

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

[REDACTED]	:	CIVIL ACTION
[REDACTED] on	:	
Behalf of Itself and all others Similarly	:	NO.
Situated,	:	
	:	
Plaintiff,	:	
	:	
v.	:	
	:	
RAIT FINANCIAL TRUST, BETSY COHEN,	:	
DANIEL COHEN, JACK E. SALMON,	:	
FRIEDMAN BILLINGS RAMSEY and	:	
BEAR, STEARNS & CO. INC.,	:	
	:	
Defendants.	:	

Plaintiff, individually and on behalf of all others similarly situated, by its attorneys, alleges the following based on the investigation of its counsel, except as to allegations specifically pertaining to plaintiff and its counsel, which are based on personal knowledge. The investigation of counsel is predicated on, among other things, a review of public filings by RAIT Financial Trust (“RAIT” or the “Company”) and American Home Mortgage Investment Corp. (“AHM”) with the United States Securities and Exchange Commission (“SEC”), press releases issued by the Company and AHM, media reports about the Company, and publicly available trading data relating to the price and volume of RAIT’s securities: This is a securities fraud class action on behalf of all purchasers of the publicly traded securities of RAIT between January 10, 2007 and July 31, 2007 (the “Class Period”), against RAIT and certain of its officers and directors and underwriters for violations of the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “1934 Act”).

1. On December 11, 2006, RAIT announced that its merger with Taberna Financial Realty Trust ("Taberna") was completed. There was no disclosure of the details of the Taberna loans and financing instruments which included TruPS (Trust Preferred Securities) issued to AHM in 2005. Nor was there any discussion of the uncertainty facing the sub-prime market and the risks of loss associated therewith by Taberna and RAIT. Instead the press surrounding the merger discussed the many synergistic benefits which would result from combining not only the depth of the talent but also from combining the secured financing capabilities and the funding capabilities of RAIT in the CDO side with what Taberna does, a premier provider of subordinated debt in TruPS to reits and other real estate operating companies. The focus was clearly on the benefits going forward as opposed to the known quantities and assets each company had in its portfolios.

2. The existence of these material misstatements was disclosed to members of the investing public on July 31, 2007, when the Company issued a shocking announcement disclosing that it did not receive payment of trust preferred securities due on July 30, 2007 from AHM, resulting in at least a net equity exposure of \$95 million. The price of RAIT's common stock declined in reaction to this news from a close on July 30, 2007 of \$16.06 to a close on July 31, 2007 of \$10.36.

JURISDICTION AND VENUE

3. The claims asserted herein arise under §§11, 12(a)(2) and 15 of the Securities Act of 1933, as amended (the "Securities Act"), 15 U.S.C. §77k, 771(a)(2) and 77o and §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. §240.10b-5. Jurisdiction exists pursuant to Section 22 of the Securities Act, 15 U.S.C. §77v, and 28 U.S.C. §§1331 and 1337 and §27 of the 1934 Act, 15 U.S.C. §78aa, and 28 U.S.C. §1331.

4. Venue is proper in this District because defendant RAIT and its affiliates have their principal executive offices in this District, and many of the wrongful acts alleged herein took place or originated in this District.

5. Defendants used the instrumentalities of interstate commerce, the U.S. mails and the facilities of the national securities markets in connection with the wrongful activity alleged herein.

PARTIES

6. Plaintiff [REDACTED] purchased 2000 shares of RAIT common stock, as set forth in the accompanying certification.

7. Defendant RAIT is a specialty finance company that provides a comprehensive set of debt financing options to the real estate industry. The Company's principal offices are located at 2929 Arch Street, Philadelphia, Pennsylvania 19104. The Company's stock trades on the New York Stock Exchange.

8. Defendant Betsy Cohen ("B. Cohen") at all relevant times was Chairman of the Board and Trustee of the Company, and signed the Registration Statement either individually or through an attorney-in-fact. B. Cohen is also the Chairman of the Board and Chief Executive Officer of The Bancorp Bank. B. Cohen is the mother of D. Cohen.

9. Defendant Daniel Cohen ("D. Cohen") at all relevant times was Principal Executive Officer, Chief Executive Officer and Trustee of the Company and in that capacity signed the Registration Statement either individually or through an attorney-in-fact. D. Cohen was previously the Chairman and CEO of Taberna. D. Cohen was the founder of Cohen Brothers, c/k/a Cohen & Company ("Cohen & Co."), a global alternative fixed-income asset manager with over \$40 billion in assets under management in 2007. He is the majority member of Cohen & Co., and chairman of

the board of Cohen & Co. RAIT shares office space and related resource with Cohen & Co. D. Cohen is also chairman of the board of Alesco Financial Inc., a publicly held real estate investment trust which is externally managed by Cohen & Co. He has been Vice-Chairman of the Board of The Bancorp Bank, a commercial bank.

10. Defendant Jack E. Salmon (“Salmon”) at all relevant times was Chief Financial Officer and Treasurer of the Company and in that capacity signed the Registration Statement either individually or through an attorney-in-fact. Previously, Salmon was an executive vice president, the chief financial officer and treasurer of Taberna.

11. Defendants B. Cohen, D. Cohen and Salmon are referred to herein as the “Individual Defendants.”

12. Defendant Friedman, Billings Ramsey (“FBR”) is an investment bank which acted as lead underwriter. FBR acted as the initial purchaser and placement agent of two private placements of Taberna prior to RAIT’s acquisition of Taberna. In connection with those offerings, FBR received \$29.8 million in fees. Since January 1, 2004, FBR also has issued \$662.9 million of TruPS that were acquired by subsidiaries of Taberna or by CDOs managed by affiliates of Cohen & Co. receiving approximately \$7.0 million of origination fees for introducing issuers of TruPS to Cohen & Co.

13. Defendant Bear, Stearns & Co. (“Bear Stearns”) is an investment bank which acted as one of the lead underwriters. Bear Stearns acted as placement agent and structuring agent for two CDOs managed by an affiliate of Taberna and two CDOs managed by an affiliate of Cohen & Co., receiving approximately \$29.0 million in fees. Since January 1, 2005, bear Stearns has received over \$24 million in fees for providing warehouse facilities, repurchase agreement and hedging services

to Taberna and Cohen & Co., as well as for introducing certain issuers of TruPS to Cohen & Co. Additionally, D. Cohen has a personal \$10 million line of credit with an affiliate of Bear Stearns.

CLASS ACTION ALLEGATIONS

14. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of a class (the "Class") consisting of all persons who purchased or otherwise acquired RAIT securities issued between January 10, 2007 and July 31, 2007. Excluded from the Class are defendants, the officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors, and assigns, and any entity in which defendants have or had a controlling interest.

15. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, there are over 63 million shares of RAIT common stock outstanding, plaintiff believes that there are hundreds, if not thousands, of Class members. Members of the Class may be identified from records maintained by RAIT, its transfer agent or the Underwriter Defendants and may be notified of the pendency of this action by mail, using a form of notice similar to that customarily used in securities class actions.

16. Plaintiff's claims are typical of the claims of the other members of the Class in that all members of the Class have been damaged by the acts of defendants, which caused members of the Class to purchase RAIT common stock at artificially inflated prices.

17. Plaintiff will fairly and adequately protect the interests of the other members of the Class. To assist him in that endeavor, plaintiff has retained counsel competent and experienced in

class and securities litigation. Plaintiff is not aware of any interest it holds which is antagonistic to the interests of the Class.

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

(a) Whether the Securities Act and Exchange Act were violated by defendants' acts, as alleged herein;

(b) Whether any materially false or misleading statements were made and/or defendants omitted material facts necessary to make statements made, in light of the circumstances under which they were made, not misleading; and

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

19. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to pursue individual redress for the damages caused to them by defendants' acts. Plaintiff is not aware of any difficulty that will be presented in managing this action as a class action.

SUBSTANTIVE ALLEGATIONS

20. On June 8, 2006, RAIT Investment Trust entered into an agreement and plan of merger with Taberna and RT Sub Inc. which resulted in Taberna becoming a subsidiary of RAIT. Both RAIT Investment Trust and Taberna were two Philadelphia based real estate investment trusts

operated by the Cohen family. Taberna, a private company, provided long-term subordinated debt and preferred securities to RAITS and real estate operating companies. At the time of the merger, each Taberna common share was converted into the right to receive 0.5389 of a RAIT common share, and the Company issued 23.9 million common shares pursuant to the merger.

21. On June 9, 2006, RAIT made an investor presentation on the proposed merger. This presentation emphasized the improved asset diversification and financing which would result from the merger. There was low integration risk because of the shared management culter and operating strategy in existence, as well as both companies' focus on low-risk asset classes and disciplined underwriting policies and procedures. While RAIT had a total return since its January 1998 initial public offering of 369%, Tabernas had a total return of 37% since its April 2005 144A offering. Both entities had experienced zero defaults to date. Taberna's specialty was the origination of financing for RAITS and other real estate operating companies in the forms of TruPS, or trust preferred securities, and subordinated debt.

22. The merger was completed on December 11, 2006. Shortly thereafter, on January 10, 2007 RAIT filed a Form S-3 Registration Statement and Prospectus with the SEC for the sale of common shares, preferred shares and warrants. The Registration Statement and Prospectus described core components of the Company's business to include "a robust origination network, a disciplined credit underwriting process and, through our ownership of Taberna, an ability to finance our business more efficiently through the use of CDO [collaterized debt obligations] transactions. . . . Our credit underwriting involves an extensive due diligence process that seeks to identify risks related to each proposed investment before an investment decision is made and, thereafter, to monitor each investment on a continuous basis. As a result of our acquisition of Taberna, we have acquired a

platform that we believe will allow us to structure CDO transactions and similar financing arrangements to finance asset growth.”

23. Subsequently, the Company filed Form 424B3, a Preliminary Prospectus and Registration Statement with the SEC on January 10, 2007. This Prospectus and Registration Statement was followed by the filing of Prospectus Supplements on January 10 and 12, 2007 for the sale of 8,250,000 common shares. On January 19, 2007, the offering was priced at \$34 per share for 10 million shares, with an over-allotment option granted to the underwriters for an additional 1.5 million shares.

24. At the time of the merger, RAIT had an undisclosed net equity exposure of approximately \$95 million in connection with TruPS and AHM for which RAIT had not adequately reserved. Defendants knew, but did not disclose, that AHM’s ability to make payments of trust preferred securities AHM owed to RAIT was dependent upon the state of the sub-prime mortgage lending market and AHM’s position therein. Because of the developing problems in the sub-prime mortgage market, RAIT was at serious risk of non-payment by AHM.

25. On February 21, 2007, RAIT announced fourth quarter and fiscal year 2006 results emphasizing that the merger with Taberna was completed, the investment portfolio totaled \$11.2 billion as of December 31, 2006, which included \$4.3 billion relating to TruPS and subordinated debentures, \$1.3 billion in commercial mortgages and mortgage-related receivables and \$0.9 billion of other real estate related investments. The Company recorded a \$2.5 million provision for losses for the three months and year ended December 31, 2006, as compared to no such provision for the prior year. There was no further explanation for this provision.

26. On March 20, 2007, at a Cohen & Co. Investor Conference, RAIT made a presentation explaining the underwriting and credit approval process.

27. On March 31, 2007, the Company reported results for the quarter ended March 31, 2007 emphasizing that total assets under management were \$14.0 billion at March 31, 2007, net income of \$20.34 million and a provision for loan losses of \$3.7 million. Interestingly, no similar provision was recorded for the same period a year earlier. There was no further explanation provided for this provision.

28. On April 6, 2007, AHM issued a press release announcing that is expected lower income in the first quarter and full year 2007 due to conditions in the secondary mortgage and mortgage-backed securities markets:

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

Additionally AHM admitted that it was experiencing high delinquency related charges due to the company establishing additional reserves for increases in non-performing loans.

29. On May 4, 2007, the Company filed its Form 10-Q for the quarter ended March 31, 2007 with the SEC. In its results of operations, the Company noted that the provision for loan losses relates primarily to investments in residential mortgages and mortgage-related receivables acquired

from Taberna on December 11, 2006, having increased to \$3.7 million for the three month period ended March 31, 2007 as compared to zero for the three month period ended March 31, 2006.

30. On June 5, 2007, the Company made a presentation at the 2007 NAREIT Investor Forum.

31. On June 14, 2007, The company announced that it declared its second quarter 2007 cash dividend on its common shares of \$0.84 per common share, which represented an increase of 5% over the prior quarter's dividend.

32. On June 28, 2007, AHM issued a press release announcing that is would take substantial charges for credit-related expenses in the second quarter stating:

The Company's delinquency-related charges in the second quarter will be substantial. In addition, the Company expects that it will reclassify a portion of its other comprehensive loss. The reclassification will be charged to current quarter earnings, but will reduce other comprehensive loss by a like amount, and consequently will not affect the Company's equity.

33. On July 19, 2007, the Company announced that it expects to release it second quarter 2007 results after market hours on August 2, 2007. The Company reported that all obligors under its TruPS and subordinated debentures were current as of June 30, 2007 and that is expected no material change in book value per share based on its quarterly estimate of fair value of its portfolio for the quarter ended June 30, 2007. Also, the Company reported that it expects earnings per share-diluted to range between \$0.84 to \$0.90 for the quarter ended June 30, 2007. There was no disclosure as to what prompted this "pre-announcement."

34. The above statements of the Company alleged herein in ¶¶22-27, 29-31, 33 were materially false and misleading because:

(a) they failed to disclose that the Company had provided TruPS to AHM and that the payment by AHM of the TruPS was in jeopardy, which could result in at least a net exposure of \$95 million, or \$1.56 per share of book value; and

(b) they failed to adequately reserve for the risk of nonpayment by AHM and the loss in value of the associated securities in an amount of approximately \$95 million.

35. On July 31, 2007, the Company finally admitted to an indebtedness owed to it by AHM. The market reaction to the Company's July 31, 2007 statement was swift and negative causing the trading prices of its outstanding securities to decline dramatically, as alleged in ¶2 hereof

COUNT I

(Against All Defendants For Violations of Section 11 of the Securities Act)

36. Plaintiff repeats and realleges each and every allegation made above as if fully set forth herein.

37. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. §77k, against all of the defendants.

38. The Registration Statement contained materially false or misleading statements.

39. The Company is the issuer of the common stock sold pursuant to the Registration Statement. As the issuer of these securities, the Company is strictly liable for the material misstatements and omissions.

40. The Individual Defendants, either individually or through an attorney-in-fact signed the Registration Statement and served as executives and/or trustees of RAIT and Taberna and at all times relevant to this action and are, therefore, liable for the materially false and misleading statements made in the Registration Statement. None of the Individual Defendants made a reasonable

investigation or possessed reasonable grounds for the belief that each of the statements made in the Registration Statement, the Prospectus and/or the Prospectus Supplements was true, did not omit any material facts and was not materially misleading.

41. The Underwriter Defendants were each an underwriter as that term is used in Section 11(a)(5) of the Securities Act and are, therefore, liable for the materially false and misleading statements made in the Registration Statement. None of the Underwriter Defendants made a reasonable investigation or possessed reasonable grounds for the belief that each of the statements made in the Registration Statement, the Prospectus and/or the Prospectus Supplements was true, did not omit any material facts and was not materially misleading.

42. Plaintiff and the Class have sustained damages. The value of the Company's common stock has declined substantially subsequent, and due to defendants' violations.

43. At the time plaintiff purchased the common stock of RAIT, plaintiff was without knowledge of the wrongful conduct alleged herein and could not have reasonably discovered these facts. Less than one year has elapsed from the time plaintiff discovered or reasonably could have discovered the facts upon which this Complaint is based to the time this Complaint was filed. Less than three years has elapsed from the time the securities upon which this Count is based were *bona fide* offered to members of the Class.

COUNT II

(Against RAIT and the Underwriter Defendants For Violations Of Section 12(a)(2) Of The Securities Act)

44. Plaintiff repeats and realleges each and every allegation made above as if fully set forth herein.

45. This Count is brought pursuant to Sections 12(a)(2) of the Securities Act, 15 U.S.C. §771(a)(2), against the Company and the Underwriter Defendants.

46. RAIT and the Underwriter Defendants sold, offered, and solicited the sale of the RAIT common stock sold to members of the Class. Those sales and solicitations were made for the financial gain and benefit of the defendants named in this Count and included at least the following:

(a) RAIT and its affiliates received substantial proceeds from the Offerings of at least \$317.6 million of net proceeds; and

(b) The Underwriter Defendants each received substantial proceeds from the successful completion of the Offerings.

47. The Prospectus and Prospectus Supplements made untrue statements of material facts, omitted to state facts necessary to make the statements made not misleading, and concealed and failed to disclose material facts as set forth above.

48. Members of the Class purchased or otherwise acquired the common stock pursuant to the Prospectus and the applicable Prospectus Supplement. Plaintiff did not know, and in the exercise of reasonable diligence could not have known, of the material untruths and omissions contained in the Prospectus or the Prospectus Supplements and the time of the purchase of RAIT stock.

49. By reason of the conduct alleged herein, the defendants named in this Count have violated Section 12(a)(2) of the Securities Act. Accordingly, members of the Class who hold the common stock have a right to rescind their purchases of these securities and hereby elect to rescind their purchases of them to the defendants sued in this Count for the consideration paid for those securities together with interest thereon.

COUNT III

**(Against The Individual Defendants For
Violations Of Section 15 Of The Securities Act)**

50. Plaintiff repeats and realleges each and every allegation made above as if fully set forth herein.

51. This Count is brought pursuant to Section 15 of the Securities Act, 15 U.S.C. §770, against the Individual Defendants.

52. The Individual Defendants had the power through their positions as senior executives and/or trustees of RAIT and their relationships with other directors and senior executives of RAIT to, and did, exercise control over RAIT with respect to its violations of the Securities Act alleged in Count I and Count II above. None of the Individual Defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements made in the Registration Statement, Prospectus and/or the Prospectus Supplements were true, did not omit any material facts and were not materially misleading. As a result, the Individual Defendants are liable as control persons for defendant RAIT's primary violations of the Securities Act alleged in this Complaint.

COUNT IV

**(For Violation of §10(b) of the 1934 Act
and Rule 10b-5 Against All Defendants)**

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

54. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained

misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

55. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;

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

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of ATI publicly traded securities during the Class Period.

56. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for RAIT publicly traded securities. Plaintiff and the Class would not have purchased RAIT publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

57. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of RAIT publicly traded securities stock during the Class Period.

COUNT V

(For Violation of §20(a) of the 1934 Act Against All Defendants)

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

59. The Individual Defendants acted as controlling persons of RAIT within the meaning of §20(a) of the 1934 Act. By reason of their positions as officers and/or trustee of RAITATI, and their ownership of RAIT stock, the Individual Defendants had the power and authority to cause RAIT to engage in the wrongful conduct complained of herein. RAIT controlled each of the Individual Defendants and all of its employees. By reason of such conduct, the Individual Defendants and RAIT are liable pursuant to §20(a) of the 1934 Act.

JURY TRIAL DEMANDED

60. Plaintiff demands a trial by jury.

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

A. Determining that this action is a proper class action, certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure, and certifying his counsel as class counsel;

B. Awarding compensatory damages in favor of plaintiff and the other members of the Class against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, including prejudgment and post-judgment interest thereon;

C. Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

Dated: August 1, 2007