

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF PENNSYLVANIA**

**THEONA B. SALKOWITZ, on Behalf of
Herself and all others Similarly Situated,**

Plaintiff,

V.

**RAIT FINANCIAL TRUST, BETSY COHEN,
DANIEL COHEN, JACK E. SALMON,
FRIEDMAN BILLINGS RAMSEY and
BEAR, STEARNS & CO. INC.,**

Defendants.

CIVIL ACTION NO. 07-_____

CLASS ACTION

CLASS ACTION COMPLAINT

Plaintiff, individually and on behalf of all others similarly situated, by her attorneys, alleges the following based on the investigation of her counsel, except as to allegations specifically pertaining to plaintiff and her counsel, which are based on personal knowledge. The investigation of counsel is predicated on, among other things, a review of the 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 those who purchased RAIT’s publicly traded securities between May 13, 2006 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”).

FACTUAL BACKGROUND

1. RAIT is a specialty finance company that provides a comprehensive set of debt financing obligations to the real estate industry. The Company originates and invests in real estate-related assets that are underwritten through an integrated investment process. The Company conducts its business through multiple subsidiaries, including RAIT Partnership and Taberna Realty Finance Trust ("Taberna"), as well as through their respective subsidiaries.

2. On June 8, 2006, RAIT entered into an agreement and plan of merger with Taberna Financial Realty Trust ("Taberna") and RT Sub Inc., which resulted in Taberna becoming a subsidiary of RAIT. On December 11, 2006, RAIT announced that its merger with Taberna was complete. There was no disclosure of the details of the Taberna loans and financing instruments which included TruPS (Trust Preferred Securities) issued by 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 concerning the merger discussed the alleged synergistic benefits which would result from combining RAIT's secured financing and funding capabilities on the CDO side with what Taberna does — provide subordinated debt financing to REITs and other real estate operating companies. The disclosures related to the Taberna merger focused on the one-sided benefits going forward as opposed to the assets and risks reflected in Taberna's portfolio.

3. RAIT's public filings and press releases concerning the Taberna merger omitted to state the material fact that a significant portion of the Taberna portfolio was exposed to the sub-prime mortgage lending market. The investing public was unaware of the nature, scope and extent of the true risks confronting the Taberna portfolio until RAIT announced, on July 31, 2007, that it had not received payment of trust preferred securities due on July 30, 2007 from a

company Taberna had financed, AHM, resulting in at least a net equity exposure of \$95 million, or \$1.56 per share of book value of RAIT. On this news, shares of RAIT common stock declined \$5.72 per share to close on July 31, 2007 at \$10.36, down 35.5 percent from the \$16.06 per share listed the day before. Shares of the Company's stock continued to decline the following day, losing an additional \$0.54 per share, or 5.2 percent, to close on August 1, 2007 at \$9.82 per share. On August 15, 2007, the shares closed at \$6.68 per share.

4. The Complaint alleges that, throughout the Class Period, defendants failed to disclose material adverse facts about the Company's financial well-being, business relationships, risks and prospects. Specifically, defendants failed to disclose or indicate the following: (1) that the Company had acquired inherently risky loans and financing instruments; (2) that AHM's payments on these loans and financing instruments were in jeopardy due to AHM's business practices; (3) that if AHM failed to make payments on its loans and financing instruments, the Company would suffer a net exposure of at least \$95 million; and (4) that the Company had failed to adequately reserve for the risk of nonpayment by AHM.

5. As a result of defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's common stock, Plaintiff and other Class Members have suffered significant losses and damages.

JURISDICTION AND VENUE

6. 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 1933 Act, 15 U.S.C. § 77v, and 28 U.S.C. §§ 1331 and 1337, and Section 27 of the 1934 Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1331.

7. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Additionally, RAIT's principal place of business is located within this Judicial District.

8. 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

9. Plaintiff Theona B. Salkowitz purchased 500 Shares of RAIT preferred stock during the class period, and 800 shares prior to the class period, as set forth in the accompanying certification.

10. 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.

11. 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.

12. 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 other \$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 resources 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.

13. 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.

14. Defendants B. Cohen, D. Cohen and Salmon are referred to herein as the "Individual Defendants." The Individual Defendants, because of their positions within the Company, possessed the power and authority to control the content of RAIT's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants

are liable for the misleading statements pleaded herein, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

15. 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.

16. 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 agreements 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

17. 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 June 8, 2006 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.

18. 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, over 2,760,000 of RAIT 7.75% Series A cumulative redeemable preferred shares outstanding, and over 2,258,300 of RAIT 8.375% Series B cumulative preferred shares outstanding. As a result, 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.

19. 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 preferred stock at artificially inflated prices.

20. Plaintiff will fairly and adequately protect the interests of the other members of the Class. To assist her in that endeavor, plaintiff has retained counsel competent and experienced in class and securities litigation. Plaintiff is not aware of any interest she holds which is antagonistic to the interests of the Class.

21. 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.

22. 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

23. RAIT is a specialty finance company that provides a comprehensive set of debt financing options to the real estate industry. Through its subsidiaries, the Company originates and invests in real estate-related assets that are underwritten through an integrated investment process. The Company originates and invests in the multiple asset classes, including commercial mortgages, mezzanine loans, trust preferred securities ("TruPS"), subordinated debentures, residential mortgage loans, and mortgaged-backed securities including residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS").

24. On June 8, 2006, RAIT 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 and Taberna were two Philadelphia-based real estate investment trusts operated by the Cohen family. Defendant B. Cohen, RAIT's CEO at the time, stated that "[t]he combined

company will provide both extraordinary expertise in the field of structured finance and a unique line of business in the area of trust preferred securities for REITs and REOCs thus leveraging the strong origination capability and excellent credit experience of RAIT. The joinder of these two companies creates a single source that can meet the various financing needs of the real estate community, both secured and unsecured.” Similarly, Defendant D. Cohen, Taberna’s CEO at the time, stated “[w]e expect to combine our CDO funding capacity with RAIT’s origination platform and to build a world-class real estate finance company. At our projected market capitalization we will be able to grow our investments by financing the world’s best real estate companies. I look forward to combining one of the best real estate mezzanine lenders with the premier provider of TruPS and subordinate debt for REITs and REOCs.” 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.

25. 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 culture 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%, Taberna 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 REITS and other real estate operating companies in the forms of TruPS, or trust preferred securities, and subordinated debt. The merger was completed on December 11, 2006.

26. At the time of the merger, Taberna and RAIT had an undisclosed net equity exposure of approximately \$95 million in connection with TruPS issued by AHM, for which Taberna and RAIT had not adequately reserved or disclosed. 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 inherent and well-known problems in the sub-prime mortgage market, RAIT was at serious risk of non-payment by AHM.

**Materially False and Misleading
Statements Issued During the Class Period**

27. On January 10, 2007 RAIT filed a Prospectus and Form S-3 Registration Statement with the SEC to effectuate a secondary offering of common stock, preferred shares and warrants. With regard to the core components of the Company's business, the Prospectus and Registration Statement, in relevant part, stated:

Core components of our business 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 transactions. Our extensive origination network allows us to lend to real estate borrowers internationally on a secured and unsecured basis, including through trust preferred securities, bridge loans, and mezzanine lending. A broad referral network in North America and Europe supports our origination platform. 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. We expect that use of CDOs will enable us to match the interest rates and maturities of our assets with the interest rates and maturities of our financing, thereby reducing interest rate volatility risk. We also believe that the use of CDOs will lower our cost of funds by providing access to a global network of fixed income investors and allow us to

compete with larger institutions providing loan products similar to ours [Emphasis added.]

28. On January 18, 2007, the Company filed a Prospectus Supplement with the SEC, and increased the amount of its securities offering to 10 million shares, with an additional 1.5 million shares of stock available for an over-allotment. Shares of the Company's stock were offered at a price of \$34.00 per share. The Offering was a financial success for the Company, as it was able to raise \$340 million in gross proceeds. With regard to the core components of the Company's business, the Prospectus Supplement restated the Prospectus filed on January 10, 2007.

29. On February 21, 2007, RAIT announced fourth quarter and fiscal year 2006 results emphasizing the completion of the Taberna merger, RAIT's achievement of a \$0.75 dividend per common share on December 18, 2006, and an investment portfolio totaled at \$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.

30. On March 1, 2007, RAIT filed its Annual Report with the SEC on Form 10-K. REIT's Form 10-K was signed by the Individual Defendants, among others, and reaffirmed the Company's financial results previously announced on February 21, 2007. Additionally, the Company, in relevant part, stated:

Revenue

Investment interest income increased approximately \$52.5 million, or 61%, to approximately \$138.6 million for the year ended December 31, 2006 from approximately \$86.2 million for the year ended December 31, 2005. Of the increase, \$37.4 million was attributable to the interest earning assets acquired from Taberna with the remaining increase associated with the increase in our commercial and mezzanine loans from December 31, 2005.

Investment interest expense increased approximately \$48.9 million, or 378%, to approximately \$61.8 million for the year ended December 31, 2006 from approximately \$12.9 million for the year ended December 31, 2005. Of this increase, \$31.4 million was attributable to the interest bearing liabilities assumed from Taberna with the remaining increase attributable to our increased borrowings under our lines of credit and the issuance of our CDO notes payable in November 2006, through RAIT I.

Our provision for loan loss related to investments in residential mortgages and mortgage-related receivables acquired from Taberna on December 11, 2006 and our commercial mortgage and mezzanine loans. The provision for loan loss increased to approximately \$2.5 million for the year ended December 31, 2006 as compared to zero for the year ended December 31, 2005. We maintain an allowance for loss on our investments in residential mortgages and mortgage-related receivables, commercial mortgages, mezzanine loans and other loans. Specific allowances for losses are established for impaired loans based on a comparison of the recorded carrying value of the loan to either the present value of the loan's expected cash flow, the loan's estimated market price or the estimated fair value of the underlying collateral. Based on our evaluation of our portfolios of loans and the adequacy of our allowance, we increased our allowance for losses by \$2.5 million during 2006. Of this, approximately \$1.0 million relates specifically to our pool of residential mortgages acquired from Taberna on December 11, 2006 and is based on statistical evidence of historical losses on homogenous pools of residential mortgages.

* * *

The Company maintains an allowance for losses on its investments in residential mortgages and mortgage-related receivables, commercial mortgages, mezzanine loans and other loans. The Company's allowance for losses is based on management's evaluation of known losses and inherent risks in the portfolios, for example, historical and industry loss experience, economic conditions and trends, estimated fair values, the quality of collateral and other relevant factors. Specific allowances for losses are established for impaired loans based on a comparison of the recorded carrying value of the loan to either the present value of the loan's expected cash flow, the loan's estimated market price or the estimated fair value of the underlying collateral. The allowance is increased by charges to the operations

and decreased by charge-offs (net of recoveries). [Emphasis added.]

31. The Company's Form 10-K also contained Sarbannes-Oxley required certifications, signed by Defendants D. Cohen and Salmon, which stated:

I, [Daniel G. Cohen/ Jack E. Salmon], certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2006 of RAIT Financial Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined as Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

* * *

In connection with the Annual Report of RAIT Financial Trust (the "Company") on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, [Daniel G. Cohen, Chief Executive Officer/ Jack E. Salmon, Chief Financial Officer] of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

32. On March 20, 2007, RAIT presented at the Cohen & Company Investor Conference, wherein the Company illustrated its underwriting and credit approval process for investors and analysts. This presentation represented how the Company's underwriting and credit approval process included a "credit write up," wherein the Company discussed the strengths, concerns, and "mitigants," and considered all relevant financial information in making investment decisions. Further, the Company's presentation represented how the Company's underwriting and credit approval process included "ongoing surveillance," which was conducted by a credit analyst/assets manager on an ongoing basis.

33. On March 31, 2007, the Company reported results for the quarter ended March 31, 2007 emphasizing total assets under management of \$14.0 billion, net income of \$20.34 million and a provision for loan losses of \$3.7 million. No similar loss provision was recorded for the same period a year earlier.

34. On April 6, 2007, AHM issued a press release entitled "American Home Mortgage Expects Reduced Earnings in the First Quarter and Full Year 2007," which in relevant part, stated:

American Home Mortgage Investment Corp. (NYSE: AHM) announced today that it *expects lower income in the first quarter and full year 2007 than previously forecasted due to conditions in the secondary mortgage and mortgage-backed securities markets.*

Michael Strauss, American Home's Chairman and Chief Executive Officer, commented, "*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.

* * *

The Company's first quarter results will also be adversely affected by write-downs of its portfolio of low investment grade and residual securities. In particular, the Company's approximately \$484 million of securities rated "AA," "A" or "BBB" will be written down to account for an unusually large widening in the first quarter of the spread over LIBOR at which these securities trade.

Additionally, the Company's first quarter results will be adversely affected by ongoing high delinquency related charges due to the Company establishing additional reserves for increases in nonperforming loans. While high delinquency charges were expected, their impact on quarterly results continues to be significant. A disproportionate share of the Company's nonperforming loans are repurchased Alternate "A" loans. The Company has ceased offering these types of Alternate "A" loans that have resulted in a high proportion of its repurchases, and consequently believes the portion of delinquency related charge resulting from repurchases will diminish toward year-end. [Emphasis added.]

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

35. On April 30, 2007, the Company issued a press release entitled "RAIT Financial Trust Announces First Quarter 2007 Results." Therein, the Company reported its results for the quarter ended March 21, 2007, which included such "highlights" as a net investment income of \$43 million for the quarter, total originations of \$1.4 billion of commercial real estate loans and trust preferred securities, and a regularly quarterly dividend of \$.80 per common share for the quarter.

36. 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. The Company, in relevant part, stated:

Our provision for loan loss relates primarily to investments in residential mortgages and mortgage-related receivables acquired from Taberna on December 11, 2006. The provision for loan loss increased to approximately \$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. We maintain an allowance for loss on our investments in residential mortgages and mortgage-related receivables, commercial mortgages, mezzanine loans . . .

* * *

We maintain an allowance for loans on our investments in residential mortgages and mortgage-related receivables, commercial mortgages, mezzanine loans and other loans. Our allowance for losses is based on management's evaluation of known losses and inherent risks, for example, historical and industry loss experience, economic conditions and trends, estimated fair values, the quality of collateral and other relevant factors. Specific allowances for losses are established for impaired loans based on a comparison of the recorded carrying value of the loan to either the present value of the loan's expected cash flow, the loan's estimated market price or the estimated fair value of the underlying collateral. The allowance is increased by charges to operations and decreased by charge-offs (net of recoveries). [Emphasis added.]

37. On June 5, 2007, the Company presented at the 2007 NAREIT Investor Forum, wherein once again the Company highlighted its purported focus on credit, risk monitoring, and ongoing surveillance.

38. On June 14, 2007, the Company issued a press release entitled "RAIT Financial Trust Increases Second Quarter 2007 Cash Dividend 5% Over Prior Quarter." The Company declared an \$0.84 cash dividend per common share, representing an increase of \$0.04 per common share, or 5.0% over the prior quarter's dividend of \$0.80.

39. On June 28, 2007, AHM issued a press release entitled "American Home Mortgage Provides Mid-Quarter Update," which in relevant part, stated:

American Home Mortgage Investment Corp. (NYSE: AHM) announced today that it will take substantial charges for credit-related expenses in the second quarter. As a result, the Company's second quarter financial results are uncertain, and it is likely the Company will experience a second quarter loss. As has been previously described, the Company's credit-related expenses have been primarily caused by the three month "timely payment" warranty the Company granted to loan buyers who purchased state income loans with high loan to value ratios from the Company. The Company has stopped making these types of loans.

* * *

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. [Emphasis added.]

40. On July 19, 2007, the Company issued a press release entitled "RAIT Financial Trust Sets Second Quarter Financial Results Release Date and Provides Guidance for Quarter Ended June 30, 2007." Therein, the Company, in relevant part, stated:

RAIT Financial Trust (NYSE: RAS) today announced that it expects to release its second quarter 2007 results after market hours on Thursday, August 2, 2007.

RAIT expects adjusted earnings per share – diluted to range between \$0.84 to \$0.90 for the quarter ended June 30, 2007.

RAIT expects estimated GAAP earnings per share – diluted to range between \$0.43 to \$0.46 for the quarter ended June 30, 2007. See Schedule I for a reconciliation of estimated GAAP earnings per share – diluted to estimated adjusted earnings per share – diluted for the quarter ended June 30, 2007.

All obligors under our trust preferred securities (“TruPS”) and subordinated debentures are current as of June 30, 2007.

RAIT expects 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. [Estimate added.]

41. The above statements of the Company alleged herein in ¶¶27-40 were materially false and misleading because Defendants failed to disclose or indicate the following: (1) that the Company had acquired inherently risky loans and financing instruments; (2) that AHM’s payments on these loans and financing instruments were in jeopardy due to AHM’s business practices; (3) that if AHM failed to make payments on its loans and financing instruments, the Company would suffer a net exposure of \$95 million; and (4) that the Company had failed to adequately reserve for the risk of nonpayment by AHM.

A Shocking Announcement

42. On July 31, 2007, the Company shocked investors when it issued a press release entitled “RAIT Financial Trust Updates TruPS Payment Performance Through July 30, 2007 and Moves Up Earnings Call Date.” Therein, the Company, in relevant part, revealed:

RAIT Financial Trust (NYSE: RAS) announced today that all issuers of RAIT’s trust preferred securities, other than American Home Mortgage Investment Corp. (“AHM”), made their payments due on July 30, 2007. RAIT has net equity exposure to AHM of approximately \$95 million, or \$1.56 per share of book value, resulting from trust preferred financing provided to AHM in 2005.

RAIT will discuss further its exposure to AHM on its upcoming earnings conference call. RAIT expects to release its second

quarter 2007 results after market hours on Wednesday, August 1, 2007 . . . [Emphasis added.]

43. On this news, shares of the Company's stock fell \$5.72 per share, or 35.5 percent, to close on July 31, 2007 at \$10.36 per share, on unusually heavy trading volume. Shares of the Company's stock continued to decline the following day, losing an additional \$0.54 per share, or 5.2 percent, to close on August 1, 2007 at \$9.82 per share, also on unusually heavy trading volume.

UNDISCLOSED ADVERSE FACTS

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

45. During the Class Period, defendants materially misled the investing public, thereby inflating the price of RAIT's securities, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. At the time of RAIT's proposed merger with Taberna, defendants spoke only of the merger's potential synergistic benefits without discussing Taberna's involvement in the sub-prime mortgage lending market—the state of which represented a significant risk to RAIT at both the time of the merger and thereafter. Likewise, RAIT's subsequent SEC filings emphasized financing benefits to be gained through the merger, but again failed to explain, let alone mention, the serious risk of non-payment by AHM and other

counter-parties. RAIT continued to deceive the public by offering a misleading explanation for its adoption of a \$2.5 million loan loss provision: claiming that only \$1 million related specifically to the pool of residential mortgages acquired from Taberna. The very maintenance of the \$2.5 million loss provision was misleading in that it severely downplayed the \$95 million in exposure from Taberna's involvement in the sub-prime market. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

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

LOSS CAUSATION

47. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

48. During the Class Period, Plaintiff and the Class purchased securities of RAIT at artificially inflated prices and were damaged thereby. The price of RAIT's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

SCIENTER ALLEGATIONS

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

50. Additionally, during the Class Period, and with RAIT's securities trading at artificially inflated prices, the Company used the price of its artificially inflated securities (including the proceeds from the January offering) to complete numerous financing activities. For example, on January 18, 2007, the Company completed a public stock offering where it sold 10 million shares of Company stock to the public at a price of \$34.00 per share, for gross proceeds of \$340 million. Then, in 2007, the Company offered Notes and other securities in private placements and otherwise for gross proceeds of over \$425,000,000.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET DOCTRINE**

51. At all relevant times, the market for RAIT's publicly issued securities was an efficient market for the following reasons, among others:

(a) RAIT's publicly-listed securities met the requirements for listing, and were listed and actively traded on the NYSE, a highly efficient and automated market;

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

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

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

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

NO SAFE HARBOR

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

COUNT I

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

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

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

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

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

58. 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 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.

59. 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.

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

61. At the time plaintiff purchased the securities 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 have 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)**

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

63. 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.

64. RAIT and the Underwriter Defendants sold, offered, and solicited the sale of the RAIT preferred 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.

65. 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.

66. Members of the Class purchased or otherwise acquired RAIT securities 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.

67. 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 purchased the securities traceable to the offering 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

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

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

69. 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.

70. 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.

71. 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.

72. 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 IV

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

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

74. 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 trustees of RAIT, 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

75. 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 her counsel as class counsel;

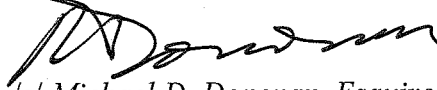
B. Awarding compensatory damages in favor of plaintiff and the other members of the Class against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, including prejudgment and post-judgment interest thereon;

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 16, 2007

DONOVAN SEARLES, LLC


By: /s/ Michael D. Donovan, Esquire
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**CERTIFICATION OF NAMED PLAINTIFF UNDER
 THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

I, Theona B. Salkowitz, declare as follows with respect to claims under the federal securities laws alleged:

1. I seek to join as one of the plaintiffs named in the foregoing action ("the Action").
2. I have reviewed the Action with my counsel and have authorized my joinder.
3. I did not purchase securities of RAIT Financial Trust ("RAS") at the direction of my counsel or in order to participate in any private securities action.
4. I am willing to serve as a representative party on behalf of the class, including providing testimony at depositions and trial, if necessary.
5. The following sets forth all of my transactions during the class period in RAS securities:

<u>PURCHASE OR SALE</u>	<u>TYPE OF ACCOUNT</u>	<u>NO. OF SHARES</u>	<u>PRICE PER SHARE</u>	<u>DATE</u>
Purchase Preferred B	<u>IRA</u> *	800	\$25.50	5 ² /13/06
Purchase Preferred A	<u>IRA</u> *	500	\$21.35	7/18/07

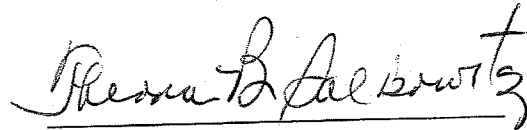
* E.g. Cash, Margin, IRA, 401-K, Trust, etc.

6. The following sets forth all federal securities actions filed during the past three years in which I have served or sought to serve as a representative party on behalf of a class:

NONE.

7. I will not accept any payment for serving as a representative party on behalf of the class beyond its pro rata share of any recovery to the class, plus reasonable costs and expenses (including lost wages) directly relating to the representation of the class, except as approved by the Court.

I declare under penalty of perjury that the foregoing is true and correct. Signed at Wyncote, PA, this 11th day of August, 2007.



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