1224 Castile Avenue, Coral Gables, FL 33134-4744; Leonard I. Weinstein: 1521 NE 60th St., Fort Lauderdale, FL 33334-5950; UBS Securities LLC: 299 Park Avenue, New York, NY 10171; Jefferies & Company, Inc.: 520 Madison Avenue, 12th Floor, New York, NY 10022; Advest, Inc.: 90 State House Square, 7th Floor, Hartford, CT 06103-3708; Robert W. Baird & Co. Inc.: 777 East Wisconsin Avenue, Milwaukee, WI 53202-5391; Jesup & Lamont Securities Corporation: 650 Fifth Avenue, 3rd Floor, New York, NY 10019; and Wunderlich Securities, Inc.: 6000 Poplar Avenue, Suite 150, Memphis, TN 38119-3971.
Bristol-Myers Squibb Co., whose success was dependent on successfully completing such trials before they could release new drugs to the market.

3. In this regard, SFBC routinely touted the size and scope of its testing facilities and, in particular, its principal facility located in Miami, Florida. According to SFBC, its Miami facility was the largest testing facility of its kind in North America. Indeed, SFBC claimed that this Miami facility was “state-of-the-art” and repeatedly emphasized that its “size and scope . . . provide[d] a significant advantage” for the Company. This facility was responsible for approximately 25% of the Company’s revenues and 30% of its operating profits, and analysts routinely cited this facility as one of the keys to SFBC’s success.

4. Absent from SFBC’s public disclosures, however, was the fact that its Miami facility was “structurally unsound” and operating in blatant violation of applicable state and local rules and regulations, as detailed below. Indeed, SFBC’s certificate of occupancy – the most basic document governing the Miami facility’s capacity and ability to house large scale drug trials – provided that the facility’s maximum capacity was far less than what SFBC reported to investors. As a result of these and numerous other violations – all of which existed throughout the Class Period – the Miami-Dade County Unsafe Structures Board ultimately ordered the Company to demolish the entire facility.

5. In addition to the size and scope of its Miami facility, SFBC also touted its ability to quickly recruit qualified participants for drug trials. The Company described its prowess in this regard as a “key competitive advantage,” and analysts repeatedly cited this fact as key factor driving its success. The Company also touted its sterling reputation and highlighted that this reputation was “critical to the continued successful recruitment of clinical trial participants.”
6. Nonetheless, throughout the Class Period, SFBC risked its reputation and recruitment ability by utilizing a variety of unethical and dangerous practices that severely compromised the integrity of the drug trials conducted by the Company. For example, as detailed below, SFBC violated applicable minimum waiting requirements, used deceptive payment schemes to decrease the likelihood that a participant would report adverse reactions to the drugs being tested, failed to put into place adequate controls to prevent participants from applying to concurrent drug trials at other facilities, and failed to ensure that participants – the majority of whom are low-income individuals who speak English, if at all, as a second language – provided the required “informed consent.”

7. Further, in order to ensure that SFBC’s improper and unethical practices remained hidden from public view, the Company hired regulatory companies that were completely beholden to SFBC and its employees. For example, throughout the Class Period, SFBC paid hundreds of thousands of dollars to a regulatory company called Southern Institutional Review Board (“Southern IRB”) – a supposedly independent review board (“IRB”) – to oversee and “approve” a substantial portion of their clinical tests. Southern IRB was owned and operated by the wife of a senior officer of SFBC. Similarly, SFBC utilized LeeCoast IRB to supervise its tests, despite the fact that LeeCoast IRB was owned by an SFBC subsidiary and employees of LeeCoast were paid directly by SFBC with checks prepared by SFBC’s own accounting offices.

8. The culture of deceit was so prevalent at SFBC that the Company’s senior executives even misled investors about their most basic qualifications to manage the Company. Specifically, defendant Lisa Krinsky, former Chairman and President of the Company, consistently referred to herself as an “M.D.,” even though she was never licensed to practice medicine. Similarly, defendant Arnold Hantman, former Chief Executive Officer of the
Company, repeatedly referred to himself as a “C.P.A.,” even though his C.P.A. license had expired in 1979.

9. SFBC also failed to disclose that Gerald “Jerry” Seifer, the Company’s former Vice President for Legal Affairs, together with Krinsky and Hantman, ran the operations at its Miami facility, or that the Company was secretly paying him hundreds of thousands of dollars, through companies he controlled, in blatant violation of Securities and Exchange Commission (“SEC”) regulations. These omissions are telling, because Seifer (who shares a home with Krinsky) has a checkered personal history of legal violations that include pleading guilty to a charge of cocaine possession and entering into a settlement with the Federal Trade Commission concerning charges that a company he owned made misrepresentations to consumers. All of these facts were material to investors.

10. Defendants’ untrue and misleading statements and omissions allowed SFBC to project the appearance of growth and success, which inflated the price of SFBC’s securities and enabled the Company’s insiders to enrich themselves at investors’ expense. Indeed, during the Class Period, the individual defendants sold significant portions of their SFBC stock, generating tens of millions of dollars in personal profits. They were also able to orchestrate two large secondary offerings of SFBC securities, which allowed the Company to raise a total of approximately $250 million from unwitting investors.

11. On November 2, 2005, the truth about SFBC was partially disclosed when several of SFBC’s clinical trial participants were quoted in an article from Bloomberg describing widespread improper and unethical clinical testing practices at SFBC. Rather than admit the truth, the senior executives of SFBC publicly denied the story while secretly trying to coerce the participants into refuting their statements. Senior officers of the Company, including defendant
Hantman, threatened to contact the Immigration and Naturalization Service and have several of SFBC’s clinical participants deported unless they signed sworn affidavits recanting their statements to Bloomberg. In an admission of this misconduct, the Company has since fired Seifer for his threatening and abusive behavior towards these participants.

12. When the full truth was finally revealed about SFBC in a series of disclosures that followed throughout November and into December 2005, investors were devastated. SFBC’s stock price plunged a staggering 68%, from $41.49 per share on November 1, 2005, immediately before Bloomberg first identified significant problems with SFBC’s clinical testing facilities and practices, to $13.14 per share on December 16, 2005, when the full extent of SFBC’s false and misleading statements were finally revealed. As a result of these dramatic revelations, SFBC lost approximately $500 million in market capitalization, and shareholders suffered hundreds of millions in damages.

13. Following these revelations, the SEC and Senate Finance Committee both initiated investigations into SFBC. In addition, SFBC completely shut down its Miami operations; moved its headquarters to Princeton, New Jersey; forced nearly all of SFBC’s senior officers to resign; and officially changed its corporate name to PharmaNet Development Group, Inc. In effect, the new management of the Company made a complete break from the old “SFBC,” essentially acknowledging the misconduct alleged herein and that the numerous statements identified below were, in fact, materially false and misleading. Investors are now entitled to recover for the dramatic losses they have suffered.

14. In this complaint, Plaintiffs assert two different sets of claims. Counts One through Five assert strict liability and negligence claims based on the Securities Act of 1933 (“Securities Act”). These claims are asserted against the defendants who are statutorily
responsible for the untrue statements in the prospectuses and registration statements pursuant to which SFBC issued securities to the public. Plaintiffs specifically disclaim any allegations of fraud in these non-fraud claims (including any such allegations set forth in this introduction). Counts Six and Seven assert a number of fraud-based claims under the Securities Exchange Act of 1934 (“Exchange Act”). These claims are asserted against those defendants who knew about, or were reckless in failing to discover, the materially false and misleading statements asserted herein.

II. JURISDICTION AND VENUE

15. Certain non-fraud claims asserted herein arise under Sections 11, 12(a)(2) and 15 of the Securities Act, 15 U.S.C. §§ 77k, 77l(a)(2) and 77o. Certain other claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78t(a) and 78t-1, and the rules and regulations promulgated thereunder, including SEC Rule 10b-5, 17 C.F.R. § 240.10b-5 (“Rule 10b-5”).

16. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, Section 22 of the Securities Act, 15 U.S.C. § 77v, and 28 U.S.C. § 1331, because this is a civil action arising under the laws of the United States.


18. In connection with the acts alleged in the Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the United States mails, interstate telephone communications and the facilities of national securities exchanges.
III. PARTIES AND RELEVANT NON-PARTIES

A. Lead Plaintiff

19. Arkansas Teachers is a government-sponsored, defined benefit retirement plan that manages approximately $10 billion in assets, and has its principal office and place of business located at 1400 West Third Street, Little Rock, Arkansas. Founded in 1937, Arkansas Teachers provides retirement, disability and survivor benefits to employees of Arkansas public schools and educationally related agencies. As set forth in the certification attached hereto as Exhibit 1, during the Class Period, Arkansas Teachers purchased common stock in SFBC International, Inc. as well as SFBC International, Inc.’s 2.25% Convertible Senior Notes due 2024. As a result of these purchases of SFBC International, Inc. securities and the violation of the securities laws alleged herein, Arkansas Teachers suffered substantial damages. On September 11, 2006, this Court appointed Arkansas Teachers as Lead Plaintiff for this consolidated litigation.

B. The Defendants

1. The Company

20. SFBC is a global drug development services company. It provides clinical drug testing services to pharmaceutical, biotechnology, generic drug, and medical device companies. Primarily, it performs clinical tests of development-stage drugs in human subjects who are paid to participate in the experiments. Formed in 1984, SFBC is a Delaware corporation that in May of 2006 relocated its principal offices to 504 Carnegie Center, Princeton, New Jersey, and in August of 2006 changed its corporate name to PharmaNet Development Group, Inc., traded on the NASDAQ under the symbol “PDGI.” Throughout the Class Period the Company’s principal offices were located at 11190 Biscayne Blvd., Miami, Florida (the “Miami facility”), and the Company’s shares traded on the NASDAQ under the symbol “SFCC.” During August 2004,
SFBC was the issuer of $143,750,000 aggregate principal amount of 2.25% convertible senior notes due 2024 (the “August 2004 Bond Offering”). In February 2005, SFBC filed a registration statement and prospectus with the SEC in connection with the convertible notes initially offered in the August 2004 Bond Offering, to be used by purchasers of the notes to resell the notes and the shares of common stock issuable upon conversion of the notes (defined below as the “Bond Registration Statement”). SFBC was also the issuer of the stock sold pursuant to a March 15, 2005 secondary offering of 3.5 million shares of common stock (defined below as the “March 2005 Offering”).

2. The Officer Defendants

21. Defendant Lisa Krinsky (“Krinsky”) was the Chairman of the Board of Directors of the Company and President of the Company from 1999 until she resigned in 2005 as a result of the events described herein. Krinsky signed the Bond Registration Statement. Krinsky also signed the Company’s registration statement on form S-3 in connection with the March 2005 Offering. Krinsky also signed the Company’s Forms 10-K for the Fiscal Years ending December 31, 2003 (“Fiscal Year 2003”) and December 31, 2004 (“Fiscal Year 2004”).

22. Defendant Arnold Hantman (“Hantman”) was a founder of the Company and, from 1995 through the end of the Class Period, Hantman was the Company’s Chief Executive Officer (“CEO”) and a director of the Company. Prior to becoming CEO, Hantman was the Company’s Treasurer. He resigned from the Company in 2005 as a result of the events described herein. Hantman signed the Bond Registration Statement. Hantman also signed the Company’s registration statement on form S-3 in connection with the March 2005 Offering. Hantman also signed the Company’s Forms 10-K for Fiscal Years 2003 and 2004, as well as its Forms 10-Q for the third quarter of 2003, the first three quarters of 2004, and the first three quarters of 2005. Pursuant to Sections 302 and 906 of the Sarbanes Oxley Act of 2002
(“Sarbanes Oxley”), Hantman certified the accuracy of the Company’s Forms 10-K for Fiscal Years 2003 and 2004, as well as its Forms 10-Q for the third quarter of 2003, the first three quarters of 2004, and the first three quarters of 2005. Hantman also signed and, pursuant to Sections 302 and 906 of Sarbanes Oxley, certified the accuracy of the Company’s Form 10-Q/A for the second quarter of 2004.

23. Defendant Gregory B. Holmes (“Holmes”) was the Company’s Vice President of Clinical Operations from June 1999 through the end of the Class Period. The Company disclosed that Krinsky, Hantman and Holmes acted together to carry out the functions of the Chief Executive Officer. Holmes regularly attended and spoke on investor conference calls held by the Company, and was an integral part of the core management team at SFBC. Holmes signed the Bond Registration Statement.

24. Defendant David Natan (“Natan”) has been the Vice President of Finance and Chief Financial Officer of the Company since March 2002. Natan signed the Bond Registration Statement. Natan also signed the Company’s registration statement on form S-3 in connection with the March 2005 Offering. Natan also signed the Company’s Forms 10-K for Fiscal Years 2003 and 2004.

3. **The Director Defendants**

25. Defendant Jack Levine (“Levine”) has been a director of the Company since August 1999. He has been the Chairman of the Board of Directors of the Company since January 2, 2006. Levine signed the Bond Registration Statement and the Company’s registration statement on form S-3 in connection with the March 2005 Offering. Levine also signed the Company’s Forms 10-K for Fiscal Years 2003 and 2004.

26. Defendant David Lucking (“Lucking”) has been a director of the Company since June 2002. Lucking signed the Bond Registration Statement and the Company’s registration


4. **The Stock Underwriter Defendants**

28. Defendant UBS Securities LLC (“UBS”), a subsidiary of UBS AG, is an investment banking firm that provides securities underwriting, financial advisory and equity research services. Its United States headquarters is located at 299 Park Avenue, New York, NY. UBS was the sole book-running manager of the March 2005 Offering. UBS was also an underwriter of the March 2005 Offering, and it sold and distributed SFBC common stock to the investing public pursuant to the registration statement and prospectus filed with the SEC in connection with the March 2005 Offering (defined below as the “March 2005 Registration Statement”). UBS purchased and agreed to sell to the investing public at least $103,360,000 in common stock in connection with the March 2005 Offering.

29. Defendant Jefferies & Company, Inc. (“Jefferies”) is an investment banking firm that provides securities underwriting, financial advisory and equity research services. Its headquarters are located at 520 Madison Avenue, New York, NY. Jefferies was an underwriter of the March 2005 Offering, and it sold and distributed SFBC common stock to the investing public pursuant to the March 2005 Registration Statement. Jefferies purchased and agreed to sell to the investing public at least $25,840,000 in common stock in connection with the March 2005 Offering.
30. Defendant Advest, Inc. (“Advest”) is an investment banking firm that provides securities underwriting, financial advisory and equity research services. Its headquarters are located at 90 State House Square, Hartford, CT. Advest was an underwriter for the March 2005 Offering, and it sold and distributed SFBC common stock to the investing public pursuant to the March 2005 Registration Statement. Advest purchased and agreed to sell to the investing public at least $950,000 in common stock in connection with the March 2005 Offering.

31. Defendant Robert W. Baird & Co. Inc. (“Baird”) is a subsidiary of Baird Financial Corporation, which is in turn a subsidiary of Baird Holding Company. Baird is an investment banking firm that provides securities underwriting, financial advisory and equity research services. Its headquarters are located at 777 East Wisconsin Avenue, Milwaukee, WI. Baird was an underwriter for the March 2005 Offering, and it sold and distributed SFBC common stock to the investing public pursuant to the March 2005 Registration Statement. Baird purchased and agreed to sell to the investing public at least $950,000 in common stock in connection with the March 2005 Offering.

32. Defendant Jesup & Lamont Securities Corporation (“Jesup”) is an investment banking firm that provides securities underwriting, financial advisory and equity research services. Its headquarters are located at 650 Fifth Avenue, New York, NY. Jesup was an underwriter for the March 2005 Offering, and it sold and distributed SFBC common stock to the investing public pursuant to the March 2005 Registration Statement. Jesup purchased and agreed to sell to the investing public at least $950,000 in common stock in connection with the March 2005 Offering.

33. Defendant Wunderlich Securities, Inc. (“Wunderlich”) is an investment banking firm that provides securities underwriting, financial advisory and equity research services. Its
headquarters are located at 6000 Poplar Avenue, Suite 150, Memphis, TN. Wunderlich was an underwriter for the March 2005 Offering, and it sold and distributed SFBC common stock to the investing public pursuant to the March 2005 Registration Statement. Wunderlich purchased and agreed to sell to the investing public at least $950,000 in common stock in connection with the March 2005 Offering.

34. Defendants UBS, Jefferies, Advest, Baird, Jesup and Wunderlich are collectively referred to herein as the “Stock Underwriter Defendants.” As part of their duties as underwriters, the Stock Underwriter Defendants were required to conduct, prior to the offering, a reasonable investigation of the Company to ensure that the statements contained in the March 2005 Registration Statement contained no misstatement or omission of material fact.

IV. CLASS ALLEGATIONS

35. Arkansas Teachers brings this action on its own behalf and as a class action pursuant to Rules 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure on behalf of all persons or entities (the “Class”) who acquired the securities of SFBC during the period from August 4, 2003, through December 15, 2005, inclusive, and who suffered damages as a result of said acquisition. Excluded from the Class are: (i) the defendants; (ii) members of the family of each individual defendant; (iii) any person who was an officer or director of SFBC during the Class Period; (iv) any person who is named as a defendant in any U.S. Government or state criminal proceeding relating to SFBC; (v) any firm, trust, corporation, officer, or other entity in which any defendant has a controlling interest; and (vi) the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded party.

36. The Class is so numerous that joinder of all Class members is impracticable. SFBC common stock was actively traded on the NASDAQ, an efficient market, throughout the Class Period. The market for SFBC’s convertible bonds was also an efficient market. While the
exact number of Class members can only be determined by appropriate discovery, Lead Plaintiff believes that Class members number in the tens of thousands. Following the Company’s March 2005 Secondary Offering, there were approximately 18 million shares of SFBC in the public float. Based upon the volume of trading of SFBC common stock and bonds during the Class Period, it is believed that tens of thousands of investors purchased SFBC common stock and bonds during the Class Period, rendering joinder of all such purchasers impracticable.

37. Lead Plaintiff’s claims are typical of the claims of the members of the Class. Lead Plaintiff and all Class members sustained damages as a result of the wrongful conduct complained of herein.

38. Lead Plaintiff will fairly and adequately protect the interests of the Class members and has retained counsel competent and experienced in class action and securities litigation. Lead Plaintiff has no interests that are contrary to or in conflict with those of the Class members that Lead Plaintiff seeks to represent.

39. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for the Class members individually to seek redress for the wrongful conduct alleged herein.

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

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

(ii) whether documents, including the registration statements, press releases and public statements made by defendants during the Class Period
contained misstatements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(iii) whether the defendants acted with the requisite state of mind in omitting and/or misrepresenting material facts in the documents filed with the SEC, press releases and public statements;

(iv) whether the market prices of SFBC’s common stock and bonds during the Class Period were artificially inflated due to the material misrepresentations complained of herein; and

(v) whether the Class members have sustained damages and, if so, the appropriate measure thereof.

41. Lead Plaintiff knows of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

42. The names and addresses of the record owners of SFBC’s securities purchased during the Class Period are obtainable from information in the possession of the Company’s transfer agent(s) and the Company’s underwriters. Notice can be provided to the record owners of SFBC stock and bonds via first class mail using techniques and a form of notice similar to those customarily used in securities class actions.

V. BACKGROUND

A. The Business and Reported Strengths of SFBC

43. SFBC was founded in 1984 and conducted an initial public offering of common stock in 2000. The Company provides early and late stage clinical drug development services to some of the world’s largest drug manufacturers. Specifically, SFBC conducts clinical tests of development-stage drugs in human subjects who are paid to participate in the experiments. The majority of the human subjects who participate in SFBC’s clinical tests are low-income individuals, many of whom speak English, if at all, as a second language. As a private testing
facility, SFBC is subject to numerous regulatory requirements designed to ensure the quality of trial data and the safety of the trial participants.

44. In its public statements throughout the Class Period, SFBC emphasized two primary advantages that supposedly set the Company apart from its competitors: (1) the size and scope of its “flagship” clinical testing facility, located in Miami, Florida, and (2) its reputation for high-quality services, which, among other things, enabled the Company to “quickly recruit” participants for large-scale drug studies.

45. Throughout the Class Period, SFBC operated clinical trial facilities in Miami and Ft. Myers in Florida, and in Quebec City and Montreal in Canada. The Miami facility, however, was by far the Company’s largest and most profitable – it was responsible for approximately 60% of the Company’s entire capacity and more than 30% of its operating profits.

46. The Company repeatedly touted the Miami facility as “state of the art” and “the largest Phase I and Phase II clinical trial facility North America.” SFBC emphasized that this facility gave it a “significant advantage” over its competitors. Analysts covering the Company also focused on the Miami facility, and they regularly referred to the size and quality of the facility as being a “differentiating characteristic” that set SFBC apart from its competitors.

47. The Company also told investors that it was in the process of expanding the capacity of the Miami facility from approximately 500 beds at the start of the Class Period to 750 beds by the end of 2005. Analysts and the market closely monitored the Company’s expansion plans because additional capacity at the Miami facility would allow the Company to compete for larger clinical trials, thus generating additional revenue and profits for the Company. Throughout the Class Period, SFBC told investors that it was steadily adding additional beds to the Miami facility and that the expansion plans were “on track.”
48. In addition to touting the Miami facility, in its public statements to investors during the Class Period, SFBC emphasized the Company’s reputation for high-quality services, which allowed it to “quickly recruit” trial participants to conduct large scale clinical trials. Indeed, the Company specifically disclosed a list of factors that it believed were critical to its success, including:

- Its ability to recruit clinical trial participants;
- Its medical and scientific expertise;
- Its ability to organize and manage large-scale trials; and
- the quality of its services.

(See, e.g., March 2005 Registration Statement at 36.)

49. Analysts covering the Company highlighted SFBC’s reputation for high-quality services and its ability to recruit trial participants as key generators of growth. For instance, on June 3, 2004, one analyst stated that “the value to clients of being able to recruit and recruit rapidly must not be underestimated” and “[SFBC’s] strategy is to build upon its clinical development expertise and to further its reputation as a provider of a broad range of high-quality drug development services to its clients ….” (6/3/04 Advest report at 15.)

50. As discussed below, bolstered by its reported competitive strengths, SFBC’s business experienced strong growth throughout the Class Period.

B. SFBC’s Class Period Growth

51. On August 4, 2003 (the first day of the Class Period), SFBC announced that it had acquired 100% of the common stock of Clinical Pharmacology Associates (“CPA”), a private company that conducted clinical research services in Miami, Florida. The consideration for the purchase was $7.5 million in cash and 443,072 shares of SFBC common stock.
52. On a conference call held on August 5, 2003, defendant Hantman stated that CPA would expand into SFBC’s “state of the art facility in Miami,” in order to accommodate CPA’s additional business. Hantman also stated that “filling much more of our capacity in Miami is going to be beneficial to us and we can drive incremental revenues so that the company will benefit from additional margin that is achieved without additional overhead.”

53. On that call, defendant Holmes commented on the synergies SFBC would realize as a result of combining CPA into SFBC’s Miami facility, stating “[CPA’s] issue has been … lack of capacity to house all these studies. We add to them that we have additional bed space [for] them to continue to do long-term in-house stud[ies].”

54. Thereafter, on a conference call held on October 20, 2003, defendant Hantman disclosed to investors that CPA had successfully merged part of its operations into the Miami facility, stating “beginning in the third quarter, Clinical Pharmacology overcame its capacity restraints at its facility by conducting some of its studies at our Miami headquarters.”

55. Defendant Krinsky also emphasized the Company’s strong reputation, stating “we have focused on building our reputation among potential and existing clients … through our strength in rapidly recruiting clinical trial participants, and our ability to conduct large high quality clinical trials.”

56. On October 21, 2003, SFBC’s stock closed at $22.51 per share, up from approximately $16 per share in early August 2003.2

57. On October 31, 2003, SFBC conducted a secondary offering of 2,328,000 shares of common stock, at a non-split adjusted price of $29.50 per share (which equates to a split

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2 Unless otherwise stated herein, all stock prices are split adjusted to account for SFBC’s 3 for 2 stock split on or about May 10, 2004.
adjusted price of approximately $19.70). SFBC indicated that it was going to use the majority of
the proceeds from this offering to fund acquisitions.

58. In October 2003, SFBC was ranked third on Forbes Magazine’s list of the 200
Best Small Companies, up from number forty-five the year before.

59. On a conference call with investors held on December 2, 2003, defendant
Hantman stated “we have really integrated really well with our Miami facility. We have excited
the people at CPA very much by the combination and by the opportunities they see for growth
there.”

60. Analysts commented favorably on the integration of CPA into the Company’s
Miami facility, with one analyst issuing a report on December 10, 2003 that stated “Clinical
Pharmacology currently has 70 beds, and is facing substantial capacity constraints. The
acquisition provides the opportunity to shift the overflow, if not all of CPA’s business, into
SFBC’s primary Miami facility . . . .” (12/10/03 Jefferies Report at 12.)

61. In February 2004, the Company informed analysts that it had entered into
negotiations for an outright purchase of the Miami facility, which the Company had leased for
the previous fifteen years. On February 17, 2004, the Company acquired the facility for a
purchase price of approximately $12 million.

62. Thereafter, in its 2003 Form 10-K, which was filed with the SEC on or about
March 15, 2004, the Company stated that it would renovate and further expand the Miami
facility. According to the Company, “as utilization of our principal Miami facility increases, we
believe we can support higher volumes of business without the need to hire a considerable
number of additional personnel or incur significant expenses beyond our current levels.” (2003
The Company also disclosed that the Miami facility had 538 beds, up from 500 beds it had reported in November 2003. (Id.)

63. Analysts applauded the Company’s purchase of the Miami facility. One analyst stated that “the recent acquisition of its Miami facility provides [SFBC] with cost savings opportunities, space to grow, and additional operational flexibility.” (6/3/04 Advest Report at 2.) Commenting on the purchase several months later, another analyst stated that SFBC’s “recent acquisition of its property in Miami on fantastic economic terms (happy shareholders), has provided it with room to grow and with strategic flexibility.” (7/29/2004 Advest Report at 3.)

64. In connection with its first quarter earnings release in April 2004, the Company announced that it would expand the Miami facility from 538 beds to roughly 750 beds. On a conference call with investors on April 27, 2004, defendant Hantman stated, “we think it gives us a great opportunity to profit immensely from . . . the acquisition of the total facility.”

65. On that call, defendant Krinsky stated that the Company was conducting more clinical studies “because of our expertise and increase in our reputation and our credibility throughout large pharma and the pharmaceutical industry.”

66. Two days later, on April 29, 2004, SFBC announced that its Board of Directors had approved a 3 for 2 stock split in the form of a 50% stock dividend.

67. In the months that followed, analysts and the market continued to monitor and react favorably to the Company’s ownership of the Miami facility and its reputation for providing high-quality services. On June 17, 2004, one analyst noted as a “key point” that

SFBC’s] large Miami, FL, Phase I facility, the largest of its size in the industry, provides it with unique advantages in accommodating the growing demand for very large Phase I Trials, that is, 100+ patient trials. In fact, [SFBC] had conducted 240 subject trials at its Phase I facility in Miami, FL, a capability that very, very few Phase I providers can accommodate and recruit.
Another analyst noted that SFBC’s “strategy is to build upon its clinical development expertise and to further its reputation as a provider of a broad range of high-quality drug development services to its clients.” (6/3/04 Advest Report at 11.) This analyst also stressed that SFBC’s success “is to a great extent driven by its ability to differentiate itself through its ability to recruit special populations and difficult-to-recruit trials [and] conduct large trials at one location . . . .” (Id. at 14.)

During this period, SFBC’s stock price rose steadily from a closing price of $17.70 on December 31, 2003 to $31.33 on June 30, 2004.

On July 26, 2004, SFBC capitalized on its increased stock price by acquiring Taylor Technology, Inc. (“TTI”) for total consideration of $20.9 million, comprised of $16.92 million in cash and $3.98 million in common stock of SFBC. Analysts again reacted favorably to this acquisition. For instance, on July 27, 2004, one analyst referred to the TTI acquisition as “another sweet buy,” and wrote that the acquisition “brings management expertise, skilled employees, new services capabilities, new customers and it extends SFCC’s geographic footprint … oh yeah, and it’s immediately accretive.” (7/29/04 Advest Report at 2.)

In August 2004, the Company again capitalized on its reported success by conducting a private placement of approximately $144 million in convertible notes (defined below as the “August 2004 Bond Offering”). The Company stated that it intended to use most of the proceeds from this offering to fund future acquisitions.

In October 2004, the Company reported its third quarter 2004 results that included earnings of 34 cents per share, which beat consensus analyst estimates by 2 cents per share. In
commenting favorably on these results, one analyst noted that the Company’s “expansion of its Miami facility remains on track.” (10/29/04 Jefferies Report at 2.)

73. On an October 28, 2004 conference call with investors, defendant Hantman stated:

we are on track with our development plans for the additional Miami space that we acquired when we purchased the building and property which houses our corporate headquarters, in the first quarter of 2004. In this new space, we plan to be able to offer dedicated clinic space to some of our valued clients, among other initiatives that are consistent with the plans we have previously outlined.

74. Hantman also stated that “as our reputation and our position in the marketplace continues to grow, it is extremely important for SFBC to maintain the highest level of quality in our services, technical capacities, technical capabilities, and management strengths.”

75. On October 28, 2004, SFBC’s stock closed at $29.05, up from $25.90 on October 1, 2004.

76. On November 3, 2004, SFBC announced that it had signed a merger agreement with PharmaNet, Inc. (“PharmaNet”), a private drug development company headquartered in Princeton, New Jersey. Pursuant to the purchase agreement between the two companies, SFBC purchased 100% of the stock of PharmaNet for approximately $248.6 million in cash. The acquisition was financed by $134 million in cash from SFBC’s balance sheet (most of which was raised in the August 2004 Bond Offering) and $125 million drawn down from SFBC’s senior secured credit facilities.

77. All the while, the market continued to closely monitor SFBC’s Miami facility and expansion efforts, with one analyst reporting on January 4, 2005 that “[SFBC’s] Miami facility expansion is slated to come online and management has mentioned that it is in talks for dedicated capacity Phase I deals.” (1/4/05 Jefferies Report at 3.)
78. On January 4, 2005, SFBC’s stock closed near its all-time high of $39.77 per share.

79. In February 2005, the Company prepared and filed a registration statement with the SEC for the convertible notes issued in the August 2004 Bond Offering. When the registration statement became effective, the convertible notes became freely tradable on public securities markets.

80. On February 24, 2005, the Company reported its fourth quarter 2004 results that included earnings of 38 cents per share, which beat consensus analyst estimates by 2 cents per share. In commenting on these results, one analyst stated “In Miami, [SFBC] plans to add approximately 150 beds, with some of the capacity expansion designed for dedicated capacity. This expansion is expected to begin to come on line in 2Q05 and should be completed by the end of 2005.” (2/24/05 Advest report at 2.)

81. On a conference call with investors held on February 24, 2005, defendant Hantman stated “as our reputation and position in the marketplace continues to grow, it is extremely important for SFBC to maintain the highest level of quality in our services, technical capabilities and management strengths.”

82. On February 25, 2005, the Company’s stock price closed at a new all-time high of $42.81 per share.

83. In March 2005, the Company prepared and filed a registration statement for a secondary offering of 3.5 million shares of common stock at $38 per share (defined below as the “March 2005 Offering”). The Company used some of the proceeds from the offering to repay $70 million of debt under its credit facility (which was drawn down in large part to fund the
PharmaNet acquisition) and the remainder was earmarked for additional acquisitions and general corporate purposes.

84. On April 29, 2005, the Company reported its first quarter 2005 results that included earnings of 43 cents per share, which beat consensus analyst estimates by 5 cents per share. In commenting on these results, one analyst stated “the company is in the process of expanding its large Miami, FL, flagship Phase I facility by 150 beds over the course of this year. The first stage of this expansion is complete and involves bringing about half of the 150 new beds online shortly. The second batch of beds will be brought online over the remainder of the year, expanding the Miami facility to a total of 750 beds.” (4/29/05 Jefferies Report at 2 (emphasis added).)

85. On July 28, 2005, the Company reported its second quarter 2005 results that included revenues of $82.4 million, which beat consensus analyst estimates by 3 cents per share. In commenting on these results, one analyst stated that the Company’s “expansion of its Phase I facilities remain firmly on track. 75 beds have been added to the company’s Miami, FL facility so far with another 75 expected to come online by the end of 2005.” (7/29/05 Jefferies Report at 2 (emphasis added).) Another analyst stated “[SFBC] made significant infrastructure investments during the quarter, including the build-out of 75 beds in its Miami facility.” (7/29/05 Stanford Group Report at 1.)

86. On July 28, 2005, the Company’s stock price closed at $41.25, and on September 19, 2005 it reached a new all-time closing price high of $45.36.

C. The Truth About SFBC

87. Contrary to the rosy picture painted in SFBC’s public filings and the public statements made by defendants, SFBC faced a number of serious undisclosed problems throughout the Class Period – all of which rendered SFBC’s public statements materially untrue
and misleading. These problems included that (1) SFBC’s primary Miami facility exceeded its maximum occupancy rates, violated numerous zoning and building regulations, and was so structurally unsound that the Miami Dade County Unsafe Structures Board has since ordered the facility to be demolished; (2) the Company’s clinical trials were being conducted in a dangerous and unethical manner that, if revealed, risked permanent damage to the Company’s reputation and ability to win new contracts and maintain existing ones; (3) the Company was paying hundreds of thousands of dollars in inappropriate and undisclosed related party transactions; and (4) SFBC’s management lacked the qualifications they claimed to have in publicly filed documents.

1. **The Miami Facility**

88. As discussed above, at the start of the Class Period, SFBC occupied the Miami facility pursuant to a long-term lease from a third party. The zoning records of Miami-Dade County provide that the Miami facility was constructed in February 1973 as a Holiday Inn and was rezoned in 1987 as an assisted living facility, or nursing home. SFBC disclosed in 2005 that it had occupied and leased the Miami facility for approximately fifteen years. In February 2004, SFBC informed analysts that it was in negotiations to purchase the Miami facility outright, and the purchase was completed on or about February 17, 2004 for a purchase price of approximately $12 million.

89. Throughout the Class Period, the Miami facility generated as much as 30% of the Company’s operating profit and was touted by the Company as a key competitive advantage. The Company represented that the Miami facility had substantial capacity available to conduct clinical trials. Specifically, the Company stated that it had 500 beds at the start of the Class Period, 600 beds by the time of the March 2005 Offering, and 675 beds by August 2005. The Company also stated that it could use all of the available beds. In reality, however, the Miami
facility (a) exceeded its allowable occupancy, (b) was in such dangerously poor overall condition that it was an “unsafe structure” under applicable regulations, (c) and was rife with hazardous conditions that constituted clear violations of applicable regulations. As a result of these conditions – all of which existed throughout the Class Period – the Miami-Dade County authorities ultimately ordered that SFBC’s Miami facility be demolished, and SFBC relocated its headquarters to Princeton, New Jersey.

a. The Miami Facility Exceeded its Maximum Allowable Occupancy Throughout the Class Period

90. Miami-Dade County records reveal that throughout the Class Period the Miami facility was approved for a maximum of 116 single occupancy units and 162 double occupancy units, or a total maximum occupancy of 440. Indeed, it appears that these restrictions had been in place since at least 1987. In January 1987, in a hearing for a use variance for the Miami facility applied for by the prior owner, the Miami Zoning Appeals Board recommended that the Miami facility’s bedrooms be limited to either single or double occupancy, and that the maximum aggregate occupancy be limited to 440. The Resolution of the Zoning Appeals Board approving the variance states that the property is subject to the condition “that the use be approved for and be restricted to a maximum of 440 patients.” (See Miami-Dade County Zoning Appeals Board, Resolution No. 4-ZAB-9-87 at 2.) SFBC never received permission from the proper authorities to exceed the 440 person maximum occupancy at the Miami facility. Therefore, the 440 person occupancy limitation applied the Miami facility throughout the Class Period.

91. Despite these restrictions, SFBC repeatedly informed investors that the Miami facility had far greater capacity than 440 beds, and that it was expanding that number throughout the Class Period. For instance:
November 14, 2003. In its Form 10-Q for the third quarter of 2003, filed with the SEC on November 14, 2003, SFBC stated that the Miami facility had 500 beds available for use.

March 15, 2004. In its Form 10-K for the fiscal year 2003, filed with the SEC on March 15, 2004, the Company stated that this number had increased to 538 beds and would be expanded even more in the future.

April 27, 2004. On April 27, 2004, in a quarterly earnings call to analysts, defendant Hantman stated that the facility had “roughly 500 beds” available, and the Company was planning to expand the facility by 50%, to 750 beds.

February 24, 2005. In a February 24, 2005 earnings call, held shortly before the March 2005 Offering, defendant Hantman told investors that the Miami facility was now a “600 bed Phase I and early Phase II clinical trial facility and state-of-the-art clinical laboratory.” Hantman added that SFBC was “presently expanding this facility by 150 beds.”

March 8, 2005. SFBC’s 2004 Form 10-K, filed with the SEC on March 8, 2005, repeated that the Company had expanded capacity at the Miami facility to 600 beds.

April 28, 2005. On April 28, 2005, the Company conducted a quarterly earnings conference call and told investors that there were now 675 available beds at the Miami facility, and that the Company was “on track” to have 750 beds in the near future. These figures were repeated in the Company’s Form 10-Q for the first quarter of 2005, which was filed with the SEC on May 10, 2005.

August 9, 2005. In its form 10-Q for the second quarter of 2005, filed with the SEC on August 9, 2005, the Company stated that it had expanded capacity at the Miami facility to 675 beds, and expected to increase it to 750 by the end of 2005.

92. As detailed above, the capacity of SFBC’s Miami facility and its expansion of that facility to keep up with increasing client demands was one of the primary driving forces behind SFBC’s soaring stock price. As particularized below, SFBC’s failure to advise the investing public that its utilization of this facility was in violation of applicable zoning and use regulations, which at all times limited the Miami facility to a maximum occupancy of 440, rendered its numerous statements touting its overwhelming capacity materially untrue and misleading.
b. **The Miami Facility Was a Dangerous And Unsafe Structure Throughout the Class Period**

93. During the Class Period, SFBC made numerous critical, destabilizing modifications to the Miami facility’s structure and interior supports. These modifications violated the Florida Existing Facility Code and the Florida Building Code and put the Miami facility at substantial risk of outright collapse.

94. On October 5 and 6, 2005, a detailed inspection and analysis of the Miami facility was conducted at the direction of Lead Plaintiff (the “Inspection”). The Inspection confirmed that the Miami facility violated numerous provisions of the Florida Building Code (“Florida Building Code” or “FBC”), the Florida Existing Facility Code (“Florida Existing Facility Code” or “FEFC”), and the National Fire Protection Association 101 Life Safety Code (“NFPA” or “Life-Safety Code”), including overcapacity, ingress/egress hazards, inadequate fire safety measures and a dangerously unstable support structure.

95. The Florida Existing Facility Code applies to “the repair, alteration, change of occupancy, addition, and relocation of existing buildings.” FEFC § 101.2. Any alterations that SFBC made to the Miami facility were subject to the Florida Existing Facility Code. The Florida Existing Facility Code defines as “dangerous” any building having one of several listed conditions or defects, among them:

   (i) “Any portion, member, or appurtenance thereof likely to fail, or to become detached or dislodged, or to collapse and thereby injure persons”; and

   (ii) “The building, or any portion thereof, is likely to collapse partially or completely because of... construction in violation of the Florida Building Code, Building[.]”

FEFC § 202 (emphasis in original).

96. In addition, FEFC § 501.2 “Conformance” provides that, “an existing building or portion thereof shall not be altered such that the building becomes less safe... than its existing
condition.” And FEFC § 607.2 “Reduction of Strength” provides that, “alterations shall not reduce the structural strength or stability of the building, structure, or any individual member thereof.”

97. The Miami facility was comprised of two towers located at 11150 and 11190 Biscayne Boulevard. The Inspection revealed approximately thirty-eight dangerous structural alterations in the Miami facility’s South Tower and twenty-seven dangerous structural alterations in the Miami facility’s North Tower.

98. These alterations consisted of, among other things, holes that typically spanned ten to twelve feet across and penetrated sections of load-bearing interior walls on multiple floors throughout both towers. Individually and together, these alterations critically compromised the strength, stability and safety of the building and rendered it prone to collapse in direct contravention of FEFC §§ 202, 501.2 and 607.2. See Exhibit 2 (photographs taken during Inspection).

99. The Inspection also revealed obvious alterations to floorplans posted throughout the Miami facility. The alterations, done with correction fluid and visible only upon close inspection, obscured lines that corresponded to walls removed from the Miami facility itself.

100. In at least two places, large concrete platforms were constructed on the floor of the Miami facility. See Exhibit 3 (photograph taken during Inspection). These platforms placed significant point loads on a floor not designed to support them, and, as such, constituted violations of FBC § 1603.2, which prohibits structural overloading. Floor plans on file with the Miami Dade County Building Department show that these platforms were not part of the building during its prior incarnation as a nursing home. Further, because the facility was originally a hotel, it was designed according to specific parameters set by the Florida Building
Code. Its floors were not designed to support the significant point loads that the platforms placed on them. Indeed, the platforms added approximately 4,180 pounds of weight to the floor under them. This constitutes a load that is approximately 300% greater than the facility’s floors were designed to withstand. As such, the platforms constituted violations of FBC § 1603.2.

101. SFBC’s improper modifications to the Miami facility throughout the Class Period were confirmed by (among other things) photographs taken by Miami-Dade County authorities in October 2005. See Exhibit 4. Moreover, according to a former SFBC employee, a Phlebotomist, who worked at SFBC’s Miami facility for twelve years (“Phlebotomist 1”), “SFBC was a crazy place. The management would put up walls without permits whenever they wanted to.” According to Phlebotomist 1, SFBC’s Miami facility was often very overcrowded and “maybe you could only have 100 subjects in the building but they would have 500 there and maybe you could have a maximum of 40 rooms on a floor, but they would have 100.” Phlebotomist 1 was in a position to know these facts because Phlebotomist 1 observed them first hand during twelve years of employment at SFBC.

102. As confirmed during a May 17, 2006 hearing before the Miami-Dade County Unsafe Structure’s Board (discussed below), these violations existed during the Class Period. Indeed, SFBC was required by the Miami-Dade County authorities to erect a number of “post shores” throughout the Miami facility in late November 2005 because load bearing walls had been improperly removed prior to that date. Additionally, the Inspection revealed that substantial renovations were conducted on the South and North towers of the Miami facility, including holes cut through a number of load-bearing walls and dry wall partitions erected at the West end of the South Tower. Many of these improper alterations appeared to be several years old.
103. Records at the Miami-Dade County Building Department revealed that SFBC did not obtain the necessary building permits for the substantial alterations it made to the Miami facility during the Class Period. The Florida Building Code provides:

Any owner or authorized agent who intends to construct, enlarge, alter, repair, move, demolish, or change the occupancy of a building or structure, or to erect, install, enlarge, alter, repair, remove, convert or replace any electrical, gas, mechanical or plumbing system, the installation of which is regulated by this code, or to cause any such work to be done, shall first make application to the building official and obtain the required permit.

FBC § 105.1 (emphasis added).

104. Based upon an inspection of the records at the Miami-Dade County Building Department and the May 17, 2006 hearing of the Miami-Dade County Unsafe Structures Board, SFBC never obtained the necessary permits relating to the structural alterations discussed herein.

105. By failing to obtain the necessary permits throughout the Class Period, SFBC violated FBC § 105.1 and other applicable regulations. Furthermore, as particularized below, SFBC’s failure to disclose that it was making alterations to the Miami facility in violation of all applicable rules and regulations and that it had failed to obtain necessary permits relating to those alterations rendered its statements regarding its occupation and expansion of this facility materially untrue and misleading.

c. Additional Code Violations at the Miami Facility

106. The Inspection revealed numerous other hazardous conditions, which constituted clear violations of the Florida Building Code’s provisions governing ingress and egress, the Life-Safety Act (“NFPA”) § 101, and various provisions of the Florida Building Code and Americans With Disabilities Act (“ADA”). The following list exemplifies some of these violations found at the Miami facility:
(i) Removal of interior walls creating spaces with unsafe exit routes violated FBC §§ 1016.2, 1006.3.1, 1006.3.4, 11-4.4.1, 11-4.13.6.

(ii) Unsafe exits through maintenance rooms violated FBC §§ 1003.2, 1016.2, 1006.3.1, 1006.3.4, 11-4.4.1, 11-4.13.6.

(iii) Insufficient maneuvering clearances at doors violated FBC § 11-4.13.6;

(iv) Insufficiently high ceilings within a means of egress violated FBC § 1003.2; and

(v) Handicap inaccessible patient bedrooms and bathrooms violated FBC § 11-6.

107. Moreover, SFBC admitted in its Form 10-K/A, filed with the SEC on or about May 1, 2006, that it had received notice of 42 fire violations by October 2005. According to the Company, as of May 1, 2006, the Company had only remedied twelve of the violations.

108. In addition, throughout the Miami facility, locking barrier doors prevented participants of studies from being able to exit the facility. A former Assistant Project Manager at the facility confirmed that SFBC maintained these locking barrier doors on floors occupied by test subjects. The Assistant Project Manager witnessed these locking barrier doors during the course of her employment at SFBC’s Miami facility from June 2004 through May 2005. The barrier doors locked electrically and opened only via a company key card, which SFBC did not issue to test subjects. On information and belief obtained from former SFBC employees, including the Assistant Project Manager, these doors regularly ceased to function during power outages. At such times, according to the Assistant Project Manager, even the staff of the Miami facility could not open the barrier doors, and both staff and test subjects were trapped in the building until power was restored. Because test subjects at the Miami facility were not given key cards, they could not unlock the barrier doors even when they functioned. In effect, as admitted by defendant Hantman in the November 18, 2005 earnings call, “the clinical areas have the
subjects basically incarcerated in them. That is, that they are locked in and do not travel about the premises.”

109. These hazardous conditions constitute a violation of FBC § 408.4.2, which provides:

To increase the likelihood that the doors in the means of egress can be operated even during a power failure, two alternative locking arrangements are required whenever the doors or locks are electrically operated. First, a manual release mechanism is to be provided at the door. Also, a remote backup (second) mechanical operating door release system must be provided or the electrical door control system must be provided with an emergency power source.

FBC § 408.4.2 (emphasis added).

110. Further, the Florida Building Code limits the use of electrically locking barrier doors to buildings classified as “Institutional Group I-3.” This category applies to restricted facilities such as prisons, jails and reformatories, whose occupants “are generally incapable of self-preservation due to security measures not under the occupants’ control.” FBC § 308.4. On information and belief, the Miami facility properly fell into “Institutional Group I-2,” which includes inpatient medical centers, such as hospitals and nursing homes. FBC § 308.3. This information and belief is based upon, among other things, statements in SFBC’s Form 10-K/A for 2005, stating that the Miami-Dade Building Department determined that the Miami facility was classified as an I-2 business. (May 1, 2006 Form 10-K/A at 13.)

111. These and other violations of applicable laws and regulations existed at the Miami facility throughout the Class Period, and rendered SFBC’s statements that its Miami facility was “state of the art” and in “good condition” materially untrue and misleading.
d. The Issues with the Miami Facility Are Confirmed by Miami-Dade County Authorities, and They Order That the Facility be Demolished

112. The serious nature of the structural, occupancy, and safety issues at the Miami facility during the Class Period have since been confirmed by the actions of the Miami-Dade County authorities, who have ordered that the entire facility to be demolished. Indeed, as a result of these problems, SFBC has moved its corporate headquarters to Princeton, New Jersey.

113. On November 23, 2005, the Miami-Dade County Building Department issued a “Notice of Violation” relating to the Miami facility. The notice was signed by Charles Danger, P.E., Building Inspector, and Ricardo Roig, Compliance & Coordinating Manager. The Notice describes the numerous violations of the relevant codes and regulations, including:

(i) “The structure’s condition creates hazards with respect to means of egress and fire protection as provided for the particular occupancy”;

(ii) “The electrical or mechanical installations or systems create a hazardous condition”; and

(iii) “Work done without permit or with expired permit.”

The Miami-Dade authorities also posted signs on the Miami facility warning that it was an “Unsafe Building.” See Exhibit 5.

114. In response to the November 23, 2005 Notice, SFBC attempted to temporarily shore up the weakened structure of the Miami facility by erecting floor-to-ceiling steel struts, called “metal post shores.” An examination of the schematics that SFBC filed with the Miami-Dade County Building Department in late 2005 confirm that the renovations that SFBC performed without a permit during the Class Period rendered the Miami facility structurally unsound. Specifically, the schematics, labeled “temporary shoring plans,” confirm that the purpose of the “metal post shores” was “to ensure [the] structural stability of [the] building.” According to the plans, each post shore had a rated allowable load of 5,817 pounds. The plans
show that SFBC installed approximately 319 post shores, for a total load capacity of approximately 1.8 million pounds. The plans also confirm that the same post shores that were present during the Inspection in October 2006 were first put in place in November 2005, in response to dangerous alterations conducted during the Class Period. See Exhibit 6 (photographs of post shores taken during Inspection).

115. Nevertheless, on January 18, 2006, the Unsafe Structures Board met and issued a “Notice of Board Decision” regarding the Miami facility. This notice, which was transmitted on January 26, 2006, again instructed SFBC to bring the facility into full compliance with Florida Building Code.

116. Ultimately, the problems with the Miami facility were proved to be so severe and longstanding, that SFBC was simply unable to bring it up to code. Accordingly, on May 17, 2006, the Unsafe Structures Board held a hearing with respect to the status of the Miami facility (the “May 17 Hearing”). At the May 17 Hearing, the Board confirmed that the code violations and hazardous conditions described above existed during the Class Period. For example, SFBC’s counsel, Ben Fernandez, had the following exchange with Unsafe Structures Board member James Starkweather, wherein Fernandez confirmed that SFBC had indeed made alterations to interior walls at the Miami facility.

**Board Member Starkweather:**… You guys got caught without permits, you guys decided--

**Fernandez:** There were some changes made basically to some walls within the building.

**Board Member Starkweather:** I remember it was big electrical –

**Fernandez:** Yes.

**Board Member Starkweather:** You guys were doing major changes.
**Fernandez:** That is correct, but we have shored up the building, all the structural is in, all the supports are in….

(Hearing Tr. at 7-8.)

117. A representative of SFBC testified at the hearing that he had installed metal struts at the end of November in order to temporarily shore up the Miami facility’s ceiling, which had been weakened by SFBC’s earlier removal of load-bearing walls: “[w]hat we did is we post shored all the locations where they have removed walls that would be considered to be [load] bearing.” (*Id.* at 8.)

118. The Building Director for the Miami-Dade County Building Department, Flavio Gomez, also testified that the Miami facility was unsafe “And any removal of bearing members, [load] bearing members and electrical, plumbing, by definition, is an unsafe building. *So this is an unsafe building, there is no question about it.* And this is coming now to hurricane season also starting in two weeks….” (*Id.* at 8.)

119. The Building Director also testified that the Company violated Miami-Dade County Code as follows:

(i) SFBC did not obtain permits to do the construction at the Miami facility:

   This thing started because there was work that was done there; structural, electrical and plumbing and remodeling, extensive remodeling. *And lots of work was done without a permit.* So that is how this thing started.

   (*Id.* at 29 (emphasis added).)

(ii) SFBC had been operating the Miami facility without obtaining necessary occupancy documentation:

   *The occupancy of the building is and the use of the building is not for what they are doing.* If they would have gone and pulled a permit like they should have done, they would have been denied.
They would have to vacate the building anyway because they were occupying it illegally without a Certificate of Occupancy for what they were doing.

(Id. at 35 (emphasis added).)

(iii) SFBC’s use of the Miami facility failed to comply with the applicable Certificates of Use and Occupancy:

They are applying for a different occupancy and use than the building had a permit for. The building was permitted originally and it had all the paperwork. They are using it for the wrong use and the wrong occupancy.

(Id. at 34 (emphasis added).)

(iv) SFBC’s attempts to add beds to the Miami facility conflicted with its previously zoned occupancy type:

Now, along the way it was decided that this was an opportunity to change the use and the occupancy of the building to increase the bed capacity to do certain things because the building was being occupied, it was being used for something that it didn’t have a Certificate of Occupancy and Certificate of Use.

(Id. at 30 (emphasis added).)

120. Additionally, various Board members commented on the Miami facility’s hazardous condition and the Company’s violations of Miami-Dade County Code:

(i) Board Member James Starkweather said:

They started construction without permits, they got caught on the construction without the permits, they went to go for permitting, that is where they got caught, where they didn’t have the right zoning….

(Id. at 40 (emphasis added).)

How many people are living there right now? I would like to know how many people are living on
the unsafe structure. How many people are living in there?

(Id. at 46 (emphases added) (SFBC’s representative responds “there’s about 300 people there”).)

(ii) Board Member Carlos A. Naumann said:

They are changing the occupancy of the building, use of the building, and it’s not going to be an easy type of solution that in sixty days, when you are dealing with that type of use, it’s not going from a factory to a business. It requires all kinds of, you know, plumbing, electrical, special electrical, special means of egress, width of corridors, doors, all kinds of stuff. So it seems to me that they are taking advantage of whatever is happening to make that change in the use of a building.

(Id. at 39-40.)

(iii) Board Member Abel Ramirez said:

Basically they were using it for the wrong use and the wrong C[ertificate of] O[ccupancy].

(Id. at 34.)

(iv) Board Member Abel Ramirez also said:

You can’t say it’s safe because it’s not safe. It’s an unsafe structure. You can’t say it doesn’t have a C[ertificate of] O[ccupancy] and it’s the wrong occupancy, everything is wrong down the line, so the building is in an unoccupiable [sic] condition….

* * *

It’s only that somebody decided to do something big and the heck with the County.

(Id. at 43 (emphasis added).)

(v) Vice Chairman Gordon Loader said:

But it does seem to me, from a public safety prospective [sic], that a resolution needs to happen as quickly as possible.
Chairman James Cueva said:

[A]t the end of the day, we have a structure that is sitting out there that is deemed unsafe.

At the conclusion of the May 17, 2006 hearing, the Miami-Dade County Unsafe Structures Board determined that SFBC’s Miami facility was indeed unsafe, stating “the Board has voted. You have 60 days in which to demolish the structure.” (Id. at 56 (emphasis added).)

In short, the findings of the Miami-Dade County Unsafe Structures Board confirm the violations and dangerous conditions at the Miami facility, which are noted herein. As particularized below, these conditions, which were not first disclosed to the market until late November 2005 and not fully disclosed until the end of the Class Period, rendered SFBC’s statements regarding its “state of the art” Miami facility and the related renovations and expansions to that facility materially untrue and misleading.

2. **Reputational Issues and Conflicts of Interest**

122. Contrary to defendants’ public statements, SFBC conducted its clinical trials in a dangerous and unethical manner and failed to disclose that a significant portion of its trials were overseen by institutional review boards that were hopelessly conflicted.

a. **Improper Clinical Practices**

123. As discussed above, SFBC told investors that it adhered to all regulations, treated its clinical trial participants like its clients, and had a superior reputation in the industry. In reality, however, there were significant problems with SFBC’s clinical practices, including (a) failures to obtain proper informed consent, (b) improperly back-loading the payment schedules of its trials in order to ensure that participants would not report adverse events, (c) failing to
maintain meaningful controls to ensure that participants did not participate in multiple trials at the same time, (d) seven “significant objectionable conditions” the FDA had discovered at SFBC’s facilities; and (e) test results were often falsely recorded in violation of drug-testing protocols.

124. SFBC was required to obtain the proper informed consent from its clinical trial participants before enrolling these participants in new drug tests. This was particularly important for SFBC because the majority of SFBC’s clinical trial participants were undereducated individuals who spoke little English. Nonetheless, throughout the Class Period, SFBC did not obtain meaningful informed consent from the participants in its clinical trials. One clinical trial participant stated that SFBC employees asked him if he had read the consent form and understood it, but no one at SFBC explained the risks to him in more detail. A November 2, 2005 Bloomberg article referenced a KW-6002 consent form, used for a test conducted in the Fall of 2005 for an experimental Parkinson’s disease drug, and noted that the consent form:

> says the test is a phase I clinical trial. The document doesn’t explain what phase I means, that the purpose is to determine the side effects and safety of an experimental drug. The test, the consent form says, aims to determine how the active ingredient in KW-6002, istradefylline, is “absorbed, distributed, decomposed and eliminated form the body.”

125. The article referenced another SFBC consent form, for a drug test of TD-6301. According to the article, the consent form for this test stated: “the goal of this study is to determine the highest daily does of TD-6301 that will not cause an undesired increase in heart rate.” According to University of Miami bioethicist Kenneth Goodman (“Goodman”), the wording on the form was misleading and confusing:

> They’re saying it backwards to a population that may not be of the highest education level . . . [t]he real purpose of the study is, “We’re going to make you sick in order to find out at what level
you get sick when given this drug,” .... [o]bviously, they don’t want to say that.

126. SFBC’s failure to obtain meaningful informed consent from its clinical trial participants is further demonstrated by the experience of another trial participant. That participant was involved in a test for an experimental opiate pain reliever called Oros Hydromorphone. While the 14-page consent form that SFBC provided to this participant stated that the people can have fatal allergic reactions to Oros, according to the article, the SFBC doctors who examined the participant during the screening process told him there were few risks involved. The participant is quoted in press reports as saying, “he said the strongest reaction would be like a shot of whiskey … he said it would be fun.”

127. In addition, throughout the Class Period, SFBC improperly back-loaded the payment schedules on its clinical tests in order to encourage participants to remain in the test for the full duration. For instance, one SFBC test conducted at SFBC’s Miami center in July 2005 for the pain killer Palladone, paid participants $66.72 per hour for the first nine days of testing, and then jumped to $333.33 per hour for the final three days, with a bonus of $800 paid upon a single follow-up visit. Peter Lurie, a doctor who is the deputy medical director of Public Citizen, a Washington-based group that monitors patient safety issues, is quoted in press reports as stating that back-loaded payment schedules such as these “provide[] a very powerful incentive for somebody to continue in a study even if they’re being made uncomfortable by it.” The Palladone test was monitored by Southern IRB, which as discussed below, was hopelessly conflicted because it was owned by the wife of SFBC’s Associate Director of Clinical Development.

128. SFBC also failed to maintain any meaningful controls to attempt to ensure that participants were involved in only one trial at a time. Participants in SFBC’s trials in Miami
have admitted that they had participated in more than one clinical trial at the same time and had ignored applicable required waiting periods. Steve Simon, a research biostatistician at Children’s Mercy Hospital in Kansas City, Missouri, was quoted in press reports as stating that when people participate in more than one clinical trial at a time, it can be harmful to both the participant and the quality of the research, and that it is “asking for trouble.”

129. SFBC’s improper clinical practices are further evidenced by the fact that the FDA had found “significant objectionable conditions” in SFBC’s facilities during seven separate inspections. According to press reports, one such letter, received in June 2002, related to SFBC’s informed consent process. The FDA also identified a number of other problems with SFBC’s clinical practices throughout the Class Period. These include:

(i) In August and September 2004, the FDA found that SFBC employees were giving test subjects additional medication, such as Ibuprofen and skin cream, without informing the drug manufacturer who sponsored the tests;

(ii) SFBC changed test results without justification, in order to please a client;

(iii) SFBC reported that a subject “completed a study,” even though the Company had not performed a required test on the subject;

(iv) In December 2004, a test subject reported a headache to SFBC during a clinical trial, but the event was not included in a case report, as required;

(v) In early 2005, an FDA investigator found that persons who had a certain condition that should have excluded them from a study were nonetheless allowed to participate.

130. These practices were improper and substandard, in contrast to the Company’s public statements. For instance, according to a phlebotomist employed at SFBC’s Miami facility throughout 2005 under the ultimate supervision of “Jerry” Seifer (“Phlebotomist 2”):

(a) Phlebotomist 2 witnessed many failures to perform tests in a timely manner and that SFBC technicians were “often late,” thereby missing the required test time and compromising test results;
(b) many employees did not know what they were doing;
(c) test results were falsely recorded to show that they had been conducted at the right time;
(d) the test facility was overcrowded with subjects and did not have adequate storage space for hazardous materials; and
(e) there frequently was no place to dispose of used needles in an appropriate fashion.

131. Even more disturbingly, Phlebotomist 2 witnessed times when clinical trial participants’ blood pressure was too high to continue with tests. These subjects should have been immediately released from the trial. However, Phlebotomist 2 was instructed by a supervisor to enter a lower blood pressure result in the records and not release the subject from the test. Phlebotomist 2 believed that, as a result of these practices, the test subjects were at great risk and should not have remained in the trials.

132. Phlebotomist 2 had firsthand knowledge of these facts because Phlebotomist 2 directly observed clinical trials at the Miami facility and was responsible for recording the test results described above. Indeed, Phlebotomist 2’s job responsibilities involved testing the physical condition of subjects, which often would have to be performed every few minutes.

133. Another former SFBC Phlebotomist, referenced above as Phlebotomist 1, also recalled incidents of improper clinical practices and corresponding falsification of records. For instance, Phlebotomist 1 witnessed an incident where the phlebotomists were late drawing blood from sixteen subjects, but ten of the draws were nonetheless recorded as having been done on time. According to Phlebotomist 1:

(a) many of the staff at SFBC were not properly qualified for the work they were doing;
(b) at least one individual worked as a doctor at SFBC even though he went to medical school in Columbia, and was not licensed to practice medicine in the United States; and
SFBC was often very overcrowded and “maybe you could only have 100 subjects in the building but they would have 500 there and maybe you could have a maximum of 40 rooms on a floor, but they would have 100.”

134. Because Phlebotomist 1’s job responsibilities included the observation of clinical tests and drawing blood from clinical trial participants, Phlebotomist 1 has firsthand knowledge of the information set forth above.

135. According to another former SFBC employee, a Clinical Department Supervisor (the “Supervisor”), who was employed at SFBC’s Miami facility from approximately December 2003 through October 2005:

(a) there were constant errors being made at SFBC, which typically involved the timing of procedures such as drawing blood or taking EKGs;

(b) the staff was not qualified for the work they did;

(c) SFBC conducted more tests that it could comfortably handle and there were too many studies in progress at the same time; and

(d) the Supervisor believed that subjects would not mention adverse events caused by medication, because they feared being disqualified from the trial and not being paid.

136. The Supervisor was employed as a “night shift” supervisor and worked in the Miami facility, and has direct knowledge of the information set forth in (b) through (d) above. The Supervisor had second-hand knowledge, which the Supervisor learned from day shift employees, regarding the information set forth in paragraph (a) above.

137. According to another former SFBC employee, who was employed as a Project Manager (the “Project Manager”) at SFBC in Miami from October 2003 through December 2005, the daughter of Cooper Shamblen (SFBC’s Vice President of Clinical Operations and the husband of Alison Shamblen, the owner of Southern IRB, as discussed below), Stacey Dilzer,
also worked at the Miami facility as the Director of Clinical Operations. According to the Project Manager, it was rumored at SFBC that Ms. Dilzer asked her staff to alter records to cover mistakes. Moreover, based on the Project Manager’s own personal observation, the “Shamblen Group . . . took over and exercised a lot of influence.” This is corroborated by the Company’s admission that it used Southern IRB (which was owned by Shamblen’s wife) to oversee approximately 22% of its clinical studies during the Class Period.

138. According to the Medical Assistant referenced above, SFBC employees forged documents during studies where blood had to be drawn at specific times and intervals. If the employee was late in drawing the blood, he or she would record on the chart the time the blood was supposed to be drawn, not the time it was actually drawn. In addition, the Medical Assistant observed medications that needed refrigeration being left out and specimens that needed to be iced sitting out “for hours.”

b. **Conflicts of Interest with IRBs**

139. SFBC’s improper clinical practices were hidden from view in part because SFBC used hopelessly conflicted IRBs to supervise many of its clinical trials. FDA regulations provide that clinical trials “shall not be initiated” unless they are reviewed and approved by, “and remain subject to continuing review by,” a qualified IRB. FDA regulations set forth many areas of responsibilities for IRBs, including governing what information is provided to clinical trial participants as part of the “informed consent.” The FDA regulations direct IRBs to be “particularly cognizant of the special problems of research involving vulnerable populations, such as … economically or educationally disadvantaged persons.”

140. Throughout the Class Period, SFBC used an IRB called Southern IRB to oversee many of its clinical trials. As was subsequently revealed, Southern IRB was owned by Alison Shamblen. Ms. Shamblen is the wife of Cooper Shamblen, who became SFBC’s Vice President...
of Clinical Operations and was identified as a “key employee” of SFBC, following the acquisition of CPA in August 2003. Cooper Shamblen also received 221,336 shares of SFBC upon the closing of the CPA acquisition. Stacy Dilzer, who was Cooper and Alison Shamblen’s daughter, joined SFBC at the same time as her father, and was awarded 5,000 shares of SFBC upon completion of the acquisition.

141. The only reason that SFBC selected Southern IRB to supervise its tests was because of the familial relationship between Cooper Shamblen, Stacey Dilzer and Alison Shamblen. Indeed, prior to 2003, SFBC did not use Southern IRB to review any of its clinical testing procedures. However, after Shamblen became an employee of SFBC, SFBC began using Southern IRB to oversee a significant number of its clinical tests.

142. The relationship between SFBC and Southern IRB first came to light in a Bloomberg article published on November 2, 2005. The article quoted one of SFBC’s clients, whose tests of a pain killer were monitored by Southern IRB, as stating “If [we] had been aware of the relationship you allege, the company would have looked into the issue before conducting trials at the site …. [We] will address this issue should we decide to work with SFBC in the future.”

143. While defendant Hantman stated in November 2005 that Alison Shamblen was not affiliated with Southern IRB since early 2005, Rosa Fraga, Southern IRB’s chairwoman admitted that Shamblen still owned Southern IRB as of October 10, 2005.

144. On November 3, 2005, during a conference call with investors, defendant Hantman stated that “Southern IRB has been used very little by SFBC. 95% of SFBC’s IRB submissions and approvals have been with other IRBs.” Several weeks later the Company
admitted that this statement was untrue. SFBC had used Southern IRB to oversee more than 22% of its studies between August 2003 and December 2005.

145. There are at least two other instances where, unbeknownst to investors, SFBC used conflicted IRB’s to oversee its clinical trials. First, from 2002 through October 2005, an SFBC subsidiary owned an IRB called LeeCoast IRB, which shared offices with SFBC’s subsidiary in Ft. Myers, Florida. Former SFBC employees have confirmed that employees of LeeCoast IRB were paid directly by SFBC’s accounting office. For example, according to a Research Assistant who was employed at SFBC’s Ft. Myers office from November 2004 through July 2006 (the “Research Assistant”), LeeCoast IRB was owned by Dr. Barrie Phillips, who worked at SFBC in Ft. Myers. The Research Assistant did not believe that Lee Coast and SFBC were as separate as they should have been. An IRB Coordinator who worked at SFBC’s Ft. Myers office from July 2002 through April 2003 (the “IRB Coordinator”) corroborated the Research Assistant’s account. According to the IRB Coordinator, “we had our own IRB there.” The IRB Coordinator confirmed that the IRB was named LeeCoast, and had direct knowledge that LeeCoast oversaw “many” of SFBC’s drug trials – she estimated that one-half to one third of the trials conducted by SFBC Ft. Myers were overseen by LeeCoast. The IRB Coordinator would deliver study packets to the LeeCoast board on Friday afternoons, and the board would meet on Tuesday at 5 p.m. to review studies. At the Tuesday meetings, the board members would get paid by checks that the IRB Coordinator would provide directly to them. The IRB Coordinator viewed the checks first-hand and is certain that the checks were printed and issued by SFBC in its Ft. Myers office.

146. According to another former employee, who was a Controller for SFBC Ft. Myers from July 2001 through July 2006 (the “Controller”), LeeCoast did not have a separate set of
accounting books. The Controller confirmed the account of the IRB Coordinator that the LeeCoast board would meet on Tuesday and be paid by SFBC Ft. Myers. According to the Controller, LeeCoast intended at one point to form its own corporation but “it never got off the ground.” Also according to the Controller, LeeCoast began to meet less frequently in November/December 2005 as SFBC’s business started to decline.

147. The Company has admitted in its Form 10-K/A, filed with the SEC on or about May 1, 2006, that an employee of SFBC served as a member of LeeCoast IRB and voted as an IRB member on three studies managed by an SFBC subsidiary. This is a violation of the regulations governing IRBs. See 21 C.F.R. § 56.108(e). In addition, as admitted by the Company in the May 1, 1005 Form 10-K/A, the wife of an SFBC marketing executive owned an IRB which approved one SFBC study on February 1, 2005. The Company also disclosed in its May 1, 2006 Form 10-K/A that it did not intend to use either of these IRBs in the future.

148. On or about May 1, 2006, the Company “instituted a company-wide policy not to do business with related parties, unless prior approval is obtained by the Audit Committee and then by the full Board of Directors.” (May 1, 2006 Form 10-K/A at 15.) Prior to that date, SFBC’s undisclosed use of IRB’s with debilitating conflicts was a material omission from its public statements, and also rendered its public statements regarding their use of IRB’s, the “high-quality” of their clinical trials, and their strong “reputation” in the industry materially untrue and misleading.

3. Undisclosed Related-Party Transactions

149. Throughout the Class Period, SFBC was engaging in hundreds of thousands of dollars of related party transactions that were required to be, but were not, disclosed in its public filings. Indeed, the Company has since admitted that, from 2003 through 2005, it paid hundreds of thousands of dollars in salaries and other sums to relatives of defendants Krinsky, Hantman
and, on information and belief based on SFBC’s public filings, Shamblen (i.e., payments in connection with SFBC’s use of Southern IRB to review SFBC’s trial practices as discussed above). The Company has also admitted that a Company and an individual controlled by the “former vice president of legal affairs,” who on information and belief is Jerry Seifer, received over $728,000 in undisclosed payments from the Company from 2003 through 2005. In total, the undisclosed related party transactions revealed to date are $342,800 in 2003, $450,404 in 2004, and $441,649 in 2005.

150. The Company has disclosed that it is “still investigating certain payments made to parties associated with certain former officers of the Company.”

151. Pursuant to Item 404 of SEC Regulation S-K, these related-party transactions were required to be disclosed in the non-financial statement portions of SEC filings, including proxy statements and in SFBC’s annual reports on Form 10-K. Item 404(a) requires companies to disclose:

any transaction, or series of similar transactions, since the beginning of the registrant’s last fiscal year, or any currently proposed transaction, or series of similar transactions, to which the registrant or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $60,000, and in which any of the following persons had, or will have, a direct or indirect material interest, naming such person and indicating the person’s relationship to the registrant, the nature of such person’s interest in the transaction(s), the amount of such transaction(s) and, where practicable, the amount of such person’s interest in the transaction(s)

(1) Any director or executive officer of the registrant;

* * *

(2) Any member of the immediate family of any of the foregoing persons.

(Emphasis added.)
152. In blatant violation of SEC regulations, none of these related-party transactions were disclosed during the Class Period.

4. The Qualifications of SFBC’s Senior Executives

153. Contrary to defendants’ public statements, the senior managers at SFBC lacked the basic qualifications that they claimed to have, and the Company failed to disclose the fact that Jerry Seifer was a de facto executive officer of the Company. First, despite SFBC’s repeated references to defendant Krinsky as an “M.D.,” she was not a licensed medical doctor. Rather, she has a degree from Spartan Medical College in St. Lucia in the Caribbean and has never been licensed to practice medicine in the United States.

154. According to an article published in the Hartford Courant in December 2003, Spartan Medical College is one of “the four most widely banned schools” in the United States. Citing a report prepared by California regulators, which the article refers to as a “blistering indictment of the island school,” the article states:

    the primary mission of most students was to spend as little time as they needed on St. Lucia to get a passing grade on the standardized exams required for earning a license as a physician in the United States.

    … the Spartan faculty [was] an unorganized collection of part-time instructors who had questionable qualifications and whose comings and goings were hardly tracked by school administrators.

    Many of the professors had not completed approved postgraduate training programs, the report said. Some were simply spending time at Spartan while waiting to be accepted into a residency program.

    The faculty is grossly underqualified and does not meaningfully participate in the operation of the school ….

155. According to a professor at Harvard, quoted in a November 2, 2005 Bloomberg article, referring to Krinsky as a doctor without disclosing that she has never been licensed is
“misleading in that most, perhaps almost all, readers would assume she is a licensed and fully trained physician.” Moreover, because SFBC was in the medical services industry, investors reasonably believed that a licensed medical doctor acting as the Company’s Chairman and President would provide the Company with a competitive advantage in regard to, among other things, the conduct of its business and its relationship to clients. Investors also reasonably believed that Krinsky’s supposed qualification as a doctor, coupled with her disclosed responsibility at SFBC for all Phase I and II clinical testing, would ensure that SFBC’s clinical practices were of the highest quality (as SFBC and Krinsky herself repeatedly assured investors).

156. Similarly, despite SFBC’s repeated references to defendant Hantman as a “C.P.A.,” he was not a licensed Certified Public Accountant at any point during the Class Period. Indeed, defendant Hantman has not been a duly licensed and practicing C.P.A. since 1979.

157. Finally, the Company failed to disclose the significant role that Seifer played at SFBC. Seifer was nominally the Vice President of Legal Affairs, although he was not a licensed attorney. In reality, however, Seifer, along with Krinsky, was responsible for running the Miami facility. Seifer and Krinsky had a longstanding and close relationship. Following the March 2005 Offering (described below), they jointly purchased one of the most expensive residential properties in Broward county history – a $15 million waterfront mansion. Furthermore, Seifer and Krinsky jointly owned a second home in Aventura, Florida, and in May 2004, they jointly registered a company called LAKJS Enterprises LLC.

158. According to former employees of SFBC, Seifer played an important role in managing the daily operations of the Miami facility. For example, Phlebotomist 1 (described above) stated that Seifer told Phlebotomist 1 that Seifer “owned the Company.” Another former employee who worked for several years at SFBC’s Miami facility as an Assistant Research
Coordinator (the “Assistant Research Coordinator”) was under the impression that Seifer was the owner and stated that Seifer exhibited “erratic” behavior and was known for making scenes and firing employees on the spot. The Assistant Research Coordinator was in a position to know this information because the Assistant Research Coordinator observed Seifer’s behavior first hand. Similarly, the Medical Assistant described above stated that Seifer was very hands-on and was on-site in Miami “most of the time.” Neither Seifer’s relationship with Krinsky, nor his involvement in running SFBC’s Miami facility, were disclosed to investors until December 15, 2005. At that point, analysts expressed significant concern based on the following facts:

(a) In 1979, Seifer reached a settlement with the Commodities futures Trading Commission (“CFTC”) in which he was accused of fraudulent conduct in connection with the offer and sale of commodity futures contracts. Seifer was fined $15,000 and the CFTC revoked the registration of Seifer as an associated person of a futures commission merchant;

(b) In 1992, Seifer pleaded guilty to felony possession of cocaine and misdemeanor possession of drug paraphernalia; and

(c) In 1993, Seifer, a partner, and their company, Applied Telemedia Engineering and Management, reached a settlement with the Federal Trade Commission (“FTC”) concerning “charges of misrepresenting that consumers were highly likely to win a valuable license enabling them to own and operate a wireless television system.” The FTC news release states the company and Seifer agreed to pay $100,000 “to provide consumer redress.”

D. Corrective Disclosures

159. The true state of affairs at SFBC was revealed in a series of disclosures in November and December 2005.

160. On November 2, 2005, Bloomberg published an article entitled “Big Pharma’s Shameful Secret.” The article discussed the results of an extensive investigation by Bloomberg into the human drug testing industry. The Bloomberg investigation focused on SFBC and
included statements from experts in the industry, participants in SFBC’s clinical trials, and SFBC executives. The November 2, 2005 article revealed for the first time that, despite prior statements in SEC filings reporting that SFBC’s Miami facility had 675 beds – and specific representations from defendant Hantman that “we can use all of the capacity” – in fact SFBC was informing Miami Dade authorities that their capacity was 350. The article also revealed that Southern IRB was owned by the wife of Cooper Shamblen, SFBC’s vice president of clinical operations.

161. Based on interviews with participants in drug trials conducted at the Company’s Miami facility, the article stated that (a) participants were enrolled at back-to-back trials at SFBC, without adhering to minimum waiting requirements; (b) SFBC failed to adequately disclose the risks of trials in order to get its participants’ “informed consent”; (c) SFBC did not contact competing clinics to ensure that it participants were enrolled in only one drug trial at the same time, and (d) SFBC used coercively back-loaded payment schedules to decrease the chance that a participant would report uncomfortable or adverse reactions to the drug.

162. Finally, the article revealed that, although the Company routinely referred in its SEC filings to defendant Krinsky as “Dr. Krinsky” and “Lisa Krinsky, M.D.,” and to defendant Hantman as “Arnold Hantman, C.P.A.,” Krinsky has never been licensed to practice medicine and Hantman had not been licensed as a certified public accountant since 1979.

163. In response to this article, SFBC’s stock price began to decline, dropping from a closing price of $41.49 on November 1, 2005 to close at $37.89 on November 2, 2005.

164. On November 3, 2005, SFBC released its financial results for the third quarter ended September 30, 2005 in a Form 8-K and accompanying press release, which were filed with the SEC. The Company reported direct revenue of “$87.5 million, an increase of 135%
compared to direct revenue for the third quarter of 2004.” The press release also stated that “Net earnings on a GAAP basis for the third quarter of 2005 increased by 74% to $9.2 million” and that “non-GAAP net earnings … increased by 80% to 10.0 million.” SFBC stated that “SFBC believes this non-GAAP earnings information is a useful indicator of its underlying business performance.” Analysts noted that SFBC’s non-GAAP EPS of $0.52 exceeded consensus estimates of $0.49.

165. In commenting on the Company’s third quarter 2005 results, defendant Hantman referenced the Miami facility, stating “[w]e were fortunate that our facilities in Miami and Fort Myers sustained minimal damage due to Hurricane Wilma and are currently fully operational.” The press release referred to defendant Krinsky as “Lisa Krinsky, M.D.”

166. Following the issuance of the press release, the Company held a conference call with analysts and investors. In commenting on the Bloomberg article, defendant Krinsky stated “Please note that approximately 99% of the information that was documented regarding SFBC is a total fabrication and the remaining 1% was entirely misquoted. Obviously, Bloomberg is in competition with the National Enquirer.”

167. Defendant Krinsky also stated in response to a question about the Bloomberg story, “[a]s we all know, SFBC has established a relationship of trust, respect and confidence within the pharmaceutical, regulatory and the investment community.” Defendant Hantman stated, with respect to Southern IRB, that “Southern IRB has been used very little by SFBC. 95% of SFBC’s IRB submissions and approvals have been with other IRBs.”

168. In response to a question about whether the Bloomberg story had damaged the Company’s business relationships with its customers, defendant Krinsky stated “Right now, our
business contracts remain the same and consistent. We are still getting contracts from our old clients and are getting new contracts from new clients.”

169. Despite defendants’ best efforts to refute the Bloomberg article, its impact continued to be felt on SFBC’s stock price. On November 3, 2005, SFBC’s stock closed at $27.91, a 26% decline from the prior day’s close. In total, the release of the November 2, 2005 Bloomberg report caused SFBC’s stock to drop from $41.49 on November 1, 2005 to $27.91 per share on November 3, 2005, a drop of 32.73% over two days. The price of SFBC’s notes also fell from approximately $120.67 on November 1, 2005 to $91.35 on November 3, 2005.

170. On November 14, 2005, the Company filed its Form 10-Q for the Third Quarter of 2005. The 10-Q was signed by defendants Hantman and Natan, each of whom also signed certifications pursuant to Sarbanes-Oxley stating that the report did not contain any untrue statements of a material fact or omit to state a material fact. The third quarter 2005 10-Q stated:

We expect to expand the maximum capacity of our Miami facility by an additional 75 beds by the first quarter of 2006. We believe the size and scope of this facility provides a significant advantage in competing for large early stage clinical trials. Further, this facility allows us the flexibility to conduct numerous clinical trials concurrently. Our Miami facility, which also serves as our corporate headquarters, includes a state-of-the-art clinical laboratory.

171. The third quarter 2005 10-Q also stated that “[w]e believe our strength in rapidly recruiting clinical trial participants and our ability to conduct large, high-quality clinical trials, can enable our clients to reduce their drug development lead times …. [W]e believe these capabilities make us a desirable drug development services partner.” (Emphasis added.)

172. SFBC’s stock price rose on these disclosures from a close of $31.82 on November 11, 2005 (the last trading day before the third quarter 2005 10-Q was released), to close at $33.17
on November 15, 2005. SFBC’s note prices also rose from approximately $96.90 on November 11, 2005 to $99.96 on November 15, 2005.

173. On November 16, 2005, Bloomberg reported that SFBC had “threatened to arrange federal deportation of Latin American immigrants who had disclosed health risks in clinical trials.” The story cited interviews with drug trial participants and stated that:

SFBC placed at least three drug trial participants in separate rooms with SFBC officials, including Chief Executive Officer Arnold Hantman …. Hantman, using profanity, said he would call the U.S. Department of Homeland Security to have the participants deported if they didn’t sign statements refuting a Bloomberg News story published Nov. 2 that showed risks of injuries and death from drug testing.

174. The November 16, 2005 story also reported that:

The drug trial participant says Hantman asked that he sign a statement saying the reporter hadn’t clearly said he would publish an article or use his photograph. In a taped interview, the drug test participant says he agreed to say what Hantman wanted because the CEO told him that was the only way to prevent him from being arrested and deported. He says that someone then brought in a prepared written statement and asked him to sign it. The participant says he signed the paper, dated Nov. 3, which was then notarized in front of two witnesses.

The drug test participant says that when he returned to SFBC for part of a clinical trial, a person at SFBC asked him to sign another version of the statement …. The participant says he signed the second statement because he would have signed anything just so he would be allowed to leave …

Another test subject says an SFBC executive told him that SFBC wouldn’t pay him for a clinical trial he had participated in and would alert immigration officials if he didn’t sign a statement saying the reporter hadn’t told him he would publish an article or use his photo …. [t]he test participant says he agreed to endorse the false information because he thought it was the only way he could leave the test center and avoid being turned over to immigration officials …. 

A third drug test participant says he went to SFBC 10 days ago to try to enroll in a clinical trial because he needed the money. He
says that after he identified himself, a man who said he worked for SFBC security told him to wait in an office. Eventually, **Hantman came into the room and screamed at him with curse words**, the participant says …. **Hantman said he would never allow him to be paid for a clinical trial again – at SFBC or any other drug-testing center …. the participant says he fears further intimidation from SFBC if his name is published.**

(Emphasis added.)

175. In a statement released at 2:49 p.m. on November 16, 2005, SFBC said, “the assertions from ‘anonymous sources’ concerning coercion and threats by SFBC employees, including contacting immigration authorities are baseless.”

176. Nevertheless, in response to this story, the price of SFBC stock plunged from a $33.17 per share closing price on November 15, 2005 to close at $25.97 on November 16, 2005, on heavy volume. The price of SFBC’s notes dropped from $96.90 to $84.45.

177. On November 17, 2005, Senator Charles E. Grassley (Rep. Iowa) wrote to defendant Hantman stating:

I am greatly concerned by a special report published in the December 2005 issue of *Bloomberg Markets*, entitled, “Big Pharma’s Shameful Secret” …. [T]he purpose of this letter is to request that SFBC International cooperate with the Committee’s review of matters related to the Bloomberg Report and subsequent related articles published by Bloomberg. As Chairman of the Committee, I request that you meet with my Committee staff to discuss reported allegations related to SFBC International by no later than December 16, 2005. In cooperating with the Committee’s review, no documents, records, data or information related to these matters shall be destroyed, modified, removed or otherwise made inaccessible to the Committee.

178. On November 18, 2005, the Company held a conference call with investors and analysts. On that call, defendant Hantman stated that “SFBC believes that there is no merit for the criticism of its practices, and that the information in both articles is inaccurate, and that in the second article, the information is just untrue.”
179. Defendant Hantman tried to alleviate investor concern over the impact the articles was having on the Company’s business, stating:

   Based on the activity since the first article was published, we have not seen any impact on our existing contracts, proposals, or backlog …. In addition, the level of participants coming to our facility to participate in trials has remained as high as ever.

180. Defendant Hantman also attempted to alleviate concern over the capacity of the Miami facility by stating that the Miami facility “has additional capacity that can be accessed easily … and we just recently announced that we were [sic] going to be expanding that capacity in the very near future.” (Emphasis added.) The following exchange demonstrates the importance of this issue to investors:

   Q (analyst): That is a critical point, then. You’re still positioning yourself for growth and at the very least it is unlikely you’re going to see any shrinkage so you want to maintain this ability to grow, right.

   A: (Hantman): Absolutely.

   (Emphasis added.)

181. During this call, defendant Hantman also disclosed that SFBC had received a letter from Senator Grassley, chairman of the Senate Finance Committee, requesting that representatives of the Company meet with his staff.

182. In response to these disclosures, the price of SFBC’s stock dropped to a closing price of $23.98 on November 18, 2005, on heavy volume.

183. Two weeks later, SFBC announced that it was reducing the capacity of its Miami facility from 675 beds to 350 beds, with an expectation to remove an additional 120 beds in the next 10 days. Specifically, on December 1, 2005, the Associated Press issued an article entitled “SFBC Stock Drops on Fire Exits Concerns; SFBC Int’l Stock Falls After Company Cooperates With Officials to Resolve Fire Exits Concerns.” The article stated in part:
SFBC International Inc. stock fell Thursday after the company, which tests drugs for other companies, said it is cooperating with officials to resolve concerns about fire exits at its Miami headquarters and clinical facility.

* * *

In order to prepare for renovations and to address fire-exit issues raised by the county, SFBC said it reduced the number of beds at its Biscayne Boulevard facility to 350 from 675 and expects, within 10 days, to also move 120 beds to another building it owns in Miami.

184. In response to these disclosures, the price of SFBC stock plunged from a $21.09 per share closing price on November 30, 2005 to close at $15.64 on December 1, 2005, on heavy volume. SFBC’s notes dropped a staggering 26% from approximately $89 in late November, to $69.85 on December 1, 2005, on heavy volume.

185. On December 15, 2005, Bloomberg ran another story with the headline “SFBC Drug Testers Have Tuberculosis After Exposure at Center.” According to the article, a patient at SFBC’s testing site in Montreal contracted tuberculosis, but was not allowed to leave the facility. Consequently, at least seven other patients contracted tuberculosis. The article stated:

“Once they had a person coughing up blood, to allow him to expose others to TB is wrong,” says Steven Miles, a professor of medicine and bioethics at the University of Minnesota Medical School in Minneapolis and a co-author of a 2001 textbook about treating tuberculosis. “You assume TB until you exclude it.”

According to the article, Miles stated “I’ve never heard of this happening in a clinical trial before, I’ve seen TB spread like this in a prison.” (Emphasis added.) The article also quoted Daniel Federman, a senior dean at Harvard Medical School as stating “[t]his story suggests a serious lapse in the most basic care of patients exposed to a known communicable disease. The breach of responsibility is egregious.”
186. Also on December 15, 2005, SFBC announced that it had updated fiscal year 2005 guidance and established guidance for fiscal year 2006. The announcement partially admitted the impact that the Bloomberg stories were having on the Company, stating “the Company has identified approximately $0.02 in lost EPS as a direct result of one client canceling two signed contracts of ongoing studies due to the Bloomberg articles, the impact of which is included in guidance.”

187. In addition, the Miami Herald reported on December 15, 2005 that, in April 2005, public records indicated that defendant Krinsky and Seifer jointly purchased a $15 million property on Hillsboro Mile and were listed as joint registrants of a 2005 Rolls Royce. Moreover, The Miami Herald reported that Seifer’s cousin, David Seifer, a lawyer, who is listed as outside counsel and as the registered agent for SFBC, also incorporated one of Seifer’s companies that ran afoul of the FTC.

188. The Company also announced on December 15, 2005 the results of an investigation and brief report issued by two law firms that the Company had retained to draft a response to the statements in the November 2, 2005 Bloomberg article. The report stated that SFBC had conducted 523 studies since August 2003 of which 117, or 22 percent, went to Southern IRB, the IRB owned by Shamblen’s wife. This was contrary to defendant Hantman’s statement on the November 3, 2005 conference call where he told investors that only 5 percent of the Company’s trials were overseen by Southern IRB. The report also acknowledged that it was possible for SFBC’s clinical trial participants to participate in more than one study at a time.

189. The investigation also confirmed the November 16, 2005 Bloomberg report that SFBC officials threatened certain drug trial participants with deportation for being illegal aliens. The report stated that Seifer conducted and arranged the meeting. While the report uncovered
different accounts of the incident, it revealed that SFBC’s Director of Material Management, who was acting as a translator at the meetings, stated that Seifer had said “I have a friend in INS[,] and can ask a friend [,] and I can deport you guys, because you’re saying here you’re not legal.”

190. In a conference call on December 15, 2005, defendant Hantman stated that Seifer’s actions were “unacceptable or improper” and that the Company had suspended him with pay for 30 days. In response, an analyst stated:

I think this is the first time in a public conference call that I’ve heard Mr. Seifer’s name mentioned. What is his role in the Company and why would you not just terminate him given the tremendous impact that his actions have caused on your stock price?

(Emphasis added.)

191. Defendant Hantman stated that “Seifer has been with the Company for ten years …. his activities primarily deal with management within the South Florida facility.” Defendant Hantman also stated “His title officially is Vice President of Legal Affairs but he’s not really been appointed as an officer by the Corporation. He acts as an officer on behalf of the Miami subsidiary only.”

192. In response to a question from an analyst, defendant Hantman stated that Seifer “is not an attorney.” Another analyst asked:

Were you also aware of the fact that Mr. Seifer has been sanctioned by the SEC in connection with his involvement with commodity trading at SLS Trading and by the FCC and FTC in connection with fraud committed with Gerald WIRELESS and Applied Telemedia? And finally, are you aware that Gerald Seifer and Lisa Krinsky own a home, a Bentley and a Rolls-Royce together and are probably either husband and wife or common-law husband and wife?
193. In response, a company representative stated “[w]e were aware of Mr. Seifer’s background with respect to regulatory authorities.”

194. In response to these events, SFBC’s stock price dropped from $17.66 on December 14, 2005 to close at $15.78 on December 15, 2005. The price of its notes dropped from approximately $76.66 to $72.14 on the same day.

195. On December 16, 2005, SFBC was reduced to “neutral” from “outperform” by Robert W. Baird & Co. (“Baird”). In a report to investors, Baird stated:

(i) “we now identify several new misstatements from management that further shake our confidence in management, its judgment, and its ability to deliver upon the new guidance”; and

(ii) “we also believe that [SFBC] inappropriately treated patients in Miami, and an employee has emerged who clearly wields influence (never disclosed), and whose background and character are of concern.”

(12/16/05 Baird Report at 1.)

196. The report also stated:

[Seifer] is not an attorney, as one would expect for a VP of Legal Affairs, and his background includes numerous run-ins with regulatory authorities in the 1980s and 1990s. These included sanctions from the National Futures Association for serving as Executive Vice President and 30% owner of a firm fined for securities fraud, including high pressure sales tactics, misrepresentation, encouraging falsified data, threatening behavior, and failing to supervise. In addition, Seifer was charged by the FTC of making “blatant misrepresentations” and consumer fraud for a wireless cable marketing scheme.

(12/16/05 Baird Report at 5.)

197. In this report, Baird also stated that it had identified several misstatements from management and lost confidence in management. They pointed out that the investigation report prepared by SFBC revealed that SFBC received seven FDA Form 483 citations between 1998 and 2005 at its Miami, Florida facility, when management previously communicated to Baird
that it only received three such letters. One such letter, received in June 2002, related to SFBC’s informed consent process. Additionally, the report stated that SFBC management informed them on December 6, 2005 that SFBC had not lost any existing business, however, on December 15, 2005, in a conference call with analysts, SFBC announced that one of its clients canceled its drug testing studies in late November and that the Company expected slower demand for its services in the future. (Id. at 3-6.)

198. In commenting on the Company’s internal investigation into the patients who contracted tuberculosis at the Company’s Miami facility, the report stated that:

SFBC did not do a physical exam for tuberculosis, as was requested by Isotechnika, the company sponsoring the trial.
SFBC is also accused of not promptly removing the patient from the study after he was witnessed “coughing up blood.”

***

At least nine trial participants tested positive for latent TB, after a Haitian trial patient exhibited active TB for at least four days before SFBC clinicians intervened. Isotechnika management also reports requesting TB-related screening and exams ....
According to Bloomberg and the patients’ roommate, Patient 8 was lethargic, coughing up blood, and clearly ill from August 30 to September 1, before being examined. Patient 8 and the other patients remained in the study for eight days before being sent home, and when the patients returned on September 19 for another round of tests they were informed that the study was canceled due to suspected TB. .... However, the patients weren’t tested for TB until November 1 .... Since SFBC management has repeatedly told us that many patients lie about many things, it seems to us as though the company would have done the maximum to screen patients appropriately in the first place, and it doesn’t clear up the issue of a patient being sick for four days before being examined. Further, on the management conference call, CEO and Treasurer Arnold Hantman twice blamed Patient 8 for this incident, for not reporting screening questions appropriately .... The client sponsor and several experts quoted by Bloomberg testify that SFBC’s handling of this trial was inappropriate, and from the information available, we tend to agree.

(Id. at 4 (emphasis added).)
199. The report also stated that:

Management’s comments that the Miami revenue shortfall “unexpectedly continued” in 4Q is disappointing and hurts credibility. Management told us on December 6 that it had not lost any existing business. We learned December 15 that a client canceled studies in late November and that the company now expects slower demand for at least two quarters. Further our concern is the fact that there were seven 483 letters in recent years (we were allowed to believe that there were three) and that Southern IRB was only involved in about 5% of studies (it was, in fact, closer to 25%).

(Id. at 5 emphasis added.)

200. With respect to Seifer, the report stated:

Management admitted on the December 6 call that it “dropped the ball” related to poor decisions in certifying the Miami facility with city planners. On Thursday’s call, we learned that [SFBC] employs Gerald Seifer as VP – Legal Affairs, in Miami. We believe Mr. Seifer’s background and role at [SFBC] is cause for concern. He is not an attorney, as one would expect for a VP of Legal Affairs, and his background includes numerous run-ins with regulatory authorities in the 1980s and 1990s. These include sanction from the National Futures Association for serving as Executive Vice President and 30% owner of a firm fined for securities fraud, including high pressure sales tactics, misrepresentation, encouraging falsified data, threatening behavior, and failing to supervise. In addition, Seifer was charged by the FTC with making ‘blatant misrepresentation’ and consumer fraud for a wireless cable marketing scheme. Therefore, the knowledge (through independent counsel findings) that Mr. Seifer did threaten patients with deportation in Miami is unsurprising and refutes what EVP Greg Holmes told us in a November 16 conference call.

(Id. (emphasis added).)

201. The report also stated:

We believe that [SFBC’s] reputation is damaged and increasingly believe that [SFBC’s] business development will suffer given concerns regarding the quality of [SFBC’s] services, as well as client concerns regarding the potential liabilities associated with doing business with [SFBC].
202. On December 16, 2005, Senator Grassley sent another letter to defendant Hantman, which noted that, notwithsanding the Company’s internal investigation, “the Committee’s review is ongoing.” This letter also stated:

I request that SFBC make the following employees available to Committee staff: Lisa Krinsky, Chairman of SFBC, and Jerry Seifer, Director of Legal Affairs for SFBC. The Committee is also interested in interviewing specific persons identified in SFBC’s Report, including, but not limited to, the Director of Materials Management, the Director of Recruitment and the Director of Clinical Operations.

203. In response to these events, on December 16, 2005, SFBC’s stock price dropped from a closing price of $15.78 on December 15, 2005 to $13.14. SFBC’s notes fell from a closing price of $72.15 on December 15, 2005 to $64.25 on December 16, 2005.

204. In total, between the time that Bloomberg published the “Big Pharma’s Shameful Secret” article on November 2, 2005, until the end of the Class Period on December 15, 2005, SFBC’s stock fell from $41.49 per share to $13.14 per share on December 16, 2005, a cataclysmic drop of 68.3%. The price of SFBC’s convertible notes fell from a $120.67 on November 1, 2005 to close at $64.25 on December 16, 2005, a drop of 47%.

E. Post-Class Period Revelations

205. On December 19, 2005, SFBC announced that Seifer had resigned from the Company, and a Bloomberg article reported that Seifer had told SFBC’s counsel that he had told one clinical trial participant who spoke to Bloomberg: “Well, if you don’t have your immigration, don’t you know you can get deported? Are you legal or illegal? If you’re illegal, immigration is down the street on 79th Street.”

206. The same Bloomberg article reported that:
Seifer and SFBC Chairman and President Lisa Krinsky jointly purchased a home in April for $15 million in Hillsboro Beach, Florida, according to property records. The month before, Krinsky sold 250,000 shares of SFBC at $38, for $9.5 million. In 1992, Seifer and his company, Applied Telemedia Engineering and Management Inc., agreed to pay $100,000 to settle Federal Trade Commission charges of misrepresenting that consumers who bought the company’s services were likely to win a license enabling them to own and operate a wireless cable television system, according to an FTC statement. Seifer also agreed to an injunction prohibiting him from making misrepresentations about investments.

The same report commented on the report issued by the Company’s counsel and noted that the “report doesn’t mention Seifer’s FTC injunction or discuss his relationship with Krinsky.”

207. Also on December 19, 2005, Senator Grassley wrote to the Acting Commissioner of the FDA regarding SFBC. That letter stated:

In the [Bloomberg] Report, SFBC International (SFBC) was identified as the largest for-profit drug testing center in North America. The Report raised several concerns involving safety and research methods performed on human subjects at the SFBC Miami facility. In light of these revelations, the Committee has requested to speak to the Chief Executive Officer of SFBC.

The letter requested that the FDA forward to Senator Grassley and the Senate Committee on Finance certain information regarding its inspections of SFBC.

208. On January 3, 2006, SFBC announced that its Board of Directors had appointed Jeffrey P. McMullen as Chief Executive Officer replacing defendant Hantman, who was retiring. The Company also reported that the Board had accepted the resignation of defendant Krinsky. A Bloomberg article reporting on the development stated:

The top two officials at SFBC International Inc., the drug testing company at the center of a U.S. Senate probe, quit after investigators sought to interview them …. SFBC is trying to regain investor confidence after Miami officials forced SFBC to remove beds in its main trial center because of safety issues, [and] Canadian officials probed a tuberculosis outbreak in a Montreal drug trial ....
The article reported that Hantman, Seifer and Krinsky were “among SFBC’s founders” and that SFBC had negotiated severance agreements with Hantman and Krinsky “which were more favorable to the company than what these executives would have received under the terms of their existing employment agreements if they had been terminated without cause.”

On January 10, 2006, Bloomberg issued an article entitled “SFBC Receives Request from SEC on Former Executives.” The article stated in part:

SFBC International Inc., the clinical drug testing company at the center of a U.S. Senate probe, said the Securities and Exchange Commission requested records on two former executives.

The U.S. regulators are seeking information on duties, pay and expenses for Lisa Krinsky, the former SFBC president, and Gerald Seifer, former director of legal affairs, Miami-based SFBC said today in a statement. Both left the company within the past month.

SFBC already is under scrutiny by the Senate Finance Committee, looking into the treatment of patients. The new chief executive officer, Jeffrey P. McMullen, today announced steps, including moving the company and appointing a new chief financial officer, aimed at restoring investor confidence.

The same article quoted Senator Grassley as stating “[t]hings aren’t right at that corporation in the sense that they were unethically using human beings for experimental research for pharmaceutical companies,” and “there’s questions about the financial status of the company because now the SEC’s getting involved in investigating there.” The article stated:

Staff members of the Finance Committee are to meet tomorrow with Krinsky and Seifer, SFBC said. An additional meeting, as yet unscheduled, is expected with former Chief Executive Officer Arnold Hantman, as well as three other SFBC employees, the company said.

Finally, the article shed more light on the previously-disclosed fire-safety violations at the Miami facility, stating that:
Separately, documents obtained by Bloomberg News show that SFBC’s Miami testing unit, the largest private center for clinical trials, was cited for 82 fire-safety violations over six years. SFBC disclosed today that it is responding to an “open item” connected with a U.S. Food and Drug Administration inspection of the Miami center.

The article stated that “The Miami-Dade Fire Department found the fire-code violations in five inspections since 1999, according to documents obtained by Bloomberg News.” According to the article, an inspection of the facility on October 19, 2005 found forty-three fire-safety violations. The article also stated that “SFBC is responding to an “open item” with the U.S. Food and Drug Administration on the number of evaluators and the timing of assessments used in a clinical trial conducted by the company at the Miami testing center.”

213. On January 11, 2006, Senator Grassley issued a press release stating that the Senate Committee on Finance had interviewed Krinsky and Seifer and discussed “the findings of the report that the company’s lawyers provided to the committee, including ‘inappropriate’ behavior, and allegations related to the ethical treatment of patients.” The press release also stated that: “the Committee will continue reviewing the company’s practices and activities as the SEC’s investigation continues.”

214. On February 8, 2006, Senator Grassley and the Senate Committee on Finance made another request for documents and information relating to, among other things:

(a) certain former employees of SFBC;
(b) the institutional review boards SFBC uses; and
(c) the SEC inquiry.

215. On March 9, 2006, the Company held a conference call where the new CEO stated that “[t]he business in Miami has definitely been impacted by the negative publicity
surrounding the unit. And we have certainly seen clients who have declined to give us business
....

216. On or about March 28, 2006, the SEC requested additional documents from
SFBC, primarily relating to related party transactions, compensation of, and other arrangements
with, family members of certain of the Company’s employees, internal control and other
accounting policies and all minutes of all board meetings.

217. On or about May 1, 2006, the Company filed its Form 10-K/A for the fiscal year
ended December 31, 2005. Among other things, the Company stated:

(a) “As a result of our reported reduction in bed capacity at our
Miami facility to 350 persons, along with the significant
reduction of personnel, our ability to handle very large
trials simultaneously has been significantly diminished”;

(b) “[o]ur Miami facility has been facing a number of
reputation-related and facility problems, which have
resulted in turning its significant profitability into
significant losses”;

(c) “an employee (who subsequently resigned) acted
inappropriately with regard to the obtaining of affidavits
from two of the four subjects who were quoted in the
Bloomberg Magazine article”;

(d) “the Bloomberg Reports have had a material negative effect
upon our Miami facility, our common stock price and, we
believe, our reputation”;

(e) “[i]t is difficult to tell whether the business that we have
lost in Miami was as a result of the Bloomberg Reports
with regard to the items relating to the operations of our
Miami subsidiary or with regard to structural and building
issues … nonetheless we have been harmed by the
Bloomberg Reports”;

(f) “our Miami facility, which historically has generated
significant profitability . . . . lost money in the fourth
quarter of 2005. As a result of the significant decline in
direct revenue, approximately 125 full-time (equivalent)
employees have resigned or been laid off between December 15, 2005 and [May 1, 2006].”

(g) “The Miami facility is expected to operate at a loss in the first half of 2006 and at breakeven for the full year of 2006”;

(h) “We also need to address fire violations which we learned of in October 2005. Originally, we were given notice of 42 violations …”

(i) “We had received a request from the Staff of the Senate Finance Committee for a copy of the résumés of this person prior to his termination, which we provided”;

(j) “On February 8, 2006, the [Senate Finance] Committee made another request for documents and information from us relating to, among other things, our standard operating procedures, our former employees, the institutional review boards we use, and the SEC Staff inquiry …. The Committee Staff also requested to meet with our former chief executive officer”;

(k) “In December 2005, we disclosed what we believed to be an open item with regard to a previous inspection of a study conducted in Miami. We have more recently learned that …. the FDA considered the inspection closed …. but considered a number of the observations disconcerting”;

(l) “We are keenly aware of the fact that it is fundamental to our business that all of our employees act with the utmost integrity. We are also aware that it appears to be more common than in the past that some people fabricate their background including their education on resumes. Our new chief executive officer, shortly after he was appointed, was asked in a public meeting what action he would take if he found that this conduct occurred at SFBC. His response was that he would decisively terminate anyone who fabricated their credentials”; and

(m) “On February 23, 2006, we learned that the associate director of clinical operations in Miami had fabricated his credentials, which were submitted to clients prior to January 31, 2003. We terminated this employee immediately.”

(See May 1, 2006 Form 10-K/A at 11-18.)
218. The Form 10-K/A also stated:

In 2005, 2004 and 2003, one employee related to our former chief executive officer, one employee related to our former president and two employees related to our then executive vice president of clinical operations were paid a total of $242,750, $208,855 and $54,750, respectively. These latter two employees, whose combined annual salaries is $110,000, remain employed by SFBC. Additionally, our former vice president of legal affairs (who was not an executive officer) controlled companies and an individual that provided services to or received personal benefits from the Company and received $198,899, $241,549, and $289,050 for the years ended December 31, 2005, 2004 and 2003, respectively. All of these services were discontinued as of December 31, 2005.

(Id. at F-20.)


VI. CLAIMS FOR RELIEF UNDER THE SECURITIES ACT

COUNT ONE

For Violations of Section 11 of the Securities Act,
On Behalf of Purchasers of Convertible Bonds Pursuant
to or Traceable to the Bond Registration Statement

220. Lead Plaintiff repeats and realleges each and every allegation above as if fully set forth herein, except those allegations that charge the defendants with acting with scienter. This claim is brought pursuant to Section 11 of the Securities Act against defendants SFBC, Krinsky, Hantman, Natan, Holmes, Levine, Lucking and Weinstein (collectively, the “Section 11 Bond Defendants”), on behalf of Arkansas Teachers and other members of the Class who, during the Class Period, purchased or otherwise acquired SFBC’s 2.25% Convertible Senior Notes issued pursuant and/or traceable to the Bond Registration Statement (defined below as the “Registered Bonds”) and were damaged by acts alleged herein. This claim is specifically based in strict liability and negligence – it does not sound in fraud. Lead Plaintiff expressly disclaims any allegations of fraud or intentional misconduct in connection with this claim.
221. In August and September of 2004, SFBC issued and sold to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) $143,750,000 aggregate principal amount of 2.25% convertible senior notes due 2024. The notes were convertible into shares of common stock of the Company upon certain conditions.

222. In early 2005, the convertible notes were registered for resale pursuant to a Form S-3 Registration Statement dated November 2, 2004, a Form S-3/A Registration Statement dated January 28, 2005, a Form 424B3 prospectus dated February 4, 2005, and Form 424B3 Prospectus Supplements dated February 18, 2005 and February 25, 2005 (collectively and individually, the “February 2005 Bond Prospectus”), and three Form POS AM post-effective amendments dated April 29, 2005 (the “April 29 Bond Amendment”), June 13, 2005 (the “June 13 Bond Amendment”) and July 28, 2005 (the “July 28 Bond Amendment”). Collectively, these documents are referred to herein as the “Bond Registration Statement.” Upon the effective date of the Bond Registration Statement, the convertible notes became registered for resale (the “Registered Bonds”).

223. The Registered Bonds were issued and sold pursuant to the Bond Registration Statement. All purchases of Registered Bonds after the issuance of the February 2005 Bond Prospectus through the end of the Class Period are traceable to the Bond Registration Statement.

224. SFBC was the issuer of the Registered Bonds pursuant to the Bond Registration Statement within the meaning of Section 11 of the Securities Act.

225. Defendants Krinsky, Hantman, Natan, Holmes, Levine, Lucking and Weinstein each signed the Bond Registration Statement as a senior officer and/or director of SFBC within the meaning of Section 11 of the Securities Act.
226. The February 2005 Bond Prospectus incorporated by reference the following documents:

(a) SFBC’s Form 10-K for the year ended December 31, 2003, filed on March 15, 2004;
(b) SFBC’s Form 10-Q for the three months ended March 31, 2004, filed on May 10, 2004;
(c) SFBC’s Form 10-Q for the three months ended June 30, 2004, filed on August 4, 2004;
(d) SFBC’s Form 10-Q for the three months ended September 30, 2004, filed on November 9, 2004;
(e) SFBC’s Form 8-K dated July 25, 2004 and filed on July 30, 2004;
(f) Portions of SFBC’s Form 8-K dated November 2, 2004 and filed on November 8, 2004;
(g) Portions of SFBC’s Form 8-K dated December 22, 2004 and filed on December 27, 2004;
(h) Portions of SFBC’s proxy statement on Schedule 14A filed on May 12, 2004, as amended on June 8, 2004; and

227. The April 29 Bond Amendment additionally incorporated by reference the following documents:

(a) SFBC’s Form 10-K for the year ended December 31, 2004, filed on March 8, 2005;
(b) SFBC’s Form 8-K/A dated December 22, 2004 and filed on February 8, 2005;
(c) SFBC’s Form 8-K dated December 21, 2004 and filed on March 1, 2005; and
(d) SFBC’s Form 8-K dated March 8, 2005 and filed on March 8, 2005.
228. The June 13 Bond Amendment additionally incorporated by reference the following documents:

(a) SFBC’s Form 10-Q for the three months ended March 31, 2005, filed on May 10, 2005;

(b) SFBC’s Form 8-K dated June 8, 2005 and filed on June 8, 2005; and

(c) Portions of SFBC’s proxy statement on Schedule 14A filed on May 23, 2005.

229. The July 28 Bond Amendment additionally incorporated by reference the following documents:

(a) SFBC’s Form 8-K dated June 14, 2005 and filed on June 17, 2005; and

(b) SFBC’s Form 8-K dated June 21, 2005 and filed on June 27, 2005.

Untrue Statements And Omissions of Material Fact

230. The Bond Registration Statement contained untrue statements of material facts and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading. Those statements and omissions included the following.

A. The Miami Facility

231. The Bond Prospectus touted the Miami facility, stating:

Our 600-bed Miami facility is our largest freestanding facility and, we believe, the largest Phase I and Phase II clinical trial facility in North America. With our recent purchase of the property comprising this facility, we intend to expand its capacity to 160,000 square feet and consolidate our Miami operations in this facility…. We believe our strength in rapidly recruiting clinical trial participants and our ability to conduct large, high quality clinical trials provide our clients with the opportunity to generate the data they require using fewer clinical trial sites. We believe this capability can help our clients to reduce their drug development lead times and makes us a desirable drug development services partner.
February 2005 Bond Prospectus at 1.)

232. These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 88-121.

233. Documents incorporated by reference into the Bond Registration Statement made similar statements regarding the Miami facility. For instance, the Company’s 2003 Form 10-K, filed with the SEC on or about March 15, 2004, was incorporated by reference into the Bond Registration Statement. The 2003 Form 10-K was signed by defendants Krinsky, Hantman, Natan, Levine, Lucking and Weinstein. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, “the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, based on their 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.”

234. The 2003 Form 10-K stated:

Our 538-bed Miami facility is our largest freestanding facility and, we believe, the largest Phase I and Phase II clinical trials facility in North America. With our very recent purchase of the building comprising our Miami facility, we will expand its capacity to 160,000 square feet . . . .

(2003 Form 10-K at 1.)

235. The 2003 Form 10-K also stated:

We have already taken possession of the part of the [Miami facility] we did not occupy. After the seller of the Miami property vacates the space it occupies in the Spring, we intend to renovate
the property. Following completion of the renovations, we expect to offer dedicated clinical trial space for individual clients.

* * *

As utilization of our principal Miami facility increases, we believe we can support higher volumes of business without the need to hire a considerable number of additional personnel or incur significant expenses beyond current levels.

(Id. at 8.)

236. The 2003 Form 10-K represented that the Miami facility was “state-of-the-art” and “in good condition” with “numerous amenities for [SFBC’s] clinical trial participants[,]” and stated that the Miami facility’s good condition “enable[d] [SFBC] to serve our clients efficiently.” (Id. at 1, 8, 15.)

237. Further, the Company’s 2003 Form 10-K stated:

We have designed our [Miami] facility to enable us to conduct a number of clinical trials efficiently at the same time while maintaining appropriate controls. We believe that the size and design of the facility combined with our ability to recruit gives us an important competitive advantage ….

(Id. at 8 (emphasis added).)

238. These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 88-121.

239. The Bond Registration Statement also incorporated SFBC’s Form 10-Q for the quarter ending March 31, 2004 (“1Q04 10-Q”), which was filed with the SEC on or about May 10, 2004. The 1Q04 10-Q was signed by defendants Hantman and Natan. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that “the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.” Also, pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, based on their 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.”

240. The 1Q04 10-Q stated that, “in February, we purchased the property which houses our principal Miami clinical trials facility and our executive offices. We paid approximately $12.1 million, and without materially increasing our occupancy costs, we increased our capacity from approximately 73,000 square feet to approximately 160,000 square feet[.]” (1Q04 10-Q at 13.) These statements were materially untrue statements and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 88-121.

241. The Bond Registration Statement also incorporated SFBC’s Form 10-Q for the quarter ending June 30, 2004 (“2Q04 10-Q”), filed with the SEC on or about August 3, 2004. The 2Q04 10-Q was signed by defendants Hantman and Natan, and as discussed below, certified by defendants Hantman and Natan. The 2Q04 10-Q repeated the same statements regarding the Miami facility that were contained in the 1Q04 10-Q. These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 88-121.

B. Reputational Issues and Conflicts of Interest

242. The Bond Registration Statement stated that the Company had “expertise and experience in recruiting for and conducting trials” involving twelve broad categories of diseases. (February 2005 Bond Prospectus at 2.) The Bond Registration Statement also stated:

Our strategy is to build upon our clinical development expertise and to further our reputation as a provider of a broad range of high-
quality drug development services to our clients in the pharmaceutical, biotechnology and generic drug industries.

(Id.)

243. The Bond Registration Statement stated that “we believe our strength in rapidly recruiting clinical trial participants and our ability to conduct large, high-quality clinical trials … can help our clients reduce their drug development lead times and makes us a desirable drug development services partner.” (Id. at 1.)

244. The Bond Registration Statement highlighted the importance of the Company satisfying contract and regulatory requirements, stating:

We may be subject to regulatory action, which in some jurisdictions includes criminal sanctions, if we fail to comply with applicable laws and regulations. Failure to comply can also result in the termination of ongoing research and disqualification of data collected during clinical trials. This could harm our reputation, our prospects for future work and our operating results.

(Id. at 14.)

245. Documents incorporated by reference into the Bond Registration Statement repeated these statements and also emphasized SFBC’s ability to recruit participants for drug trials. For instance, the Company’s 2003 Form 10-K referred to “our ability to recruit” as one of the Company’s “competitive strengths,” and stated:

We strive to provide a positive experience for our clinical trial participants. We believe that our reputation in the local communities where we operate is critical to the continued successful recruitment of clinical trial participants. Our business philosophy is to treat our clinical trial participants like our clients. In keeping with this belief, we have designed each of our . . . facilities with numerous amenities for our clinical trial participants.

(2003 Form 10-K at 7 (emphasis added).)
246. These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 122-148.

247. The 2003 Form 10-K stated that the Company sought to reduce its risk by “the use of institutional review boards and the procurement of each participant’s informed consent to participate in the study.” (Id. at 12.) These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 139-148.

C. Related Party Transactions


In early 2003 we granted the chairman of our Audit Committee an additional 15,000 stock options . . . We also began paying our Lead Director and Audit Committee chairman an additional $5,000 per month . . . in 1998, we paid $92,965 of personal expenses on behalf of Lisa Krinsky, M.D. [I]n August 1999, Dr. Krinsky issued us a three-year 6% $92,965 note providing for annual payments of interest only. The note was due in August 2002 and extended for one year in June 2002. The note was fully paid by Dr. Krinsky in March 2003.

(2003 Proxy at 17.)

249. These statements were materially untrue and omitted to state material facts required to be stated or necessary to make the statements regarding SFBC’s related party transactions not misleading as described above at ¶¶ 149-152.
D. The Qualifications of SFBC’s Senior Executives

250. The Bond Registration Statement describes defendant Krinsky as “M.D.,” leading investors to believe she was a licensed medical doctor. Indeed, the Bond Prospectus underscores the importance of Krinsky’s medical background to the Company’s success in the “Risk Factors” section. Under the heading “If we lose the services of our key personnel or are unable to attract qualified staff, our business could be adversely affected,” the February 2005 Prospectus stated, “Our success is substantially dependent upon the performance, contributions and expertise of our senior management team, including, among others, Lisa Krinsky, M.D.” (February 2005 Bond Prospectus at 14 (emphasis added).)

251. Similarly, (a) the press release attached to SFBC’s December 27, 2004 Form 8-K refers to Krinsky as “Dr. Lisa Krinsky, Chairman and President of SFBC”; and (b) the Company’s March 1, 2005 Form 8-K is signed by “Lisa Krinsky, M.D.” and refers to Krinsky as “Lisa Krinsky, M.D., our chairman of the board and president.” Indeed, virtually all of the documents incorporated by reference into the Bond Registration Statement refer to Krinsky as either “M.D.” or “Doctor.” For instance, the Company’s 2003 Form 10-K repeats the statement above, and Krinsky signed it as “Lisa Krinsky, M.D.”

252. All of these statements were materially untrue and omitted to state material facts required to be stated or necessary to make the statements not misleading as described above at ¶¶ 153-158.

253. The Bond Registration Statement also refers to defendant Hantman as a “C.P.A,” leading investors to believe that the Company’s Chief Executive Officer was a duly-licensed Certified Public Accountant. The Bond Registration Statement stated that the Company’s success was “substantially dependent upon the performance, contributions and expertise of our
senior management team, including . . . Arnold Hantman, C.P.A.” (February 2005 Bond Prospectus at 14.) Similarly, the Form 2003 10-K refers to Hantman as a “C.P.A.”

254. These statements were materially untrue and omitted to state material facts required to be stated or necessary to make the statements not misleading as described above at ¶¶ 153-158.

255. Seifer was not referenced in the Bond Registration Statement. This was a material omission because, as discussed herein, while Seifer was nominally the Vice President of Legal Affairs, he had a significant role as a de facto executive officer of SFBC. His important and undisclosed role at the Company is evidenced by the facts set forth herein, including those described above at ¶¶ 153-158.

256. As the issuer of the Registered Bonds in the 2005 Bond Offering, SFBC is strictly liable for the untrue statements of material facts and material omissions described herein.

257. None of the Section 11 Bond Defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Bond Registration Statement were accurate and complete in all material respects. Had they exercised reasonable care, they would have known of the material misstatements and omissions alleged herein.

258. In connection with the 2005 Bond Offering and the sale of SFBC securities, these defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, the United States mails and a national securities exchange.

259. Lead Plaintiff and other members of the Class did not know, nor in the exercise of reasonable diligence could they have known that the Bond Registration Statement contained untrue statements of material facts and omitted to state material facts required to be stated or
necessary to make the statements particularized above not misleading when they purchased or acquired the Registered Bonds.

260. This claim is brought within one year after the discovery of the untrue statements and omissions, and within three years after the issuance of the Bond Registration Statement.

261. By reason of the foregoing, the Section 11 Bond Defendants are liable to Lead Plaintiff and the members of the Class who acquired the Registered Bonds pursuant to or traceable to the Bond Registration Statement, each of whom has been damaged as a result.

**COUNT TWO**

**For Violations of Section 15 of the Securities Act,**

**Based on SFBC’s Violations of Section 11 Relating to the Bond Registration Statement**

262. Lead Plaintiff repeats and realleges each and every allegation above as if fully set forth herein, except those allegations that charge the defendants with acting with scienter. This claim is brought pursuant to Section 15 of the Securities Act against defendants Krinsky, Hantman and Holmes, on behalf of Arkansas Teachers and other members of the Class who, during the Class Period, purchased or otherwise acquired the Registered Bonds and were damaged by acts alleged herein. This claim is specifically based in strict liability and negligence – it does not sound in fraud. Lead Plaintiff expressly disclaims any allegations of fraud or intentional misconduct in connection with this claim.

263. As alleged herein, SFBC violated Section 11 of the Securities Act by issuing the Bond Registration Statement, which included materially untrue statements of fact and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading. Defendant Krinsky was a controlling person of SFBC when the Bond Registration Statement was filed and became effective, as demonstrated by the following facts:

(i) SFBC disclosed in its public filings that “SFBC’s core decisions are made by the executive team comprised of Mr. Hantman and Drs. Krinsky and
Holmes. These three executives acting together function as the office of the chief executive.”

(ii) Krinsky was the President and Chairman of SFBC.

(iii) Krinsky held approximately 1,068,530 shares of SFBC common stock at the time of the Bond Offering, representing a 7.0% ownership interest.

(iv) In its public filings, SFBC described Krinsky as a “key employee,” and stated that “our success is substantially dependent upon the performance, contributions and expertise of our senior management team, including . . . Lisa Krinsky, M.D. . . .”

(v) SFBC also stated that the “loss of the services of any of the members of senior management [including Krinsky] . . . could have a material adverse effect on our business.”

(vi) Krinsky’s control over SFBC is further demonstrated by the employment agreement between the Company and Krinsky, which provided that Krinsky would have access to “confidential business and technical information,” and also placed non-competition restrictions on Krinsky.

(vii) Krinsky was directly involved in controlling the day-to-day operations of SFBC, as evidenced by, among other things, the fact that she was in charge of the Company’s Phase I and Phase II clinical testing programs (which took place at the Miami facility).


264. Defendant Hantman was a controlling person of SFBC when the Bond Registration Statement was filed and became effective, as demonstrated by the following facts:

(i) SFBC disclosed in its public filings that “SFBC’s core decisions are made by the executive team comprised of Mr. Hantman and Drs. Krinsky and Holmes. These three executives acting together function as the office of the chief executive.”

(ii) Hantman was the Chief Executive Officer of SFBC.

(iii) Hantman held approximately 580,416 shares of SFBC common stock at the time of the Bond Offering, representing a 3.8% ownership interest.

(iv) In its public filings, SFBC described Hantman as a “key employee,” and stated that “our success is substantially dependent upon the performance,
contributions and expertise of our senior management team, including . . . Arnold Hantman, C.P.A.”

(v) SFBC also stated that the “loss of the services of any of the members of senior management [including Hantman] . . . could have a material adverse effect on our business.”

(vi) The controlling role that Hantman played at SFBC is further demonstrated by the employment agreement between the Company and Hantman, which provided that Hantman would have access to “confidential business and technical information,” and also placed non-competition restrictions on Hantman.

(vii) Hantman was directly involved in controlling the day-to-day operations, including direct involvement with making improper and dangerous renovations to the Miami facility.

(viii) Hantman signed the Bond Registration Statement, the March 2005 Registration Statement, the Company’s Forms 10-K for Fiscal Years 2003 and 2004, as well as its Forms 10-Q for the third quarter of 2003, the first three quarters of 2004, and the first three quarters of 2005. In addition, pursuant to Sections 302 and 906 of Sarbanes Oxley, Hantman certified the accuracy of the Company’s Forms 10-K for Fiscal Years 2003 and 2004, as well as its Forms 10-Q for the third quarter of 2003, the first three quarters of 2004, and the first three quarters of 2005. Hantman also signed and, pursuant to Sections 302 and 906 of Sarbanes Oxley, certified the accuracy of the Company’s Form 10-Q/A for the second quarter of 2004.

265. Defendant Holmes was a controlling person of SFBC when the Bond Registration Statement was filed and became effective, as demonstrated by the following facts:

(i) SFBC disclosed in its public filings that “SFBC’s core decisions are made by the executive team comprised of Mr. Hantman and Drs. Krinsky and Holmes. These three executives acting together function as the office of the chief executive.”

(ii) Holmes owned approximately 308,510 shares of SFBC common stock at the time of the Bond Offering, representing a 2.0% ownership interest.

(iii) In its public filings, SFBC described Holmes as a “key employee,” and stated that “our success is substantially dependent upon the performance, contributions and expertise of our senior management team, including . . . Gregory Holmes, M.D.”
(iv) SFBC also stated that the “loss of the services of any of the members of senior management [including Holmes] . . . could have a material adverse effect on our business.”

(v) The controlling role that Holmes played at SFBC is further demonstrated by the employment agreement between the Company and Holmes, which provided that Holmes would have access to “confidential business and technical information,” and also placed non-competition restrictions on Holmes.

(vi) Holmes signed the Bond Registration Statement.

266. By virtue of the foregoing, defendants Krinsky, Hantman and Holmes each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of SFBC, including the content of its public statements and of the Bond Registration Statement.

267. Defendants Krinsky, Hantman and Holmes did not make a reasonable investigation or possess reasonable grounds for the belief that the statements contained in the Bond Registration Statement were accurate and complete in all material respects. Had they exercised reasonable care, they would have known of the material misstatements and omissions alleged herein.

268. This claim is brought within one year after the discovery of the materially untrue statements and omissions in the Bond Registration Statement and within three years after the 2005 Bond Offering.

269. By reason of the misconduct alleged herein, for which SFBC is primarily liable as set forth herein, defendants Krinsky, Hantman and Holmes are jointly and severally liable with and to the same extent as SFBC, pursuant to Section 15 of the Securities Act.
COUNT THREE
For Violations of Section 11 of the Securities Act,
On Behalf of Purchasers of Common Stock Pursuant or
Traceable to the March 2005 Registration Statement

270. Lead Plaintiff repeats and realleges each and every allegation above as if fully set forth herein, except those allegations that charge the defendants with acting with scienter. This claim is brought pursuant to Section 11 of the Securities Act against defendants SFBC, Krinsky, Hantman, Natan, Levine, Weinstein, Lucking and the Stock Underwriter Defendants (collectively, the “Section 11 Stock Defendants”), on behalf of Arkansas Teachers and other Class members who, during the Class Period, purchased or otherwise acquired SFBC’s common stock issued pursuant and/or traceable to the March 2005 Registration Statement and were damaged by acts alleged herein. This claim is specifically based in strict liability and negligence – it does not sound in fraud. Lead Plaintiff expressly disclaims any allegations of fraud or intentional misconduct in connection with this claim.

271. On or about March 9, 2005, SFBC issued and sold to the public approximately 3.5 million shares of common stock on a secondary offering (the “March 2005 Offering”). Defendant UBS underwrote the March 2005 Offering and acted as Sole Book-Running Manager. Defendants Jefferies & Co., Advest, Baird & Co., Jesup & Lamont, and Wunderlich (as defined above, together with UBS, the “Stock Underwriter Defendants”) also acted as underwriters on the March 2005 Offering. The 3.5 million shares were offered to the public at a price of $38.00 per share, for total offering proceeds of $133 million. After underwriting discounts and proceeds received by insiders who sold shares on the offering, the Company received proceeds of approximately $110 million on the March 2005 Offering.

272. The March 2005 Offering was conducted pursuant to a Form S-1/A Registration Statement dated March 8, 2005 and a Form 424B1 prospectus dated March 9, 2005 (the “March
2005 Prospectus”) (collectively, the “March 2005 Registration Statement”). All purchases of these 3.5 million shares of stock during the Class Period were pursuant to or are traceable to the March 2005 Registration Statement.

273. SFBC was the issuer of the shares issued pursuant to the March 2005 Registration Statement within the meaning of Section 11 of the Securities Act.

274. Defendants Krinsky, Hantman, Natan, Levine, Weinstein and Lucking each signed the March 2005 Registration Statement as a senior officer and/or director of SFBC within the meaning of Section 11 of the Securities Act.

275. The Stock Underwriter Defendants were statutory underwriters for the March 2005 Offering within the meaning of Section 11 of the Securities Act. Indeed, the Stock Underwriter Defendants sold shares of SFBC common stock in the March 2005 Offering, participated in the preparation of the March 2005 Registration Statement and were responsible for the contents and dissemination of the March 2005 Registration Statement.

276. The March 2005 Registration Statement incorporated by reference the following documents:

(a) SFBC’s Form 10-K for the year ended December 31, 2004, filed on March 8, 2005;

(b) Portions of SFBC’s Form 8-K dated December 22, 2004 and filed on December 27, 2004;

(c) SFBC’s Form 8-K dated December 22, 2004 and filed on February 8, 2005;

(d) SFBC’s Form 8-K dated December 21, 2004 and filed on March 1, 2005;

(e) SFBC’s Form 8-K dated March 8, 2005 and filed on March 8, 2005; and

Untrue Statements and Omissions of Material Fact

277. The March 2005 Registration Statement contained untrue statements of material facts and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading. Those statements and omissions are detailed in the following paragraphs.

A. The Miami Facility

278. The March 2005 Registration Statement touted the Miami facility, stating:

Our 600-bed, 160,000-square foot Miami facility is, we believe, the largest Phase I and early Phase II clinical trials facility in North America and we are presently expanding this facility by approximately 150 beds. This facility has the capacity to house large early clinical trials and the flexibility to accommodate numerous trials concurrently. This facility also includes a state-of-the-art clinical laboratory.

(March 2005 Prospectus at 1 (emphasis added).)

279. The March 2005 Prospectus stated that “the size and scope of [the Miami] facility provides a significant advantage in competing for large early clinical trials.” (Id. at 25 (emphasis added).) Indeed, the March 2005 Registration Statement listed the Miami facility as one of the Company’s “competitive strengths,” which were described as “valuable strengths that help us capitalize on the trends affecting the drug development services industry and its clients.” Under the heading “OUR COMPETITIVE STRENGTHS,” the March 2005 Prospectus stated:

The scope of our clinical trials facilities
We believe our principal Miami, Florida Phase I and early Phase II facility is the largest clinical trials site in North America. The facility contains 600 beds and presently is being expanded by approximately 150 beds. The facility currently contains five clinical units, which we can segment further in order to conduct numerous trials concurrently. We have designed our facility to enable us to conduct a number of clinical trials efficiently at the same time while maintaining appropriate controls. We believe that the size and design of our facility combined with our ability to recruit gives us an important competitive advantage in that we can
attract business from clients who prefer to outsource clinical trials involving a large number of participants to a single company at one location. In addition, we believe the size of our facilities should enable us to take advantage of our clients’ increasing desire to enter into strategic relationships involving reserved capacity to fulfill their Phase I testing needs.

We believe that the high fixed cost, low variable cost nature of the Phase I and early Phase II business gives us a significant opportunity to take advantage of our principal Phase I and early Phase II operation in Miami. … As utilization of our Miami facility increases, we believe we can support higher volumes of business without the need to hire a considerable number of additional personnel or incur significant expenses beyond our current levels.

(Id. at 32 (emphasis added).)

280. The March 2005 Prospectus also stated that the Company intended to increase the utilization of its “Miami clinical laboratory,” stating that “[w]e believe we can leverage our late stage clinical trials business to increase utilization of our central laboratory services capability.” (Id. at 2.) The defendants stated in the March 2005 Prospectus that “[a]ll of our facilities are in good condition and enable us to serve our clients efficiently.” (Id. at 39.)

281. These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 88-121.

282. Documents incorporated by reference into the Bond Registration Statement made similar statements regarding the Miami facility. For instance, the Company’s Form 10-K for Fiscal Year 2004, filed with the SEC on or about March 8, 2005, was incorporated by reference into the Bond Registration Statement. The 2004 Form 10-K was signed by defendants Krinsky, Hantman, Natan, Levine, Lucking and Weinstein. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, “the information contained in the Report fairly presents, in all material respects, the financial condition and results
of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that based on their 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.”

283. The 2004 Form 10-K stated:

We believe that our 600-bed, 160,000-square foot Miami facility is the largest Phase I and early Phase II clinical trials facility in North America. We believe the size and scope of this facility provides a significant advantage in competing for large early clinical trials. Further, this facility allows us the flexibility to conduct numerous clinical trials concurrently. Our Miami facility, which also serves as our corporate headquarters, includes a state-of-the-art clinical laboratory.

(2004 Form 10-K at 2.)

284. The 2004 Form 10-K also stated:

The facility contains 600 beds and presently is being expanded by approximately 150 beds…. We have designed our facility to enable us to conduct a number of clinical trials efficiently at the same time while maintaining appropriate controls. We believe that the size and design of our facility combined with our ability to recruit gives us an important competitive advantage in that we can attract business from clients who prefer to outsource clinical trials involving a large number of participants to a single company at one location.

As utilization of our Miami facility increases, we believe we can support higher volumes of business without the need to hire a considerable number of additional personnel or incur significant expenses beyond our current levels.

(Id. at 10 (emphasis added).)

285. The 2004 Form 10-K stated:

Our business philosophy is to treat our clinical trial participants like our clients. In keeping with this belief, we have designed each of our Miami, Ft. Myers, Montreal and Quebec City facilities with
numerous amenities for our clinical trial participants, who usually
spend several days or weeks with us in the course of a clinical trial.

(Id. at 9.)

286. The 2004 Form 10-K further stated that “all of our facilities are in good condition
and enable us to serve our clients efficiently.” (Id. at 17.)

287. These statements were materially untrue and omitted to state material facts
required to be stated therein or necessary to make the statements therein not misleading for all of
the reasons described above at ¶¶ 88-121.

B. Reputational Issues and Conflicts of Interest

288. The March 2005 Registration Statement stated that the Company had “expertise
and experience in recruiting for and conducting trials” involving twelve broad categories of
diseases. The March 2005 Registration Statement also stated:

Our strategy is to build upon our clinical development expertise
and to further our reputation as a provider of a broad range of high-
quality drug development services to our clients in the
pharmaceutical, biotechnology and generic drug industries.

(March 2005 Prospectus at 2.)

289. The March 2005 Registration Statement stated that “our strength in rapidly
recruiting clinical trial participants and our ability to conduct large, high-quality clinical trials …
can help our clients reduce their drug development lead times and makes us a desirable drug
development services partner.” (Id. at 25.) The March 2005 Registration Statement also stated
that “we further differentiate ourselves from our competitors based on our ability to recruit
specialized populations for difficult-to-recruit early clinical trials.” (Id.)

290. The March 2005 Registration Statement recognized the importance of the
Company satisfying contract and regulatory requirements, stating:
Failure to comply with applicable law and regulations could subject us to denial of the right to conduct business, disqualification of data collected during clinical trials, liability for clean up costs, liability or the loss of revenue due to a failure to comply with our contractual obligations, the assessment of civil fines, or, in extreme cases, criminal penalties, as well as other enforcement actions.

(Id. at 38.)

291. The March 2005 Registration Statement also emphasized the Company’s reputation with its clients, stating “we have developed a strong reputation for client service … [We] focus on meeting our clients’ expectations and we believe that this has been a leading factor in generating repeat business from our clients.” (Id. at 35.)

292. The March 2005 Registration Statement stated “[w]e compete in the Phase I through Phase IV portion of the business on the basis of our reputation for high quality, our attention to client service and our broad range of therapeutic expertise.” (Id. at 36.)

293. These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 122-148.

294. Documents incorporated by reference into the March 2005 Registration Statement repeated these statements and also emphasized SFBC’s ability to recruit participants for drug trials. For instance, the Company’s 2004 Form 10-K, which was filed with the SEC on March 8, 2004, referred to “our ability to recruit” as one of the Company’s “competitive strengths,” and stated:
We strive to provide a positive experience for our clinical trial participants. We believe that our reputation in the local communities where we operate is critical to the continued successful recruitment of clinical trial participants. Our business philosophy is to treat our clinical trial participants like our clients. In keeping with this belief, we have designed each of our . . . facilities with numerous amenities for our clinical trial participants.

(2004 Form 10-K at 9 (emphasis added).)

295. The 2004 Form 10-K stated that SFBC’s “ability to conduct large, high-quality clinical trials can enable our clients to reduce their drug development lead times by generating the data they require with a single group of clinical trial subjects. We believe these capabilities make us a desirable drug development services partner.” (Id. at 1.) These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 122-148.

296. Both the March 2005 Registration Statement and the Company’s 2004 Form 10-K stated that the Company sought to reduce its risk by “the use of institutional review boards and the procurement of each participant’s informed consent to participate in the study.” (2004 Form 10-K at 14; March 2005 Prospectus at 37.) These statements were materially untrue and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading for all of the reasons described above at ¶¶ 139-148.

C. Related Party Transactions

297. As discussed above, the March 2005 Registration Statement incorporated by reference SFBC’s 2004 Form 10-K. The 2004 Form 10-K made the following statement:

Item 13 Certain Relationships and Related Transactions

None

(2004 Form 10-K at 56.)
298. This statement was materially untrue and omitted to state material facts required to be stated or necessary to make the statements regarding SFBC’s related party transactions not misleading as described above at ¶¶ 149-152.

**D. The Qualifications of SFBC’s Senior Executives**

299. The March 2005 Registration Statement described defendant Krinsky as “M.D.” or “Dr.,” leading investors to believe that the Company’s Chairman and President was a licensed medical doctor. Indeed, *every* time Krinsky is mentioned in the March 2005 Prospectus, she is referred to as either “M.D.” or “Doctor.” For instance, Krinsky signed the March 2005 Registration statement as “Lisa Krinsky, M.D.”

300. Further, virtually all of the documents incorporated by reference into the March 2005 Registration Statement also repeatedly refer to Krinsky as a “M.D.” For instance, Krinsky signed the Company’s 2004 Form 10-K as “Lisa Krinsky, M.D.” The 2004 Form 10-K repeats the statements above, and refers to Krinsky as a “Dr.” or “M.D.” at least twenty separate times. In addition, (a) the press release attached to SFBC’s December 27, 2004 Form 8-K refers to Krinsky as “Dr. Lisa Krinsky, Chairman and President of SFBC”; (b) the Company’s March 1, 2005 Form 8-K is signed by “Lisa Krinsky, M.D.” and refers to Krinsky as “Lisa Krinsky, M.D., our chairman of the board and president.”

301. All of these statements were materially untrue and omitted to state material facts required to be stated or necessary to make the statements not misleading as described above at ¶¶ 153-158.

302. The March 2005 Registration Statement repeatedly referred to defendant Hantman as a “C.P.A.,” leading investors to believe that the Company’s Chief Executive Officer was a duly-licensed Certified Public Accountant. For instance, the March 2005 Prospectus
repeated the statements about Hantman set forth above at ¶ 253, which were also included in the Bond Registration Statement.

303. Documents incorporated by reference into the March 2005 Registration Statement also refer to Hantman as a “C.P.A” For instance, the 2004 Form 10-K repeats the statements referenced above, and refers to Hantman as a C.P.A. numerous times.

304. These statements were materially untrue and omitted to state material facts required to be stated or necessary to make the statements not misleading as described above at ¶¶ 153-158.

305. Seifer was not referenced in the March 2005 Registration Statement. This was a material omission because, as discussed herein, while Seifer was nominally the Vice President of Legal Affairs, he had a significant role as a de facto executive officer of SFBC. His important and undisclosed role at the Company is evidenced by the facts set forth herein, including those described above at ¶¶ 153-158.

306. As the issuer of the stock issued in the March 2005 Offering, SFBC is strictly liable for the untrue statements of material facts and material omissions described herein.

307. None of the Section 11 Stock Defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the March 2005 Registration Statement were accurate and complete in all material respects. Had they exercised reasonable care, they would have known of the material misstatements and omissions alleged herein.

308. In connection with the March 2005 Offering and the sale of SFBC securities, these defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, the United States mails and a national securities exchange.
309. Lead Plaintiff and other members of the Class did not know, nor in the exercise of reasonable diligence could they have known, that the March 2005 Registration Statement contained untrue statements of material facts and omitted material facts required to be stated or necessary to make the statements in the March 2005 Registration Statement not misleading when they purchased or acquired the common stock issued pursuant to the March 2005 Registration Statement.

310. This claim is brought within one year after the discovery of the untrue statements and omissions, and within three years after the issuance of the March 2005 Registration Statement.

311. By reason of the foregoing, the Section 11 Stock Defendants are liable to Lead Plaintiff and the members of the Class who acquired SFBC common stock pursuant to or traceable to the March 2005 Registration Statement, each of whom has been damaged as a result.

**COUNT FOUR**

For Violations of Section 12(a)(2) of the Securities Act
On Behalf of Purchasers of Common Stock Pursuant or Traceable to the March 2005 Registration Statement

312. Lead Plaintiff repeats and realleges each and every allegation above as if fully set forth herein, except those allegations that charge the defendants with acting with scienter. This Claim is brought pursuant to Section 12(a)(2) of the Securities Act against SFBC, Krinsky, Hantman and the Stock Underwriter Defendants on behalf of members of the Class who, during the Class Period, purchased or otherwise acquired SFBC common stock in the March 2005 Offering and were damaged by the acts alleged herein. This claim is specifically based in strict liability and negligence – it does not sound in fraud. Lead Plaintiff expressly disclaims any allegations of fraud or intentional misconduct in connection with this claim.

314. By means of the March 2005 Prospectus, SFBC was a seller, offeror and/or solicitor of sales of stock in connection with the March 2005 Offering.

315. Defendants SFBC, Krinsky, Hantman and the Stock Underwriter Defendants substantially participated in the preparation and dissemination of the March 2005 Prospectus for their own financial benefit. Specifically, Krinsky realized $8,930,000 and Hantman realized $4,465,000 as a result of their sales of stock in the March 2005 Offering. The Stock Underwriter Defendants each received substantial commissions and fees as a result of their sales of stock in the March 2005 Offering. Through the March 2005 Offering, SFBC raised approximately $110 million in proceeds for the Company.

316. As alleged in detail herein, the March 2005 Prospectus contained untrue statements of material fact and omitted to state material facts necessary in order to make the statements made in the March 2005 Prospectus not misleading. The untrue statements of material fact in the March 2005 Prospectus included the statements set forth above at ¶¶ 278-280, 288-292, 297, 299.

317. None of these defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the March 2005 Prospectus were accurate and complete in all material respects. Had they exercised reasonable care, they would have known of the material misstatements and omissions alleged herein.
318. In connection with the March 2005 Offering and the sale of securities, SFBC, Krinsky, Hantman and the Stock Underwriter Defendants directly or indirectly used the means and instrumentalities of interstate commerce, the United States mails and a national securities exchange.

319. Lead Plaintiff and other members of the Class did not know, nor in the exercise of reasonable diligence could they have known, that the March 2005 Prospectus contained untrue statements of material facts and omitted material facts required to be stated or necessary to make the statements in the March 2005 Prospectus not misleading when they purchased or acquired the common stock issued pursuant to the March 2005 Prospectus.

320. This claim is brought within one year after the discovery of the materially untrue statements and omissions, and within three years after the issuance of the March 2005 Prospectus.

321. By reason of the foregoing, SFBC, Krinsky, Hantman and the Stock Underwriter Defendants are liable to the members of the Class who purchased or otherwise acquired stock pursuant to the March 2005 Prospectus, each of whom has been damaged by reason of such violations.

322. The Class members who purchased or otherwise acquired stock issued in the March 2005 Offering hereby seek rescission of their purchases and hereby tender to the defendants named in this Claim the common stock, which members of the Class continue to own, in return for the consideration paid for those securities, together with interest thereon.
COUNT FIVE

For Violations of Section 15 of the Securities Act
Based on SFBC’s Violation of Sections 11 of the
Securities Act Relating to the March 2005 Registration Statement

323. Lead Plaintiff repeats and realleges each and every allegation above as if fully set forth herein, except those allegations that charge the defendants with acting with scienter. This Claim is brought pursuant to Section 15 of the Securities Act against defendants Krinsky, Hantman and Holmes on behalf of Arkansas Teachers and other members of the Class who, during the Class Period, purchased or otherwise acquired the common stock of SFBC pursuant or traceable to the March 2005 Registration Statement and were damaged by the acts alleged herein. This claim is specifically based in strict liability and negligence – it does not sound in fraud.

324. As alleged herein, SFBC violated Section 11 of the Securities Act by issuing the March 2005 Registration Statement, which included materially untrue statements of fact and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading.

325. Defendants Krinsky, Hantman and Holmes were controlling persons of SFBC when the March 2005 Registration Statement was filed and became effective. These defendants were controlling persons of SFBC due to (among other reasons alleged herein) the facts alleged above at ¶¶ 263-266.

326. By virtue of the foregoing, defendants Krinsky, Hantman and Holmes each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of SFBC, including the contents of its public statements and of the March 2005 Registration Statement.
327. Defendants Krinsky, Hantman and Holmes did not make a reasonable investigation or possess reasonable grounds for the belief that the statements in the March 2005 Registration Statement were accurate and complete in all material respects. Had they exercised reasonable care, they would have known of the material misstatements and omissions alleged herein.

328. This claim is brought within one year after the discovery of the materially untrue statements and omissions in the March 2005 Registration Statement and within three years after the March 2005 Offering.

329. By reason of the misconduct alleged herein, for which SFBC is primarily liable as set forth above, defendants Krinsky, Hantman and Holmes are jointly and severally liable with and to the same extent as SFBC, pursuant to Section 15 of the Securities Act.

COUNT SIX

For Violations of Section 10(b) of the Exchange Act and Rule 10b-5(b) promulgated thereunder, Against SFBC, Krinsky, Hantman and Holmes

330. Lead Plaintiff repeats and realleges each of the allegations set forth above as if fully set forth herein. This Claim is brought pursuant to Section 10(b) of the Exchange Act and Rule 10b-5(b) promulgated thereunder, on behalf of Lead Plaintiff and all other members of the Class, against defendants SFBC, Krinsky, Hantman and Holmes (collectively, the “Section 10(b) Defendants”).

331. Throughout the Class Period, the Section 10(b) Defendants, individually and in concert, directly and indirectly, by the use of the means or instrumentalities of interstate commerce, the mails and the facilities of a national securities exchange, employed devices, schemes and artifices to defraud, made untrue statements of material fact and/or omitted to state material facts necessary to make statements made not misleading, and engaged in acts, practices
and a course of business which operated as a fraud and deceit upon Class members, in violation of Section 10(b) of the Exchange Act and Rule 10b-5(b) promulgated thereunder. The Section 10(b) Defendants’ false and misleading statements and omissions were made with scienter and were intended to and did, as alleged herein, (i) deceive the investing public, including Lead Plaintiff and the other members of the Class; (ii) artificially create, inflate and maintain the market for and market price of the Company’s securities; and (iii) cause Lead Plaintiff and the other members of the Class to purchase the Company’s securities at inflated prices.

MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS

332. Defendants Krinsky, Hantman and Holmes, as directors and/or the most senior officers of SFBC during the Class Period, are liable as direct participants in all of the wrongs complained of herein. Through their positions of control and authority, as well as their stock ownership, these defendants were in a position to and did control all of the Company’s false and misleading statements and omissions. In addition, all of these false and misleading statements constitute “group published information,” which these defendants were responsible for creating.

A. The August 4, 2003 Press Release and Conference Call

333. On August 4, 2003, SFBC announced that it had acquired 100% of the common stock of CPA. The consideration for the purchase was $7.5 million in cash and 443,072 shares of SFBC common stock. In connection with this offering, SFBC announced that “SFBC Miami has retained all of CPA’s employees and has entered into three-year employment agreements with the key members of CPA’s management, consisting of Dr. Kenneth C. Lasseter, Mr. E. Cooper Shamblen and Ms. Stacy C. Dilzer.”

334. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 139-148.
335. On a conference call held on August 5, 2003, defendant Hantman stated that CPA would expand into SFBC’s “state of the art facility in Miami.”

336. Hantman also stated that “filling much more of our capacity in Miami is going to be beneficial to us and we can drive incremental revenues so that the company will benefit from additional margin that is achieved without additional overhead.”

337. On that call, defendant Holmes commented on the synergies available to SFBC as a result of combining CPA into SFBC’s Miami facility, stating “[CPA’s] issue has been limited in lack of capacity to house all these studies. We add to them that we have additional bed space to them to continue to do long-term in-house stud[ies].”

338. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

B. The October 20, 2003 Conference Call

339. On October 20, 2003, SFBC held an earnings conference call participated in by, among others, defendants Krinsky and Hantman.

340. On the call, defendant Krinsky stated:

(i) “We have focused on building our reputation among potential and existing clients by helping to reduce the drug development lead times . . . with more effective clinical trials through our strength [in] rapidly recruiting clinical trial participants, and our ability to conduct high quality clinical trials. We believe our dedication to meeting or exceeding our clients’ expectations has led to our diverse client base and track record for repeat business”; and

(ii) “… the reputation that we have established [is] resulting in new opportunities for us to deliver value to our clients, shareholders and employees.”

341. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.
342. On that call, defendant Hantman told investors that CPA had successfully merged part of its operations into the Miami facility, stating “beginning in the third quarter, Clinical Pharmacology overcame its capacity restraints at its facility by conducting some of its studies at our Miami headquarters.” These statements were materially false and misleading for all of the reasons discussed at ¶¶ 88-121 above.

C. The October 2003 Registration Statement

343. In late October 2003, SFBC conducted a secondary offering of 2 million shares of common stock, issued at $29.50 per share. The shares were issued pursuant to a (a) Form S-3 registration statement filed with the SEC on or about October 20, 2003 and signed by, among others, defendants Krinsky and Hantman, and (b) a Rule 424(b)(4) Prospectus filed with the SEC on or about October 30, 2003 (collectively, the “October 2003 Registration Statement”).

344. The October 2003 Registration Statement made the following statements:

Our 500-bed 73,000 square foot Miami facility is, we believe, the largest Phase I and Phase II clinical trials facility in North America

* * *

We believe our strength in rapidly recruiting clinical trial participants and our ability to conduct large, high-quality clinical trials provide our clients with the opportunity to generate the data they require with fewer clinical trials. We believe this capability …. makes us a desirable drug development services partner ….

* * *

Our facilities include . . . state-of-the-art clinical laboratories in Miami . . .

* * *

Our strategy is to build upon our clinical development expertise, our ability to recruit and the scope of our clinical trials facilities and to further our reputation as a provider of a broad range of high-quality drug development services to our clients ….
This [Miami] facility contains four clinical units, which we can segment further in order to facilitate conducting several smaller trials. We have designed our facility to enable us to conduct a number of clinical trials efficiently at the same time while maintaining appropriate controls ….

345. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs); 149-152 (undisclosed related party transactions); 153-158 (misstated and undisclosed officer qualifications).

346. The October 2003 Registration Statement referred to Krinsky as “M.D.” and “Dr.” and to Hantman as a “C.P.A.,” and made no mention of Seifer’s role at the Company. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 153-158.

D. The 3Q 2003 10-Q

347. On or about November 14, 2003, SFBC filed with the SEC SFBC’s Form 10-Q for the quarter ending September 30, 2003 (“3Q03 10-Q”). The 3Q03 10-Q was signed and certified by defendant Hantman. Defendant Hantman certified that “the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendant Hantman certified that, based on his 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.”

348. The 3Q03 10-Q stated that, “Our 500-bed, 73,000-square foot Miami facility is our largest freestanding facility and, we believe, the largest Phase I and Phase II clinical trials
facility in North America.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

349. The 3Q03 10-Q also stated that, “we believe our strength in rapidly recruiting clinical trial participants and our ability to conduct high quality large clinical trials provide our clients with the opportunity to generate the data they require with few clinical trials. We believe … this makes us a desirable drug development services partner.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

E. The December 2, 2003 Conference Call

350. On December 2, 2003, SFBC held an earnings conference call participated in by, among others, defendants Hantman and Holmes.

351. On that call, defendant Hantman stated “we have really integrated really well with our Miami facility. We have excited the people at CPA very much by the combination and by the opportunities they see for growth there.”

352. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

353. Defendant Holmes stated “our objective has always been to build a contract research organization that is capable of delivering the highest quality of complementary drug development services” and “we believe that our results to date, combined with the strength of our business are clear and evident that our business model is being well received among our existing and new clients.”

354. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.
F. **The 2003 Form 10-K**

355. On March 15, 2004, SFBC filed with the SEC the Company’s 2003 Form 10-K. The 2003 Form 10-K contained the statements set forth above at ¶¶ 233-237, 245, 249. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs); 149-152 (undisclosed related party transactions); 153-158 (misstated and undisclosed officer qualifications).

G. **The May 11, 2004 Proxy Statement**

356. On or about May 11, 2004, SFBC filed with SEC its Form 14A Proxy statement. The 2003 Proxy contained the materially false and misleading statements set forth above at ¶ 248. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 149-152.

H. **The April 27, 2004 Conference Call**

357. On April 27, 2004, SFBC held an earnings conference call participated in by, among others, defendants Krinsky, Hantman and Holmes. On the call, defendant Hantman said that the Miami facility had “500, roughly, beds” and that there were plans to add more, “growing it to 750.” Defendant Hantman also stated with respect to the Miami facility:

(i) “The $12 million purchase approximately doubles the available space of the facility, which allows us to expand our Miami facility in the future with minimal increase to our annual occupancy cost, and have an even stronger margin opportunity as we utilize this capacity in the future”;

(ii) “The facility purchase expands our bed and parking capacity so that we can better support the need of our study participants”;

(iii) “We can use all of the capacity. We would have [inaudible] of having well over 400 subjects in house at the same time”; and

(iv) “we think it gives us a great opportunity to profit immensely from the making of the acquisition of the total facility.”
358. On the call, defendant Holmes said that the purchase of the Miami facility enable[s] ourselves to increase our capacity by about 75%, but also to design facilities specifically for the types of trials that we are seeing and getting so that we can take maximum advantage of the space that we have, and it is more of an ability to generate better margins out of that work, than it is necessarily to merely fill capacity.

359. These statements were materially false and misleading for all of the reasons discussed at above at ¶¶ 88-121.

360. On the call, defendant Krinsky stated “our growth is also based upon us conducting larger studies, our extensive expertise in conducting early clinical development trials . . . along with our marketing and client service. That is what it is all about . . . .”

361. Defendant Krinsky also stated “because of our expertise and increase in our reputation and our credibility throughout large pharma and the pharmaceutical industry, we are conducting more of the QQC cardiovascular safety studies . . . .”

362. These statements were materially false and misleading for all of the reasons discussed at above at ¶¶ 122-148.

363. In response to the statements made on the April 26, 2004 conference call, the price of SFBC’s common stock rose from $20.99 on April 26, 2004 to close at $25.33 on April 27, 2004, an increase of approximately 25%, on heavy trading volume.

I. The July 28, 2004 Conference Call

364. On July 28, 2004, SFBC held an earnings conference call participated in by, among others, defendants Krinsky, Hantman and Holmes. On the call, defendant Krinsky stated:

(i) “We are on track with our development plans for the additional Miami space that we acquired when we purchased the building and property which houses our corporate headquarters in the first quarter of 2004”; and

(ii) “As you know, we have extensive experience conducting clinical trials requiring a diversified population.”
These statements were materially false and misleading for all of the reasons discussed at above at ¶¶ 88-121, 122-148.

365. On the call, defendant Hantman stated “we believe that our service offering, combined with the high-quality of service we deliver, contributes to our success, as well as to our diversified client base.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

366. In response to the statements made on the conference call, the price of SFBC’s common stock rose from $28.74 on July 27, 2004 to close at $32 on July 28, 2004, an increase of approximately 12%, on heavy trading volume.

J. The August 2004 Offering Memorandum

367. On or about August 6, 2004, SFBC issued an Offering Memorandum for $125 million dollars of 2.25% Convertible Senior Notes due 2024, which contained an option for an additional purchase of $18,750,000 notes, for a total value of $143,750,000 in face value notes (the “August 2004 Offering Memorandum”). The August 2004 Offering Memorandum was prepared by SFBC and defendants Krinsky, Hantman and Holmes for the purposes of marketing SFBC’s notes to institutional investors such as Arkansas Teachers and other members of the Class.

368. The August 2004 Offering Memorandum stated:

Our 538-bed Miami facility is our largest freestanding facility and, we believe, the largest Phase I and Phase II clinical trial facility in North America. With our recent purchase of the property comprising this facility, we intend to expand its capacity to 160,000 square feet and consolidate our Miami operations in this facility.

369. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.
370. The August 2004 Offering Memorandum referred to defendant Krinsky as “M.D.” and defendant Hantman as “C.P.A.” It also stated that “our success is substantially dependent upon the performance, contributions and expertise of our senior management team, including, among others, Lisa Krinsky, M.D. [and] Arnold Hantman, C.P.A. . . .” These statements were materially false and misleading for all of the reasons discussed at above at ¶¶ 153-158.

371. The August 2004 Offering Memorandum stated:

We believe our strength in rapidly recruiting clinical trial participants and our ability to conduct large, high quality clinical trials provide our clients with the opportunity to generate the data they require using fewer clinical trial sites. We believe this capability can help our clients to reduce their drug development lead times and makes us a desirable drug development services partner.

* * *

Our strategy is to build upon our clinical development expertise and to further our reputation as a provider of a broad range of high-quality drug development services to our clients in the pharmaceutical, biotechnology and generic drug industries.

372. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

373. The August 2004 Offering Memorandum incorporated the following documents by reference:

(a) SFBC’s Form 10-K for the year ended December 31, 2003, filed on March 15, 2004;

(b) SFBC’s Form 10-Q for the three months ended March 31, 2004, filed on May 10, 2004;

(c) SFBC’s Form 10-Q for the three months ended June 30, 2004, filed on August 4, 2004;

(d) SFBC’s Form 8-K dated July 25, 2004 and filed on July 30, 2004;
(e) Portions of SFBC’s proxy statement on Schedule 14A filed on May 12, 2004, as amended on June 8, 2004; and


374. These documents contained the statements set forth above at ¶¶ 234-237, 245, 249. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs); 149-152 (undisclosed related party transactions); 153-158 (misstated and undisclosed officer qualifications).

K. The October 28, 2004 Conference Call


376. On the call, defendant Hantman stated “As our reputation and our position in the marketplace continues to grow, it is extremely important for SFBC to maintain the highest level of quality in our services, technical capacities, technical capabilities, and management strengths.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

377. Hantman also stated “we are on track with our development plans for the additional Miami space that we acquired when we purchased the building and property which houses our corporate headquarters in the first quarter of 2004.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

L. The November 4, 2004 Conference Call and 3Q04 10-Q

378. On November 4, 2004, SFBC held an earnings conference call participated in by, among others, defendants Krinsky, Hantman and Holmes. On that call, defendant Holmes stated “we are focused on building an impeccable reputation of a high quality service oriented and drug
development company.” Hantman also stated “we have a very high rate of repeat business . . .
almost all of our clients come back for repeat work.”

379. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

380. On or about November 9, 2004, SFBC filed with the SEC the Company’s Form 10-Q for the quarter ending September 30, 2004 (“3Q04 10-Q”). The 3Q04 10-Q was signed by defendants Hantman and Natan. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, “the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, based on their 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.”

381. The 3Q04 10-Q stated:

In February 2004, we purchased the property which houses our principal Miami clinical trials facility and our executive offices. We paid approximately $12.1 million, and without materially increasing our occupancy costs, we will have increased our capacity from approximately 73,000 square feet to approximately 160,000 square feet once we complete the necessary renovations.

382. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

M. The February 2005 Bond Registration Statement

383. The February 2005 Bond Registration Statement contained the statements set forth above at ¶¶ 231, 242-44, 250. These statements were materially false and misleading for
all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs); 149-152 (undisclosed related party transactions); 153-158 (misstated and undisclosed officer qualifications).

N. The February 24, 2005 Conference Call

384. On February 24, 2005, SFBC held an earnings conference call participated in by, among others, defendants Hantman and Holmes.

385. On the call, defendant Hantman said that the Miami facility included a “600 bed Phase I and early Phase II clinical trial facility and state-of-the-art clinical laboratory.” Hantman also said that “we are presently expanding this facility by 150 beds.”

386. Hantman also said that “most of those 150 beds would be operational in the second or third quarter and all of them by the end of the year.”

387. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

388. In response to the statements made on the February 24, 2005 conference call, the price of SFBC’s common stock rose from $39.27 on February 23, 2005 to close at $42.81 on February 25, 2005, on heavy trading volume.

O. The 2004 Form 10-K

389. The Company’s 2004 Form10-K contained the statements set forth above at ¶¶ 282-86, 294-96, 300, 303. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs); 149-152 (undisclosed related party transactions); 153-158 (misstated and undisclosed officer qualifications).
P. **The March 2005 Registration Statement**

390. The March 2005 Registration Statement contained the statements set forth above at ¶¶ 278-80, 288-92, 296-97, 299, 302-303. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs); 149-152 (undisclosed related party transactions); 153-158 (misstated and undisclosed officer qualifications).

Q. **The April 28, 2005 Conference Call and 1Q05 10-Q**

391. On April 28, 2005, SFBC held an earnings conference call participated in by, among others, defendants Krinsky and Hantman. On the call, defendant Hantman said, “we are about at midpoint of adding the 150 beds. We’re just waiting for our final inspection so that we can move the furniture into place and begin operating in that area.”

392. Further, Hantman said that the addition of 150 beds “gets us to about 750” total beds. Hantman also stated “our flagship early-stage clinical facility in Miami continued to experience strong growth in the quarter.” Hantman also stated “we’re committed to maintaining the highest level of quality in our services, technical capabilities and management strengths as our reputation and our position in the marketplace continue to grow.”

393. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

394. On or about May 10, 2005, SFBC filed with the SEC the Company’s Form 10-Q for the quarter ending March 31, 2005, and on or about November 30, 2005 filed with the SEC SFBC’s amended Form 10-Q for the quarter ending March 31, 2005 (collectively, the “1Q05 10-Q”). The 1Q05 10-Q was signed by defendants Hantman and Natan. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that “the information contained in the Report fairly presents, in all material respects, the financial
condition and results of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, based on their 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.”

395. The 1Q05 10-Q stated:

We believe that our 675 bed, 160,000 square foot Miami facility is the largest Phase I and early Phase II clinical trials facility in North America. We expect to expand the Miami facility to 750 beds by the end of 2005. We believe the size and scope of this facility provides a significant advantage in competing for large early stage clinical trials. Further, this facility allows us the flexibility to conduct numerous clinical trials concurrently. Our Miami facility, which also serves as our corporate headquarters, includes a state-of-the-art clinical laboratory.

396. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

397. Further, the 1Q05 10-Q stated that SFBC’s “ability to conduct large, high-quality clinical trials can enable our clients to reduce their drug development lead times by generating the data they require with a single group of clinical trial subjects. We believe these capabilities make us a desirable drug development services partner.”

398. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

R. The May 20, 2005 Proxy Statement

399. On or about May 20, 2005, SFBC filed with SEC its Form 14A Proxy statement in advance of the Company’s 2005 annual meeting. The 2004 Proxy contained the statements set forth above at ¶ 248. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 149-152.
S. The July 27, 2005 Press Release

400. On July 27, 2005, in a press release carried over Business Wire (the “7/27/05 Press Release”), defendant Krinsky commented, “during the quarter, we completed the first half of the expansion of our early stage clinic in Miami, adding approximately 75 beds to the existing 600 beds at this facility.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

T. The July 28, 2005 Conference Call and 2Q05 10-Q

401. On July 28, 2005, SFBC held an earnings conference call participated in by, among others, defendants Hantman and Holmes. On the call, defendant Hantman said, “We have completed the first part of the expansion of…. Miami headquarters and added 75 beds during the quarter… The second part of the expansion which will add an additional 75 beds is progressing well and we anticipate that it will be completed by the end of the year…. [We] are currently operating our early phase clinical facilities with… 675 beds in Miami…. [We] believe the increase in capacity will enable SFBC to continue to meet the demands of our growing client base…. [We] are confident we will be able to effectively utilize its capacity[.]”

402. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

403. Hantman also said “our late stage business driven by trial management is recognized throughout the industry for its quality.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

405. On or about August 9, 2005, SFBC filed with the SEC the Company’s Form 10-Q for the quarter ending June 30, 2005, and on or about November 30, 2005 filed with the SEC SFBC’s amended Form 10-Q for the quarter ending June 30, 2005 (collectively, the “2Q05 10-Q”). The 2Q05 10-Q was signed by defendants Hantman and Natan. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that “the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, based on their 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.”

406. The 2Q05 10-Q repeated verbatim the materially misleading information contained in the 1Q05 10-Q regarding the capacity and competitive advantages of SFBC’s Miami facility set forth above at ¶¶ 394-95, 397. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121 (Miami facility); 122-148 (improper clinical practices, including use of conflicted IRBs).

U. **The November 3, 2005 8-K and Conference Call**

407. On November 3, 2005, SFBC issued a Form 8-K and accompanying press release, which were filed with the SEC. The Form 8-K was signed by defendant Hantman and quoted him as stating “[w]e were fortunate that our facilities in Miami and Fort Myers sustained minimal damage due to Hurricane Wilma and are currently fully operational.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.
On November 3, 2005, SFBC held an earnings conference call participated in by, among others, defendants Krinsky and Hantman. On the call, defendant Krinsky responded to the November 2, 2005 *Bloomberg* article titled “Big Pharma’s Shameful Secret,” stating:

> Please note that approximately 99% of the information that was documented regarding SFBC is a total fabrication and the remaining 1% was entirely misquoted. Obviously, Bloomberg is in competition with the National Enquirer. It is quite unfortunate that we have to waste our time with people that completely ignore the facts and do not know anything about our company or the industry.

Defendant Krinsky also stated “right now, our business contracts remain the same and consistent. We are still getting contracts from our old clients and are getting new contracts from new clients.”

Regarding SFBC’s use of Southern IRB, which *Bloomberg* reported was owned by the wife of one of SFBC’s officers, defendant Hantman said, “Southern IRB has been used very little by SFBC. 95% of SFBC's IRB submissions and approvals have been with other IRBs…. We were aware of the situation, we explained it to the reporter[.]”

Regarding *Bloomberg’s* reports of inadequate safeguards in SFBC’s testing procedures and test subjects enrolling in multiple tests simultaneously, defendant Krinsky said, “we go above and beyond the industry standards. And in our facility, it is absolutely impossible for a subject to participate in more than one clinical trial at a time in our Miami facility.” Krinsky also stated that “as we all know, SFBC has established a relationship of trust, respect and confidence within the pharmaceutical, regulatory and the investment community.”

Further, defendant Krinsky said, “the subjects that were involved in this particular article – we have further discussed this issue with them…. We are dealing with the subjects and this particular violation of the confidentiality [indiscernible].”
413. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148, 188.

V. The 3Q05 10-Q

414. On or about November 14, 2005, SFBC filed with the SEC the Company’s Form 10-Q for the quarter ending September 30, 2005 (the “3Q05 10-Q”). The 3Q05 10-Q was signed by defendants Hantman and Natan. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that, “the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.” Also, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, defendants Hantman and Natan each certified that based on their 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.”

415. The 3Q05 10-Q stated:

We believe that our Miami facility is the largest Phase I and early Phase II clinical trials facility in North America. We expect to expand the maximum capacity of our Miami facility by an additional 75 beds by the first quarter of 2006. We believe the size and scope of this facility provides a significant advantage in competing for large early stage clinical trials. Further, this facility allows us the flexibility to conduct numerous clinical trials concurrently. Our Miami facility, which also serves as our corporate headquarters, includes a state-of-the-art clinical laboratory.

416. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

417. Further, the 3Q05 10-Q stated that SFBC’s “ability to conduct large, high-quality clinical trials can enable our clients to reduce their drug development lead times by generating
the data they require with a single group of clinical trial subjects. We believe these capabilities make us a desirable drug development services partner.” These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 122-148.

W. The November 16, 2005 Press Release

418. On November 16, 2005, in a press release carried over Business Wire, SFBC addressed a November 16, 2005 Bloomberg article titled, “SFBC Threatens Human Drug Testers for Exposing Risks,” in which it was reported that employees of SFBC intimidated test subjects, including threatening them with deportation, in an attempt to force them to sign affidavits refuting statements appearing in Bloomberg’s November 2, 2005 article about dangerous unethical practices at SFBC’s Miami facility.

419. The November 16, 2005 Press Release denied these allegations, stating that, “the assertions from ‘anonymous sources’ concerning coercion and threats by SFBC employees, including contacting immigration authorities are baseless…. The information in both articles is inaccurate, and in the second article the information is just untrue.”

420. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 188-89, 195.

X. The November 18, 2005 Conference Call

421. On November 18, 2005, SFBC held an earnings conference call participated in by, among others, defendants Hantman and Holmes.

422. On the call, defendant Hantman addressed SFBC’s reported improper contact with clinical test subjects interviewed in the Bloomberg articles. He said, “several of our employee[s] did speak with the four subjects named in the first article[.]”
423. Regarding SFBC’s inadequate adherence to regulatory and ethical guidelines as reported by *Bloomberg*, Hantman said, “the processes the company follows are fully compliant with all regulations and ethical standards.”

424. Regarding SFBC’s disclosure of risks to test subjects Hantman said, “SFBC takes very seriously both compliance with the law, and all ethical guidelines.”

425. Regarding Southern IRB’s ownership by the wife of one of SFBC’s officers as reported by *Bloomberg*, Hantman said, “the relationship that was referred to in the article was between one of our officers and his wife who was the administrator of an IRB that this particular acquisition had used significantly in the past. But was only being used insignificantly at the present time.”

426. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 137, 139-148.

427. Regarding the capacity of the Miami facility, Hantman said, “the branded pharmaceutical facilities such as the one in Miami have substantial additional capacity that can be accessed easily.” Further, Hantman had the following exchange with an analyst:

   **Analyst:** That is a critical point then. You're still positioning yourself for growth and at the very least, it is unlikely you're going to see any shrinkage so you want to maintain this ability to grow, right?

   **Hantman:** Absolutely.

428. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

Y. **The December 1, 2005 8-K**

429. On December 1, 2005, SFBC filed with the SEC a Form 8-K that was dated November 30, 2005. The Form 8-K stated that the Company was “cooperating with Miami-
Dade County officials to resolve inspector’s concerns about structural issues at its Miami headquarters.” The Form 8-K also stated:

The structural issue arose when larger work areas were created by the removal of certain interior walls in the facility, a former motel and later an assisted-living center. The County officials initially posted signs at the facility warning of unsafe conditions and ordering that the building be vacated. However, after a presentation by structural engineers hired by the Company and the installation of metal supports where the previous walls had been removed, the County allowed the Company to continue to occupy the building . . . yesterday additional engineering computations were supplied to the County supporting the Company’s position that the facility is safe. The Company intends to fully cooperate with the County to finalize an agreement on what structural improvements will be required and will promptly make such improvements. While the total cost of the structural improvements to the facility, if required, is not known, management believes it will not be material to the Company.

In order to prepare for renovations at the Miami facility and to address egress-fire safety issues raised by the county, the Company has reduced its beds at [the Miami] facility from 675 to 350 . . . management believes that the reduction of beds at the [Miami] facility will not have a material adverse effect on the Company.

430. These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121, 217(a), (b)-(h).

Z. The December 15, 2005 Conference Call

431. On December 15, 2005, SFBC held an earnings conference call participated in by, among others, defendants Krinsky, Hantman, Holmes and Natan. On the call, defendant Hantman said that “the Miami facility has never had any debt or significant adverse events and maintains the highest standards of regulatory and ethical conduct.”

432. Hantman also said that “SFBC is making progress in addressing previously announced concerns expressed by Miami-Dade County officials about structural issues in the Miami headquarters and clinical facility.”
Hantman also stated that “the fire egress issue is not -- we don't believe a real issue.”

These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 88-121.

Finally, Hantman stated, “we are very careful, for example, not to have any conflict of interest of doing business with companies with which we are related or -- we just don't do that.” (Emphasis added.)

These statements were materially false and misleading for all of the reasons discussed above at ¶¶ 139-148, 149-152.

ALLEGATIONS RELATING TO DEFENDANTS’ SCIENTER

A. Evidence of Intentional or Reckless Misconduct

Defendants SFBC, Krinsky, Hantman and Holmes each acted with scienter with respect to the materially false and misleading statements discussed herein, in that they had actual knowledge that the statements were false or misleading, or acted with reckless disregard for the truth or falsity of these statements. Further, as described below, these defendants had motive and opportunity to commit the fraud alleged herein.

As an initial matter, SFBC has essentially admitted that Krinsky, Hantman and Holmes acted with scienter. Krinsky and Hantman were forced to resign from the Company shortly after the revelation of this fraud, and immediately before they were called to testify to the Senate Finance Committee. In this regard, SFBC disclosed that Krinsky and Hantman accepted severance payments that were substantially less than what they would have been entitled to “had their employment agreements been terminated without cause.” Specifically, SFBC disclosed that: “by entering into the severance agreements, the company incurred a one-time fourth quarter charge of approximately $3.825 million rather than approximately $4.8 million had these
executives been terminated without cause under their employment agreements.” The implication of this fact is clear: these defendants were forced to “resign” as a result of their intentional misconduct.

439. Similarly, defendant Holmes resigned from the Company in June 2005 under unspecified circumstances, despite receiving a $200,000 signing bonus in April 2005 and despite the fact that on January 1, 2006, the Board had provided Holmes with a $50,000 raise “in order to provide stability.” This resignation occurred as the new management of the Company continued to sort through the details of this fraud.

440. Aside from these admissions of intentional misconduct, the facts alleged herein raise a strong inference that Krinsky, Hantman and Holmes acted intentionally or in reckless disregard for the truth. SFBC disclosed in its 2004 Form 14A Proxy that “SFBC’s core decisions are made by the executive team comprised of Mr. Hantman and Drs. Krinsky and Holmes. These three executives acting together function as the office of the chief executive.” Accordingly, these defendants had access to inside information, which raises a strong inference that they had actual knowledge of, or recklessly disregarded the truth that the statements set forth herein were materially false and misleading or omitted to state facts necessary to make them not misleading.

441. SFBC and each of the individual defendants knew, or but for their extreme recklessness should have known that the Miami facility’s capacity exceeded maximum allowable limits, and that their alterations to the facility in order to increase that capacity violated virtually every applicable rule and regulation. As detailed above, the capacity of SFBC’s Miami facility was the primary driving forces behind SFBC’s success, as well as defendants’ repeated emphasis on their successful expansion of that facility.
442. Defendants, as the core management team at SFBC, knew or should have known that the Company was not allowed to house more than 440 patients at the Miami facility. The individual defendants were the senior officers of the Company when it purchased the building, and they were the ones who planned and announced the expansion of that facility from 500 beds to over 750. They were also the ones who oversaw that expansion, and they repeatedly touted the success of their efforts as the facility increased its number of beds continually throughout the Class Period.

443. Either the defendants knew that the facility exceeded its maximum capacity, or they consciously disregarded that fact. Indeed, even if the defendants did not obtain actual knowledge of the facility’s capacity and structural limitations when they purchased it for $12.1 million – a proposition that is inconceivable and would itself support a strong inference of extreme recklessness – they had to have known that their plans for expansion violated virtually every applicable rule and regulation governing the facility. Indeed, for the defendants to begin making structural alterations to the Miami facility, which they knew would house hundreds of people at any given moment, without full knowledge of the regulatory and structural limitations of the building would be the very definition of extreme recklessness. And to then tout those alterations as a “competitive advantage” – knowing that they were not allowable or, at the very least, that SFBC had not received the proper approvals from the applicable zoning and building authorities – is nothing less than knowing and intentional misconduct.

444. SFBC’s improper renovations were conducted throughout the Class Period, as confirmed by defendant Hantman on a December 15, 2005 conference call, in which the other defendants participated, where Hantman admitted: “some of the remodeling, including removal or opening of walls was done many years ago. Some of it was done more recently.” Indeed, as
revealed at May 17, 2006 Hearing, by November 2005, the renovations had already been substantially completed (including the removal of numerous load-bearing walls), and SFBC had been forced to place post-shores throughout the building.

445. Further, throughout the Class Period, the defendants were specifically on notice that conditions at the Miami facility were hazardous and violated applicable regulations. For instance, at least the following citations were levied on SFBC with respect to the Miami facility during the Class Period:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Case Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/22/2004</td>
<td>Unlawfully Establishing an Unusual or New Use Without Prior Approval at Public Hearing</td>
<td>2004 – 909808</td>
</tr>
<tr>
<td>9/17/2004</td>
<td>Failure to Maintain a Building or Structure in a Safe Condition; Failure to Maintain Devices or Safeguards in Good Working Order</td>
<td>2004 – 952472</td>
</tr>
<tr>
<td>9/15/2005</td>
<td>Failure to Obtain a Certificate of Inspection Prior to Placing in Operation or Continuing in Operation any Boiler or Pressure Vessel</td>
<td>2005 – 978172</td>
</tr>
<tr>
<td>9/16/2005</td>
<td>Failure to Maintain a Building or Structure in a Safe Condition; Failure to Maintain Devices or Safeguards in Good Working Order</td>
<td>2005 – 973144</td>
</tr>
<tr>
<td>9/19/2005</td>
<td>Expired Work Permit</td>
<td>A2006093900</td>
</tr>
<tr>
<td>10/19/2005</td>
<td>Work Done without Permit</td>
<td>2006051047</td>
</tr>
<tr>
<td>11/19/2005</td>
<td>Work Done without Permit</td>
<td>--</td>
</tr>
<tr>
<td>11/23/2005</td>
<td>Unsafe Structure Investigation</td>
<td>2006093900</td>
</tr>
</tbody>
</table>

446. Indeed, two of the individual defendants themselves received citations:
On February 22, 2004, shortly after SFBC purchased the Facility, the Miami-Dade County Code Enforcement division issued Citation #2004-909808 to SFBC and defendant Krinsky for violating Miami Building Code § 33-13 by “unlawfully establishing an unusual or new use without prior appearance at a public hearing.”

On September 17, 2004, Miami-Dade County Building Inspector served Citation # 2004 - 952472 on defendant Hantman, for “failure to maintain a building or structure in a safe condition” and “failure to maintain devices or safeguards in good working order.”

As SFBC disclosed in its Form 10-K/A, filed with the SEC on or about May 1, 2006, SFBC was issued with notice of 42 fire code violations in October 2005. As of May 1, 2006, SFBC had remedied only 12 of the violations. (May 1, 2006 10-K/A at 13-14.)

Consequently, the individual defendants had actual knowledge of serious undisclosed violations at the Miami facility. Yet, rather than cure those problems and ensure that SFBC remained in compliance with applicable regulations by obtaining all necessary permits and approvals, defendants chose instead to hide their expansion efforts from the relevant authorities.

As detailed above, a review of Miami-Dade County records (as confirmed by the May 17, 2006 Hearing transcript) revealed that the defendants did not apply for the appropriate permits to perform the significant structural alterations they made to the building during the Class Period. Indeed, according to a contractor who worked on various projects at SFBC throughout the Class Period (the “Contractor”), SFBC made significant alterations to the Miami facility without obtaining the proper permits. The Contractor observed these alterations first hand in the course of performing work at the Miami facility over a period of six years. The Contractor was familiar with the permit requirements of Miami-Dade County, and advised Hantman and Seifer several times during the Class Period that they needed to get permits for the renovations they were performing on the Miami facility. According to the Contractor, Hantman and Seifer “did not want to go through the hassle of going through the permitting process.”
These facts further support a strong inference that these defendants knew, or were in reckless disregard, of the fact that they were not allowed to make the reported modifications or to house the number of patients in the facility that they touted to investors.

450. Moreover, on information and belief (as set forth below), the defendants utilized a company controlled by Seifer to perform the alterations on the Miami facility in order to avoid having to obtain the necessary approvals, and thus face the risk of their fraud being exposed. As detailed below, significant work was performed at the Miami facility by a contractor called “Elite Service Systems.” The following evidence strongly suggests that this company was controlled by Seifer:

(i) A review of Florida State records evidences that, in the late 1980s, Seifer was a certified air-conditioning contractor, with Florida license number CAC008278, and owned and operated a contracting company called “Elite Appliance Co.”

(ii) On February 1, 1988, Seifer’s company was involved in an unspecified “incident” that resulted in an investigation being conducted by Florida’s Construction Industry Licensing Board (the “FCILB”). On June 6, 1988, the FCILB issued a “letter of guidance” to Seifer’s company, and thereafter Seifer’s contracting license was listed as “null and void.”

(iii) Shortly after the “incident” that led to the revocation of Seifer’s contracting license, according to Florida state records, a company called Elite Service Systems began operating at 1821 South State Road 7, Davie, FL 33317 – the same address as a company called “Elite Air Conditioning and Appliance Co.” These two companies also shared a common telephone number.

(iv) According to a mechanic’s lien issued by GE Supply against SFBC’s Miami facility on or about April 11, 2005, “Elite Service Systems” had performed significant work on the Miami facility.

(v) According to Florida records, Elite Air Conditioning and Appliance Co. is purportedly owned by “Jon Littman.” Littman received his air conditioning contractor license approximately two months after the unspecified “incident” that led to Seifer’s contracting license being revoked. Plaintiff has obtained a permit application, dated November 29, 2005, relating to SFBC’s unsuccessful efforts to remediate the problems with the Miami facility after Miami-Dade County officials ordered the
facility to reduce its capacity in late November 2005. The permit application, which appears to be signed by defendant Hantman as the “CEO” of SFBC, improperly identifies the “current use of property” as a “Rehab Facility” and is signed by “Jon Littman” as the “owner’s agent.”

(vi) According to the Contractor referenced above in ¶ 449, Elite Air Conditioning and Appliance Co. had performed contracting work at SFBC throughout the Class Period. The Contractor personally witnessed this work. According to the Contractor, Seifer and Littman are “old friends,” and, at one point in time, Seifer was a licensed Air Conditioning contractor.

(vii) In addition, according to the Contractor, Seifer was heavily involved in the renovations being conducted at the Miami facility, and the Contractor stated that “it was Seifer’s forte.” Also according to the Contractor, SFBC used Elite Air Conditioning and Appliance Co. for renovations to the Miami facility because that company was willing to perform work without obtaining the necessary permits.

(viii) In its Form 10-K for the year 2005, filed with the SEC on or about March 30, 2006, SFBC disclosed that “our former vice president of legal affairs (who was not an executive officer) [i.e. defendant Seifer] controlled companies and an individual that provided services to or received personal benefits from the Company and received $198,899, $241,549, and $289,050 for the years ended December 31, 2005, 2004, and 2003, respectively. All of these services were discontinued as of December 31, 2005.”

(ix) SFBC stopped using the services of these companies at or around the time that Seifer resigned in December 2005.

451. Based on these facts, there are reasonable grounds to believe that the companies controlled by Seifer included Elite Service Systems and Elite Air Conditioning and Appliance Co., and that the individual controlled by Seifer was Littman. The fact that SFBC failed to hire independent, qualified contractors and permitted an officer of SFBC to take responsibility for the important and significant alterations to the Miami facility raises a strong inference that the Section 10(b) Defendants knew, or were extremely reckless in not knowing, that the Miami facility was in violation of applicable regulations. This inference is particularly strong with respect to defendant Krinsky who, as discussed above, resides with Seifer in a $15 million home.
they purchased with the proceeds of their sales of SFBC stock during the Class Period (as
detailed below).

452. The defendants also knew of or consciously disregarded SFBC’s improper clinical
practices. The Miami facility housed both the Company’s largest clinical facility as well as the
administrative and executive offices, where all of the individual defendants worked.
Accordingly, it would have been impossible for these defendants not to be aware of the
conditions of the clinical trials. Indeed, Phlebotomist 1 stated that cameras were installed in the
clinical areas in order to permitted SFBC executives, including Krinsky, Hantman and Holmes
(as well as Seifer) to witness the clinical trials.

453. Moreover, defendant Krinsky was in charge of SFBC’s Phase I and Phase II
clinical trials and obtained actual knowledge of these issues through her daily job
responsibilities. According to Phlebotomist 1, Krinsky personally observed circumstances that
violated fundamental protocols for the conduct of human drug testing.

454. The defendants also knew or consciously disregarded the improper relationships
between SFBC and its IRBs, as described above. For example, during SFBC’s November 3,
2005 conference call with analysts in which defendants Hantman and Krinsky participated,
defendant Hantman admitted that they were aware of the Southern IRB “situation.” Indeed,
throughout the Class Period, Cooper Shamblen (the SFBC officer whose wife owned Southern
IRB) reported directly to the executive officers at SFBC, including Krinsky, Hantman and
Holmes. Further, because Cooper Shamblen was identified as a “key executive” of SFBC, his
obvious knowledge of the use of Southern IRB is imputed to SFBC.

455. Furthermore, as detailed above, the LeeCoast IRB was a subsidiary of SFBC, and
SFBC directly paid its employees with checks cut from its own accounting office.
456. It was only after the Southern IRB “situation” became public that SFBC finally instituted a company-wide policy not to do business with related parties, unless prior approval is obtained by the Audit Committee and then by the full Board of Directors. Throughout the Class Period, however, these relationships were a direct violation of the Company’s existing internal policies. On February 19, 2004, SFBC’s Board of Directors adopted “Ethical Guidelines” applicable to all of the Company’s employees and directors. The Ethical Guidelines were disclosed to investors as an attachment to SFBC’s Form 14A Proxy Statement filed with the SEC on or about May 11, 2004. The Ethical Guidelines state “Obeying the law, both in letter and in spirit, is the foundation on which SFBC’s ethical standards and our reputation are built.” They further state:

A “conflict of interest” exists when a person’s private interest interferes in any way with the interests of SFBC. A conflict may arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her SFBC work objectively and effectively. Conflicts of interest may also arise when an employee, officer or director, or members of his or her family, receives improper personal benefits as a result of his or her position with SFBC … [I]t is almost always a conflict of interest for an SFBC employee to work simultaneously for a competitor, client or supplier.

457. Thus, by utilizing Southern IRB and LeeCoast IRB, the individual defendants were acting in direct contravention of the Company’s own internal guidelines. Each of these defendants either knew or recklessly disregarded this fact.

458. Defendants Krinsky and Hantman knew that the Company was misrepresenting their basic qualifications. The individual defendants also knew that defendant Seifer was playing a significant undisclosed role at the Company. The individual defendants had daily contact with Seifer at the Miami facility. Indeed, during the December 15, 2005 conference call, defendant Hantman stated that Seifer’s activities “primarily deal with management within the South Florida
facility[.]” Furthermore, defendant Krinsky has owned at least two homes with Seifer, and they live together in one of them – a $15 million home they purchased together in April 2005, which was financed in large part through Krinsky’s sales of SFBC stock on the March 2005 Offering. Indeed, an April 2006 article in the real estate section of the Miami Herald stated that “Lisa Krinsky and her husband Jerry Seifer” sold one of their jointly-owned homes for $4.5 million. In addition, Krinsky and Seifer jointly own a Rolls-Royce automobile. On a December 15, 2005 conference call, an unidentified representative from SFBC specifically stated that, prior to the first Bloomberg story being published on November 2, 2005, the Company had been “aware of Mr. Seifer’s background with respect to regulatory authorities.” Based on these facts, there is a strong inference that these defendants purposely failed to disclose Seifer’s true role at the Company because doing so would have led to the revelation of his significant previous criminal and civil violations, as described above at ¶¶ 107, 158, 192, 196, 200, 206.

B. Insider Sales

459. Each of the individual defendants had the motive and the opportunity to commit this fraud. During the Class Period, these defendants collectively sold 839,309 shares of their SFBC stock for gross proceeds of over $26 million. The nature and timing of these sales were unusual, as, among other things, the sales generally took place at a time when the Company’s shares had neared peak value and each of these defendants sold substantial portions of their holdings of SFBC stock throughout the Class Period. The unusual stock sales are reflected in the following tables summarizing defendants’ sales in SFBC stock during the Class Period, as evidenced by SEC filings made by each defendant:
<table>
<thead>
<tr>
<th>Date</th>
<th>Shares</th>
<th>Price</th>
<th>Proceeds Received</th>
<th>Percentage of Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/18/2003</td>
<td>50,000</td>
<td>$27.40*</td>
<td>$1,370,000</td>
<td>6.5%</td>
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<tr>
<td>11/05/2003</td>
<td>150,000</td>
<td>$27.40*</td>
<td>$4,425,000</td>
<td>20.8%**</td>
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<tr>
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<td>$1,730,734</td>
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<tr>
<td>03/15/2005</td>
<td>250,000</td>
<td>$35.72</td>
<td>$8,930,000</td>
<td>27.6%***</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td></td>
<td>$16,455,734</td>
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<table>
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<th>Shares</th>
<th>Price</th>
<th>Proceeds Received</th>
<th>Percentage of Holdings</th>
</tr>
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<tbody>
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<td>$686,500</td>
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<tr>
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<td>75,000</td>
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<td>$2,212,500</td>
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<td>125,000</td>
<td>$35.72</td>
<td>$4,465,000</td>
<td>29.0%**</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>261,436</td>
<td></td>
<td>$8,229,355</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Shares</th>
<th>Price</th>
<th>Proceeds Received</th>
<th>Percentage of Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/11/2003</td>
<td>2,000</td>
<td>$25.50*</td>
<td>$51,000</td>
<td>1.8%</td>
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<tr>
<td>08/18/2003</td>
<td>3,000</td>
<td>$27.46*</td>
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<td>11/05/2003</td>
<td>50,000</td>
<td>$29.50*</td>
<td>$1,475,000</td>
<td>51.0%***</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>55,000</td>
<td></td>
<td>$1,773,000</td>
<td></td>
</tr>
</tbody>
</table>

* For sales prior to May 2004, the prices reflect non-split adjusted prices.

** These calculations are based on Form 4’s filed by defendants. Defendants disclosed different information regarding the total amounts of their share holdings in SFBC’s Rule 424(b)(4) prospectus filed on or about October 30, 2003. Specifically, in the prospectus, it states that (1) Krinsky sold 150,000 shares but retained 726,954 shares, thus disposing of 17% of her holdings; (2) Hantman sold 75,000 shares, but retained 368,211, thus disposing of 20% of his holdings; and (3) Holmes sold 50,000 shares but retained 168,000, thus disposing of 23% of his holdings.
These calculations are based on Form 4’s filed by defendants. Defendants disclosed different information regarding the total amounts of their share holdings in the March 2005 Registration Statement. Specifically, in the March 2005 Registration Statement, it states that (1) Krinsky sold 250,000 shares but retained 818,530 shares, thus disposing of 23% of her holdings; (2) Hantman sold 125,000 shares, but retained 455,416, thus disposing of 22% of his holdings.

The transactions summarized above represent sales of SFBC stock by defendants Krinsky, Hantman and Holmes that are unusual in scope and timing because, among other things:

(i) Prior to the Class Period, for the period between the Company’s IPO on or around October 11, 2000 through August 4, 2003, defendant Krinsky sold a total of 250,000 SFBC shares for profits of $4,099,445. During the Class Period, defendant Krinsky sold 522,873 shares for total profits of $16,455,734. This windfall profit from the sale of artificially inflated shares is nearly four times the amount Krinsky received in salary and bonuses during the Class Period (i.e., $4,228,708). Furthermore, on two occasions when SFBC shares had neared their peak value, she dumped over 20% of her holdings in a single transaction. On November 5, 2003, defendant Krinsky sold 150,000 shares at $27.40, which represented 20.8% of her holdings at the time. On March 15, 2005, she sold 250,000 shares at $35.72, which constituted a sale of 27.6% of her holdings at the time.

(ii) Prior to the Class Period, for the period between the Company’s IPO on or around October 11, 2000 through August 4, 2003, defendant Hantman sold a total of 125,000 SFBC shares for profits of $2,049,635. During the Class Period, defendant Hantman sold 261,436 shares for total profits of $8,229,355. This windfall profit from the sale of artificially inflated shares is almost twice the amount Hantman received in salary and bonuses during the Class Period (i.e., $4,128,475). Furthermore, on two occasions when SFBC shares had peaked in value, he dumped over 20% of his holdings in a single transaction. On November 5, 2003, defendant Hantman sold 75,000 shares at $29.50, which represented 21.7% of his holdings at the time. On March 15, 2005, he sold 125,000 shares at $35.72, which constituted a sale of 29% of his holdings at the time.

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3 Krinsky’s pre-Class Period sales are as follows: (i) on December 13, 2001, she sold 200,000 shares at $16.25 for proceeds of $3,250,000; (ii) on June 11, 2003, she sold 36,500 shares at $16.97 for proceeds of $619,405; and (iii) on June 12, 2003, she sold 13,500 shares at $17.04 for proceeds of $230,040.

4 Hantman’s pre-Class Period sales are as follows: (i) on December 13, 2001, he sold 100,000 shares at $16.25 for proceeds of $1,625,000; (ii) on June 11, 2003, he sold 19,500 shares at $16.97 for proceeds of $330,915; and (iii) on June 12, 2003, he sold 5,500 shares at $17.04 for proceeds of $93,720.
(iii) Prior to the Class Period, for the period between the Company’s IPO on or around October 11, 2000 through August 4, 2003, defendant Holmes sold a total of 62,000 SFBC shares for profits of $1,030,630. During the Class Period, defendant Holmes sold 55,000 shares for total profits of $1,773,000. Furthermore, on two occasions when SFBC shares had peaked in value, he dumped over 20% of his holdings in a single transaction. On November 5, 2003, defendant Holmes sold 50,000 shares at $29.50, which represented 51.0% of his holdings at the time. On June 5, 2005, he sold 52,574 shares at $24.330, which constituted a sale of 28.5% of his holdings at the time.

(iv) In addition, among other things, all of these defendants sold substantial portions of their individual holdings of SFBC stock generally on or about the same dates (with limited exceptions), which in 2003 and 2005 followed shortly after public offerings of SFBC stock.

C. Use of the Company’s Inflated Securities to Fund Acquisitions

461. The defendants were also motivated to keep SFBC’s stock price high in order to continue to fuel the Company’s ability to make and fund acquisitions. Throughout the Class Period, SFBC disclosed to the market that it was looking to expand the Company through acquisitions. SFBC’s acquisition strategy was praised by analysts who noted that the Company’s acquisitions expanded its service capabilities, customer base and geographic reach. During the Class Period, SFBC made three acquisitions using both cash and stock: (a) the August 4, 2003 acquisition of CPA for $7.5 million in cash and 443,072 shares of common stock (with an additional $4.5 million in cash and $4.5 million in stock to be paid over the next three years), (b) the July 26, 2004 acquisition of TTI for $16.92 million in cash and $3.98 million in common stock; and (c) the November 2004 acquisition of PharmaNet for $248.6 million in cash.

462. Each of these acquisitions was funded, at least in part, by the Company’s artificially inflated securities, as follows:

---

5 Holmes’ pre-Class Period sales are as follows: (i) on June 22, 2001, he sold 2,000 shares at $24.11 for proceeds of $48,220; (ii) on December 13, 2001, he sold 50,000 shares at $16.25 for proceeds of $812,500; (iii) on June 11, 2003, he sold 7,000 shares at $16.97 for proceeds of $118,790; and (iv) on June 12, 2003, he sold 3,000 shares at $17.04 for proceeds of $51,120.
(i) **CPA Acquisition.** Former shareholders of CPA – including Stacey Dilzer and Cooper Shamblen – received significant grants of SFBC stock in connection with the sale of CPA to SFBC. While the SFBC shares paid upon the closing of the transaction were not artificially inflated, these former shareholders stood to benefit greatly from any increases to the stock price of SFBC following the CPA acquisition, including increases as a result of defendants’ false and misleading statements and omissions. Moreover, SFBC undertook to provide the former CPA shareholders with additional grants of SFBC stock in an amount up to $4.5 million, to be paid over the ensuing three years.

(ii) **TTI Acquisition.** The TTI acquisition was funded in part by $3.98 million in SFBC stock.

(iii) **PharmaNet.** While the PharmaNet acquisition was nominally a cash transaction, virtually all of the cash for the acquisition was raised through SFBC’s issuance of artificially inflated securities. SFBC disclosed that $134 million of the $248.6 million purchase price was financed by the Company’s August 2004 Bond Offering. As to the remaining $125 million cash payment, which SFBC drew down from its senior secured credit facility, approximately $70 million of that was repaid a few months later with the proceeds from SFBC’s March 2005 Offering. Thus, approximately $204 million of the purchase price for PharmaNet was funded through the issuance of artificially inflated securities.

463. SFBC achieved a clear-cut concrete benefit from the artificial inflation of the prices of SFBC’s securities in connection with the PharmaNet acquisition. As defendant Hantman admitted on a February 24, 2005 conference call “the net proceeds from our August 2004 convertible senior notes offering and our December 2004 senior secured credit facility facilitated the financing of our largest acquisition to date, PharmaNet, Inc.” In addition, the March 2005 Offering provided a concrete benefit in repaying $70 million of the Company’s senior credit facility. As the Company revealed in the March 2005 Registration Statement, by repaying $70 million of the senior credit facility (through the proceeds received from the secondary offering of the Company’s artificially inflated securities), the Company avoided significantly higher payments that would otherwise have come due on the credit facility beginning on March 31, 2005. Specifically, the Company disclosed that the credit facility had
scheduled payments ranging between $2.5 million and $7.5 million due each quarter starting on March 31, 2005 and continuing through December 21, 2010. The Company stated in the March 2005 Registration Statement that, by reducing the amount of the outstanding credit facility by $70 million through the proceeds of the March 2005 Offering, the Company would reduce its payment amounts for each quarter from March 31, 2005 through December 31, 2010 to amounts ranging from $1 million to $3.1 million, which represents a significant benefit that the Company achieved through completion of the March 2005 Offering at artificially inflated prices. Each of the individual defendants also received a unique and clear-cut benefit from completing the August 2004 Bond Offering, in the form of the highly unusual one-time bonuses discussed below.

464. In addition, SFBC disclosed in the “use of proceeds” section of the October 2003 Registration Statement that the Company intended to use the proceeds from the offering in part to make “selective acquisitions.” Likewise, SFBC disclosed in the “use of proceeds” section of the March 2005 Registration Statement that it intended to use the proceeds from that offering in part for “possible acquisitions.”

465. In short, by keeping the price of the Company’s securities artificially inflated, the defendants could achieve the most “bang for the buck” and acquire the maximum value of companies with the fewest number of issued securities. This allowed the defendants to minimize the number of shares that SFBC needed to issue or use to pay the acquisition costs (including the stock payments to CPA and TTI shareholders), and thereby minimize the dilution of shareholders’ equity and the amount of earnings that would be required to meet or beat analyst estimates.
D. Additional Indicia of Scienter

466. Salary and Bonus Compensation. Defendants Krinsky, Hantman and Holmes were motivated to conceal SFBC’s true condition in order to continue receiving their lucrative salaries and bonuses. Each of these defendants received substantial salaries and bonuses throughout the Class Period, as set forth below:

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<tr>
<th>Name</th>
<th>2003</th>
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<td>Salary</td>
<td>Bonus</td>
<td>Salary</td>
<td>Bonus</td>
<td></td>
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<td>$400,000</td>
<td>$550,000</td>
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<td>$650,000</td>
<td>$550,000</td>
<td>$300,000</td>
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<tr>
<td>Natan</td>
<td>$170,000</td>
<td>--</td>
<td>$210,000</td>
<td>$150,000</td>
<td>$330,000</td>
<td>$38,000</td>
<td>$709,000</td>
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</table>

* These amounts were part of the severance package negotiated by Krinsky and Hantman, which were paid in 2006 but, according to SFBC’s Proxy Statement filed July 24, 2006, are included in their compensation for 2005.

467. Krinsky, Hantman and Holmes were each parties to employment agreements with SFBC that awarded them substantial bonus compensation based on SFBC’s reported results. Specifically, for 2004 Krinsky would receive a bonus equal to 2.5% of SFBC’s reported pre-tax income, and Hantman a bonus equal to 1.5% of SFBC’s reported pre-tax income. These agreements were amended in May 2005 to provide that Krinsky, Hantman and Holmes would receive bonuses based on the achievement by SFBC of certain unspecified “financial and operating targets” set by the Compensation Committee. These financial targets would not have been met if the truth about SFBC had been revealed.

468. Unique Bonuses for Completing the August 2004 Bond Offering. Defendants Krinsky, Hantman and Holmes were motivated to complete the August 2004 Bond Offering because they were awarded unique bonuses – outside of the Company’s regular bonus plan – in return for completing that offering, as well as securing additional financing in connection with
the PharmaNet acquisition. These bonuses consisted of $250,000 each to Krinksy, Hantman and Holmes.

469. **Personal Benefits from March 2005 Offering.** Defendants Krinsky and Hantman also achieved concrete and personal benefits from the completion of the March 2005 Offering at artificially inflated prices, as each of these defendants sold substantial personal holdings of SFBC stock at artificially inflated prices on the offering.

470. **Long Term Incentive Compensation.** In 2005, SFBC awarded significant “long-term incentive” compensation to Krinsky, Hantman and Holmes. The “long-term incentive” compensation (“LTI”) took two forms. First, these defendants were granted stock options as follows (a) Krinsky received 32,520 options; (b) Hantman received 32,520 options; and (c) Holmes received 24,390 options. The options were exercisable at $38 per share, which was an 18% premium over the value of SFBC’s stock ($32.18) on the date of the grant. As SFBC disclosed in its proxy, the option price of $38 provided a “performance based aspect to the options.” These options were scheduled to vest on December 31, 2005. Second, these defendants received significant grants of “Restricted Stock Units” (“RSUs”) as follows: (a) Krinsky received 15,913 RSUs; (b) Hantman received 15,913 RSUs and (c) Holmes received 250,000 RSUs. The RSUs were scheduled to vest on March 31, 2008.

471. **Stock Option Grants.** Defendants Krinsky, Hantman and Holmes received substantial grants of stock options in April 2004. Krinsky and Hantman received grants of 75,000 options each, exercisable at $27.23. Half of these options vested on the grant date, with remaining options vested in equal installments on December 31, 2004, June 30, 2005, and December 31, 2005. Holmes received a grant of 135,000 stock options. Half of these options

472. Attempts to Cover-Up. Defendants’ efforts to conceal the issues first revealed in November and December 2005 provide further evidence of their scienter. For instance, following the November 2, 2005 Bloomberg article:

(i) defendant Krinsky stated that “99% of the information that was documented regarding SFBC is a total fabrication and the remaining 1% was entirely misquoted. Obviously, Bloomberg is in competition with the National Enquirer”; and

(ii) defendant Hantman stated that “Southern IRB has been used very little by SFBC. 95% of SFBC’s IRB submissions and approvals have been with other IRBs.”

As has been subsequently revealed and in large part admitted by the Company, both of these statements were false.

473. In addition, on the November 3, 2005 conference call, defendant Krinsky stated that the Company was not losing any business as a result of the negative disclosures and that “we are still getting contracts from our old clients.” Although this statement was subsequently rendered false because a major client canceled a contract with SFBC in late November, none of the defendants corrected this statement. To the contrary, as set forth above, “management” informed an analyst on December 6, 2005 that no business had been lost, and it was not until December 15, 2005, that defendants admitted that a client had canceled a contract and SFBC now expected slower demand for its services for at least two quarters.

474. Defendants Krinsky, Hantman and Holmes continued their efforts to cover-up the truth by causing SFBC to release its 3Q05 10-Q on November 14, 2005, which contained blatantly false statements about the Miami facility and SFBC’s “high quality clinical trials,” as set forth above. Even more disturbingly, SFBC management, including Seifer and, on
information and belief, Hantman, undertook an effort to coerce the sources in the *Bloomberg*
story to retract their statements about SFBC’s improper clinical practices. As has been admitted
by the Company, the coercion took the form of threatening to deport these participants, as well as
verbally abusing them. While the Company has so far admitted only that Seifer was involved
(and have referred to his actions as “unacceptable or improper”), at least one participant contends
that Hantman “screamed at him with curse words,” according to an article published in
*Bloomberg* on November 15, 2005.

475. Again, rather than admit the truth of this information, defendants caused SFBC to
issue a press release on November 16, 2006 calling the statement “baseless.” Then, on
November 18, 2005, defendants Hantman and Holmes held a conference call where Hantman
referred to the November 15, 2005 *Bloomberg* story as “just untrue.” Likewise, defendant
Hantman made the statements set forth above at ¶¶ 421-25, 427, which were designed to assure
investors that the Miami facility was in good condition and had additional capacity. These
statements have since been revealed as false.

476. The fact that defendants would make the false statements set forth above in a
blatant attempt to cover-up the negative disclosures about SFBC demonstrates that these
defendants knowingly and/or recklessly disregarded the truth in a desperate (and partially
successful) attempt to maintain the artificial inflation in SFBC’s securities at the end of the Class
Period.

**PRESUMPTION OF RELIANCE**

477. The market for the Company’s securities was, at all times, an efficient market that
promptly digested current information with respect to the Company from all publicly-available
sources and reflected such information in the prices of the Company’s securities. Throughout
the Class Period:
(a) SFBC’s stock was actively traded on the New York Stock Exchange;

(b) The market price of SFBC’s securities reacted promptly to the dissemination of public information regarding the Company;

(c) Securities analysts followed and published research reports regarding SFBC that were publicly available to investors;

(d) The average weekly trading volume for SFBC's stock from August 4, 2003 through December 16, 2005 was 2,078,249, or 13.13% of average total outstanding shares; and

(e) The Company’s market capitalization was in excess of $185 as of the beginning of the Class Period on August 4, 2003, and increased over time, reaching more than $800 million at the close of trading on September 30, 2005.

478. Throughout the Class Period, the Company was consistently followed by securities analysts as well as the business press. During this period, SFBC and certain defendants continued to pump materially false information into the marketplace regarding the financial condition of the Company. This information was promptly reviewed and analyzed by the ratings agencies, analysts, and institutional investors; assimilated into the ratings agencies’ ratings for the convertible notes and into analysts and investors’ analysis of the creditworthiness and the probability of default on the notes; and reflected in the market price of the notes.

479. In addition, following the August 2004 Bond Offering, a secondary market developed for the Company’s convertible notes. The market for the notes consisted exclusively of institutional investors and other sophisticated investors. These institutional investors employed professionals who read and analyzed all relevant and publicly available information regarding the Company and the notes, and promptly adjusted the prices at which they were willing to buy and sell the notes accordingly. In addition, because the notes were convertible under certain conditions to shares of the Company’s common stock, the notes reacted to the same
information and market disclosures that impacted the trading of SFBC’s common stock. The secondary market for the notes broadened with the issuance of the Bond Registration Statement, after which the Registered Bonds became freely tradeable in the public markets. At all relevant times, major brokerage houses served as market makers and/or dealers in the Registered Bonds, and information regarding the prices at which the Registered Bonds were trading was publicly available through various pricing services.

480. As a result of the misconduct alleged herein, the market for SFBC securities was artificially inflated. Under such circumstances, the presumption of reliance available under the “fraud-on-the-market” theory applies.

481. Lead Plaintiff and the other Class members justifiably relied on the integrity of the market price for the Company’s securities and were substantially damaged as a direct and proximate result of their purchases of SFBC’s securities at artificially inflated prices and the subsequent decline in the price of those securities when the truth was disclosed.

482. Had Lead Plaintiff and the other members of the Class known of the material adverse information not disclosed by the Section 10(b) Defendants, or been aware of the truth behind the Section 10(b) Defendants’ material misstatements, they would not have purchased SFBC securities at artificially inflated prices.

**LOSS CAUSATION**

483. Throughout the Class Period, as detailed above, the prices of the Company’s securities were artificially inflated as a direct result of defendants’ misrepresentations and omissions regarding the Company. When the truth about the Company was revealed in November and December 2005, the inflation that had been caused by defendants’ misrepresentations and omissions was eliminated from the price of the Company’s securities, causing significant damages to Lead Plaintiff and the other Class members. As set forth in detail
above, SFBC’s stock fell from $41.49 per share closing price on November 1, 2005 to close at $13.14 per share on December 16, 2005, a drop of 68.3%. Similarly, the price of SFBC’s convertible notes fell from a $120.67 on November 1, 2005 to close at $64.25 on December 16, 2005, a drop of 47%. The declines in the Company’s securities prices following the revelations of November and December 2005, and the resulting damages suffered by Lead Plaintiff and the other members of the Class are directly attributable to the market’s reaction to the disclosure of information that had previously been misrepresented or concealed by defendants, and to the market’s adjustment of the Company’s securities prices to reflect the newly emerging truth about the Company’s condition. Had Lead Plaintiff and the other members of the Class known of the material adverse information not disclosed by the defendants named herein, or been aware of the truth behind these defendants’ material misstatements, they would not have purchased SFBC at artificially inflated prices.

**INAPPLICABILITY OF THE STATUTORY SAFE HARBOR**

484. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false or misleading statements pleaded in this Complaint. The statements alleged to be false or misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false or misleading may be characterized as forward-looking, they were not adequately identified as forward-looking statements when made, and there were no meaningful cautionary statements identifying important facts that could cause actual results to differ materially from those in the purportedly forward-looking statements. To the extent that the statutory safe harbor is intended to 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 defendants had actual knowledge that the particular forward-looking statement was
materially false or misleading. In addition, to the extent any of the statements set forth above were accurate when made, they became inaccurate or misleading because of subsequent events, and defendants failed to update the those statements which later became inaccurate.

485. This claim was brought within two years after discovery of this fraud and within five years of the making of the statements alleged herein to be materially false and misleading.

486. By virtue of the foregoing, the Section 10(b) Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to Lead Plaintiff and the members of the Class, each of whom has been damaged as a result of such violation.

**COUNT SEVEN**

For Violations of Section 20(a) of the Exchange Act
Against Defendants Krinsky, Hantman and Holmes

487. Lead Plaintiff repeats and realleges each of the allegations set forth above as if fully set forth herein. This Claim is brought pursuant to Section 20(a) of the Exchange Act against defendants Krinsky, Hantman and Holmes (collectively, the “Section 20(a) Defendants”), on behalf of Lead Plaintiff and all members of the Class who purchased SFBC securities during the Class Period.

488. As alleged herein, SFBC is liable to Lead Plaintiff and the members of the Class who purchased SFBC’s securities based on the materially false and misleading statements and omissions set forth above, pursuant to Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

489. Throughout the Class Period, defendants Krinsky, Hantman and Holmes were controlling persons of SFBC within the meaning of Section 20(a) of the Exchange Act, as
particularly set forth in Count Two above, and culpable participants in SFBC’s fraud, as more
particularly set forth in Count Six above.

490. As a result of SFBC’s false and misleading statements and omissions alleged
herein, the market price of SFBC securities was artificially inflated. Under such circumstances,
the presumption of reliance available under the “fraud on the market” theory applies, as more
particularly set forth above. Lead Plaintiff and the members of the Class relied upon either the
integrity of the market or upon the statements and reports of the defendants in purchasing SFBC
securities at artificially inflated prices.

491. As a direct and proximate result of the wrongful conduct by SFBC, Lead Plaintiff
and other members of the Class suffered damages in connection with their purchases of SFBC
securities. Had Lead Plaintiff and the other members of the Class known of the material adverse
information not disclosed by defendants, or been aware of the truth behind their material
misstatements, they would not have purchased SFBC’s securities at artificially inflated prices.

492. This claim was brought within two years after the discovery of this fraud and
within five years of the making of the statements alleged herein to be materially false and
misleading.

493. By virtue of the foregoing, each of the Section 20(a) Defendants are liable to Lead
Plaintiff and the members of the Class, each of whom has been damaged as a result of SFBC’s
underlying violations.

PRAYER FOR RELIEF

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

A. Declaring this action to be a proper class action pursuant to Rule 23(a) and (b)(3)
of the Federal Rules of Civil Procedure on behalf of the Class defined herein;

B. Awarding Lead Plaintiff and the Class compensatory damages and/or rescission;
C. Awarding Lead Plaintiff and the Class pre-judgment and post-judgment interest, as well as reasonable attorneys’ fees, expert witness fees and other costs;

D. Awarding Lead Plaintiff and the Class the fees and expenses incurred in this action, including expert witness fees and attorneys fees; and

E. Awarding such other relief as this Court may deem just and proper.
JURY TRIAL DEMAND

Lead Plaintiff hereby demands a trial by jury in this action of all issues so triable.

Dated: November 1, 2006

LOWENSTEIN SANDLER PC

By s/ Michael B. Himmel
Michael B. Himmel (MH-8127)
Michael T.G. Long
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(973) 597-2500

Liaison Counsel for the Class

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Tel: (212) 554-1400
Fax: (212) 554-1444

Attorneys for Lead Plaintiff Arkansas Teachers’ Retirement System and the Class
CERTIFICATION

David Malone, Executive Director of the Arkansas Teacher Retirement System ("Arkansas Teachers") declares, as to the claims asserted under the federal securities laws, that:

1. He has reviewed a complaint filed in this matter.

2. Arkansas Teachers did not purchase the securities that are the subject of this action at the direction of its counsel or to participate in this private action.

3. Arkansas Teachers is willing to serve as a Lead Plaintiff and class representative on behalf of the Class, including providing testimony at deposition and trial, if necessary.

4. Arkansas Teachers’ transactions in SFBC International, Inc. securities that are the subject of this action are set forth in the chart attached hereto.

5. Arkansas Teachers is currently serving as Lead Plaintiff in the following actions filed during the three years preceding the date of this Certification:
   
   In re MasTec Securities Litigation
   In re Williams Companies Securities Litigation

6. During the three years prior to the date of this Certification, Arkansas Teachers has sought to serve as Lead Plaintiff for a class in the following actions under the federal securities law but was not appointed:
   
   In re Royal Dutch/Shell Securities Litigation
   In re Healthsouth Corporation Securities Litigation

7. Arkansas Teachers has filed a motion for Appointment as Lead Plaintiff in the following action, in which a decision on the motion is pending:
   
   Glauser v. EVCI Career Colleges Holdings Corp et al

8. Arkansas Teachers will not accept any payment for serving as a representative party on behalf of the Class beyond its pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) relating to the representation of the Class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 6th day of March 2006.

[Signature]

David Malone
Executive Director
Arkansas Teacher Retirement System
Arkansas Teacher Retirement System
Transactions in SFBC International Inc. Securities
Relevant Period: 8/04/03 - 12/15/05

SFBC 2.25% Convertible Senior Notes due 2024

Opening balance as of the beginning of the relevant period is zero.

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<td>11/23/2004</td>
<td>$510,000</td>
<td>120.6630</td>
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<td>BUY</td>
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<td>$505,000</td>
<td>117.0310</td>
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<tr>
<td>SELL</td>
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<td>$755,000</td>
<td>95.7300</td>
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<tr>
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<td>SELL</td>
<td>11/16/2005</td>
<td>$2,245,000</td>
<td>85.7414</td>
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</tbody>
</table>

*Price is expressed as a percentage of the par value.

SFBC Common Stock

Opening balance as of the beginning of the relevant period is zero.

<table>
<thead>
<tr>
<th>Transactions</th>
<th>Trade Date</th>
<th>Shares</th>
<th>Price Per Share</th>
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<tbody>
<tr>
<td>BUY</td>
<td>10/20/2005</td>
<td>18,100</td>
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<td>10/21/2005</td>
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<td>BUY</td>
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<td>SFI J.</td>
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<tr>
<td>BUY</td>
<td>12/15/2005</td>
<td>3,400</td>
<td>$17.3691</td>
</tr>
</tbody>
</table>
UNSAFE BUILDING

This building or structure is, in the opinion of the building official, unsafe, as defined in Section 8-5 of the Code of Miami-Dade County. This building shall be vacated—shall not be occupied. Action shall be taken by the owner as prescribed by written notice. This notice shall not be removed except by the building official.

Date: 11/23/05
Owner: 11190 Biscayne LLC
Address: 11190 Biscayne Blvd

N O V 2 3 2 0 0 5