

ACCREDITED HOME LENDERS HOLDING CO

Form 424B3

August 04, 2006

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Registration No. 333-135787

YOUR VOTE ON THE PROPOSED TRANSACTION IS VERY IMPORTANT

To the Stockholders of Accredited Home Lenders Holding Co. and Aames Investment Corporation:

The board of directors of each of Accredited Home Lenders Holding Co. and Aames Investment Corporation has agreed to a merger transaction involving their respective companies. If the requisite approval of the Accredited and Aames stockholders is obtained, Aames will merge with and into AHL Acquisition, LLC, a wholly owned subsidiary of Accredited.

If the merger is completed, each share of Aames common stock will be converted into the right to receive *either* (1) cash in an amount equal to \$51.94 multiplied by a specified exchange ratio *or* (2) a fraction of a share of Accredited common stock equal to the exchange ratio. The exchange ratio is initially set at 0.1030, but is subject to adjustment as further described in the accompanying joint proxy statement and prospectus. Aames stockholders will have the ability to make a cash or stock election with respect to the consideration they receive in the merger, subject to the proration and allocation mechanisms that are described more fully in the accompanying joint proxy statement and prospectus.

The aggregate consideration to be paid to holders of Aames common stock at the closing of the merger will consist of approximately 4,434,000 shares of Accredited common stock and approximately \$109.0 million in cash, each of which is subject to adjustment as described in more detail in the accompanying joint proxy statement and prospectus by any dividends declared or paid by Aames to Aames stockholders prior to the closing of the merger. Based on the closing price of Accredited's common stock on July 31, 2006, the last practicable date prior to the mailing of this joint proxy statement and prospectus, the aggregate value of the merger consideration will be approximately \$310 million.

In order to complete the merger, Aames stockholders must approve the merger and Accredited stockholders must approve the issuance of shares of Accredited common stock in connection with the merger. Each of the Accredited and Aames board of directors believes that the merger is in the best interests of its respective company and its company's stockholders, and we ask for your support in voting for the applicable proposal related to the merger described in the accompanying joint proxy statement and prospectus. The special meeting of Accredited stockholders will be held at 15090 Avenue of Science, San Diego, California 92128, on September 14, 2006, at 4:00 p.m., local time. The special meeting of Aames stockholders will be held at the Omni Hotel, 251 South Olive Street, Los Angeles, California 90012, on September 14, 2006, at 9:00 a.m., local time.

The boards of directors of Accredited and Aames have each unanimously approved the merger. Each board recommends that the stockholders of its respective company vote for the applicable proposal related to the merger.

Your vote is important, regardless of the number of shares you own. **Please vote as soon as possible to make sure that your shares are represented at the special meeting. To vote your shares by proxy, please complete and return the enclosed proxy card. You may also cast your vote in person at the special meeting.**

Accredited common stock is listed on the Nasdaq Stock Market under the symbol LEND. Aames common stock is listed on the New York Stock Exchange under the symbol AIC. On July 31, 2006, Aames common stock closed at \$4.84 per share and Accredited common stock closed at \$45.33 per share.

Sincerely,
Accredited Home Lenders
Holding Co.

James A. Konrath
*Chairman of the Board
and Chief Executive Officer*

This joint proxy statement and prospectus is dated August 2, 2006, and is first being mailed to stockholders on or about August 4, 2006.

Sincerely,
Aames Investment Corporation

A. Jay Meyerson
*Chairman of the Board
and Chief Executive Officer*

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NOTICE OF SPECIAL MEETING OF ACCREDITED STOCKHOLDERS

San Diego, California

August 2, 2006

A special meeting of stockholders of Accredited will be held at 15090 Avenue of Science, San Diego, California 92128, on September 14, 2006, at 4:00 p.m., local time, for the following purposes:

1. To consider and vote on a proposal to approve the issuance of shares of Accredited common stock in the merger of Aames Investment Corporation, or Aames, a Maryland corporation, with and into AHL Acquisition, LLC, or Merger Sub, a Maryland limited liability company, and wholly owned subsidiary of Accredited Home Lenders Holding Co., or Accredited, a Delaware corporation, pursuant to the Agreement and Plan of Merger, dated as of May 24, 2006 by and among Aames, Accredited and Merger Sub. We have included a copy of the merger agreement as Annex A to the attached joint proxy statement and prospectus.
2. To consider and vote on a proposal to amend Accredited's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of capital stock from 45,000,000 to 80,000,000, consisting of 75,000,000 shares of common stock and 5,000,000 shares of preferred stock.
3. To consider and vote upon a proposal to approve adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the first proposal described above.
4. To transact such other business as may properly come before the Accredited special meeting or any adjournment or postponement of the meeting.

Completion of the merger is not conditioned on the approval of the proposal to amend Accredited's Amended and Restated Certificate of Incorporation.

Only stockholders of record at the close of business on July 27, 2006 will be entitled to vote at the Accredited special meeting. We will make available a list of stockholders entitled to vote at the special meeting during ordinary business hours at Accredited's offices at 15090 Avenue of Science, San Diego, California 92128 for a period of at least 10 days prior to the special meeting for examination by any Accredited stockholder entitled to vote at the special meeting for any purpose germane to the special meeting. To vote your shares by proxy, please complete and return the enclosed proxy card. You may also cast your vote in person at the Accredited special meeting. Please vote promptly whether or not you expect to attend the Accredited special meeting.

By order of the Board of Directors,

Stuart D. Marvin

Secretary

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD.

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NOTICE OF SPECIAL MEETING OF AAMES STOCKHOLDERS

Los Angeles, California

August 2, 2006

A special meeting of stockholders of Aames will be held at the Omni Hotel, 251 South Olive Street, Los Angeles, California 90012, on September 14, 2006, at 9:00 a.m., local time, for the following purposes:

1. To consider and vote on a proposal to approve the merger of Aames Investment Corporation, or Aames, a Maryland corporation, with and into AHL Acquisition, LLC, or Merger Sub, a Maryland limited liability company, and wholly owned subsidiary of Accredited Home Lenders Holding Co., or Accredited, a Delaware corporation, pursuant to the Agreement and Plan of Merger, dated as of May 24, 2006, by and among Aames, Accredited and Merger Sub. We have included a copy of the merger agreement as Annex A to the attached joint proxy statement and prospectus.

2. To consider and vote upon a proposal to approve adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the proposal as described above.

3. To transact such other business as may properly come before the Aames special meeting or any adjournment or postponement of the meeting.

Only stockholders of record at the close of business on August 1, 2006 will be entitled to vote at the Aames special meeting. We will make available a list of stockholders entitled to vote at the special meeting during ordinary business hours at Aames' offices at 350 South Grand Avenue, Los Angeles, California 90071 for a period of at least 10 days prior to the special meeting for examination by any Aames stockholder entitled to vote at the special meeting for any purpose germane to the special meeting. To vote your shares by proxy, please complete and return the enclosed proxy card. You may also cast your vote in person at the Aames special meeting. Please vote promptly whether or not you expect to attend the Aames special meeting.

By order of the Board of Directors,

John F. Madden, Jr.

Secretary

PLEASE VOTE YOUR SHARES PROMPTLY. YOU CAN FIND INSTRUCTIONS FOR VOTING ON THE ENCLOSED PROXY CARD.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER
AND THE SPECIAL MEETINGS**

Q: What are the Accredited stockholders being asked to vote on at the Accredited special meeting?

A. Accredited stockholders are being asked to vote on the following at the Accredited special meeting:

- (1) A proposal to approve the issuance of shares of Accredited common stock pursuant to the merger agreement among Accredited, Aames and Merger Sub.
- (2) A proposal to amend Accredited's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of capital stock from 45,000,000 to 80,000,000, consisting of 75,000,000 shares of common stock and 5,000,000 shares of preferred stock.
- (3) A proposal to approve adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the first proposal described above.
- (4) Such other business as may properly come before the Accredited special meeting or any adjournment or postponement of the meeting.

Completion of the merger is not conditioned on approval of the proposal to amend the Accredited Amended and Restated Certificate of Incorporation.

Q: What are the Aames stockholders being asked to vote on at the Aames special meeting?

A. Aames stockholders are being asked to vote on the following at the Aames special meeting:

- (1) A proposal to approve the merger.
- (2) A proposal to approve adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the above proposal described above.
- (3) Such other business as may properly come before the Aames special meeting or any adjournment or postponement of the meeting.

Q: What effect will the merger have on Aames?

A: As a result of the merger, Aames will become a wholly owned subsidiary of Accredited and Aames stock will no longer be publicly traded.

Q: *What will Aames stockholders receive when the merger occurs?*

A: For each share of Aames common stock, an Aames stockholder will receive *one* of the following:

cash in an amount equal to \$51.94 (the closing price of Accredited's common stock on May 24, 2006, the date of the merger agreement) multiplied by the exchange ratio (which we explain below), *or*

a fraction of a share of Accredited common stock equal to the exchange ratio.

The exchange ratio was initially set at 0.1030. That means that on the day that we executed the merger agreement (and subject to the limitations described below) each share of Aames common stock would have been converted into \$5.35 in cash or a fraction of a share of Accredited common stock that had a value of \$5.35 (based on the closing price of Accredited common stock on the day we executed the merger agreement). However, the exchange ratio will be reduced by any dividends declared or paid by Aames prior to the closing. We will reduce the exchange ratio by multiplying it by 1 minus a fraction, the numerator of which is the amount of any dividends Aames declares or pays prior to closing, and the denominator of which is approximately \$340 million.

Under the merger agreement, Aames is required to pay prior to closing a dividend in an amount equal to Aames's estimated 2006 REIT taxable income plus any other amounts that Aames would need to distribute to qualify as a REIT for its final taxable year and to avoid to the extent reasonably possible the

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incurrence of income or excise tax. Aames currently estimates that, if the closing were to occur on September 30, 2006, it would pay a dividend of approximately \$30 million in the aggregate (or \$0.48 per share) pursuant to this provision, although Aames cannot provide any assurance as to the amount of any such dividend.

Example: By way of example only, if Aames were to declare dividends prior to the closing of the merger in the aggregate amount of \$30 million (and using the approximate value of aggregate consideration of \$340 million), then:

(1) the exchange ratio would be reduced as follows: $0.1030 \times (1 - \$30 \text{ million}/\$340 \text{ million})$ or 0.0939; and

(2) each share of Aames common stock would be converted into one of the following:
cash in an amount equal to \$4.88 ($\51.94×0.0939), or

0.0939 of a share of Accredited common stock (which had a value of \$4.26 based on the closing price for Accredited common stock on July 31, 2006).

Q: *Can Aames stockholders elect whether to receive cash or stock consideration for their Aames shares?*

A: Yes, we have enclosed with this joint proxy statement and prospectus election materials which will allow you to elect, with respect to each share of Aames common stock you own, cash or stock consideration. However, please note that only a specified number of shares of Accredited common stock and amount of cash is available for issuance in the merger.

Q: *If an Aames stockholder elects to receive all of the merger consideration in cash, will that stockholder be assured of receiving only cash?*

A: No. Accredited will pay no more than approximately \$109 million in cash to Aames stockholders in the merger. This amount will be reduced to the extent that Aames pays any dividends to its stockholders prior to the closing of the merger. In the event that Aames stockholders make cash elections in excess of the cash available for distribution, the aggregate number of Aames shares in respect of which a cash election was made will be reduced on a pro-rata basis for each Aames stockholder who made such an election.

Q: *If an Aames stockholder elects to receive all of the merger consideration in Accredited common stock, will that stockholder be assured of receiving only Accredited common stock?*

A: No. Accredited will issue no more than approximately 4,434,000 shares of Accredited common stock to Aames stockholders in the merger. In the event that Aames stockholders make stock elections in excess of the Accredited common stock available for distribution, the aggregate number of Aames shares for which a stock election was made will be reduced on a pro-rata basis for each Aames stockholder who made such an election.

Q: *I heard about the sale by Aames to Accredited of the Aames wholesale business. What was the purpose of that transaction and does that affect what I will receive in the merger?*

A: Accredited's purchase of the Aames wholesale business was intended to reduce attrition of Aames employees and maximize the potential synergies from the combination of Accredited's and Aames's wholesale businesses at the present time that would otherwise occur when the

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merger is completed. The sale by Aames to Accredited of the Aames wholesale business will have no affect on the consideration you will receive in the merger.

Q: *When do the companies expect to complete the merger?*

A: We hope to complete the merger shortly after the special meetings of the Aames stockholders and the Accredited stockholders and currently expect it to be completed in the fall of 2006. While we are working to complete the merger as quickly as possible, because the merger is subject to stockholder approval and other factors beyond our control, we cannot predict with accuracy when or if the merger will be completed.

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Q: *What are the material United States federal income tax consequences of the merger to Aames stockholders who are U.S. persons?*

A: In general, for United States federal income tax purposes:

- (1) Aames stockholders who have exchanged all of their Aames common stock solely for cash in the merger will recognize gain or loss in an amount equal to the difference between the cash received and that stockholder's adjusted tax basis in the shares surrendered,
- (2) Aames stockholders who have exchanged all of their Aames common stock solely for Accredited common stock in the merger will not recognize any gain or loss as a result of the exchange (other than for cash received in lieu of a fractional share of Accredited common stock), and
- (3) Aames stockholders who receive a combination of cash and Accredited common stock in the merger will not generally recognize any loss but will generally recognize gain, if any, on the shares so exchanged to the extent of any cash received. **Aames stockholders should consult their tax advisors for a full understanding of the tax consequences to them of the merger.** For further information regarding the U.S. federal income tax consequences of the merger, please see *The Merger* Material United States Federal Income Tax Consequences of the Merger.

Q: *Do the Aames stockholders or Accredited stockholders have appraisal rights with respect to the merger?*

A: Neither the Aames stockholders nor Accredited stockholders have appraisal rights in connection with the merger.

Q: *What vote is required of the Accredited stockholders to complete the merger?*

A: For the merger to occur, the issuance of shares of Accredited common stock in the merger must be approved by the holders of at least a majority of the issued and outstanding shares of Accredited common stock voted at the Accredited special meeting.

Q: *What vote is required of the Aames stockholders to complete the merger?*

A: For the merger to occur, the merger must be approved by the holders of at least a majority of the issued and outstanding shares of Aames common stock entitled to vote at the Aames special meeting.

Q: *Why is Accredited amending its Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock?*

A: Accredited has determined it to be prudent to increase its authorized capital stock to make available additional authorized shares of common stock in the event the Accredited board of directors determines that it is necessary or appropriate to authorize future stock dividends, to raise additional capital through the sale of equity securities, to acquire another company or its assets, to establish strategic relationships with corporate partners, to provide equity incentives to employees and officers or for other corporate purposes. The availability of additional shares of common stock is particularly important in the event that the Accredited board of directors needs to undertake any of the foregoing actions on an expedited basis and thus avoid the time and expense of seeking stockholder approval at the time in connection with the contemplated issuance of common stock.

Q: *What vote is required of the Accredited stockholders to approve the amendment of Accredited s Amended and Restated Certificate of Incorporation?*

A: The amendment of Accredited s Amended and Restated Certificate of Incorporation requires approval of holders of at least a majority of all shares of Accredited common stock that are outstanding and entitled to vote at the Accredited special meeting.

Q: *When and where are the special meetings?*

A: *The Accredited Special Meeting*

The special meeting of Accredited stockholders will be held on September 14, 2006, at 4:00 p.m., local time, at 15090 Avenue of Science, San Diego, California 92128.

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The Aames Special Meeting

The special meeting of Aames stockholders will be held on September 14, 2006 at 9:00 a.m., local time, at the Omni Hotel, 251 South Olive Street Los Angeles, California 90012.

Q: *Who can vote at the special meetings?*

A: *The Accredited Special Meeting*

Only holders of record of Accredited common stock as of the close of business on July 27, 2006 will be entitled to notice of and to vote at the Accredited special meeting.

The Aames Special Meeting

Only holders of record of Aames common stock as of the close of business on August 1, 2006 will be entitled to notice of and to vote at the Aames special meeting.

Q: *If my shares are held in street name by my broker, will my broker vote my shares for me?*

A: Your broker will vote your shares only if you provide instructions to your broker on how those shares should be voted. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Without instructions, your shares will not be voted, which we refer to as a broker non-vote. In the case of Aames stockholders, since approval of a majority of the outstanding shares entitled to vote is required for the merger, a broker non-vote has the same effect for Aames common stockholders as a vote against the Aames merger proposal. In the case of Accredited stockholders a broker non-vote will have no effect on approval of the issuance of Accredited common stock in connection with the merger. However, since the affirmative vote of at least a majority of the shares entitled to vote at the Accredited special meeting is required to approve the proposal to amend Accredited's Amended and Restated Certificate of Incorporation, a broker non-vote has the same effect for Accredited stockholders as a vote against that proposal.

Q: *What is the effect if I return my proxy marked ABSTAIN ?*

A: A properly executed proxy marked ABSTAIN will not be voted. In the case of Accredited stockholders, abstentions will not be counted as either votes cast FOR or AGAINST the proposal to issue shares of Accredited common stock in the merger and, as approval of that proposal requires the approval of a majority of the votes cast, will have no effect on the result of the vote. However, since the affirmative vote of at least a majority of the shares entitled to vote at the Accredited special meeting is required to approve the proposal to amend Accredited's Amended and Restated Certificate of Incorporation, a proxy marked ABSTAIN will have the effect of a vote against that proposal. In the case of Aames stockholders, since the affirmative vote of at least a majority of the shares outstanding and entitled to vote at the Aames special meeting is required to approve the merger, a proxy marked ABSTAIN will have the effect of a vote against that proposal.

Q: *May I change my vote after I have mailed my signed proxy card?*

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- A: Yes. Aames stockholders should send a written revocation or a later dated, signed proxy card to Corporate Secretary, Aames Investment Corporation, 350 South Grand Avenue, 43rd Floor, Los Angeles, California 90071 before the Aames special meeting to change their vote. Accredited stockholders should send a revocation or later dated, signed proxy card to Corporate Secretary, Accredited Home Lenders Holding Co., 15090 Avenue of Science, San Diego, California 92128 before the Accredited special meeting to change their vote. You may also attend the special meeting held by your company and vote in person.

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Q: *How do Aames stockholders specify if they want cash or shares of Accredited common stock?*

A: Aames stockholders have been sent, together with this joint proxy statement and prospectus, an election form/letter of transmittal, or the election form, with instructions for making an election to receive cash or shares of Accredited common stock in exchange for all or a portion of his or her shares of Aames common stock, subject to pro-ration. To be effective, an election form must be properly completed and signed by Aames stockholders and received by the exchange agent no later than 5:00 p.m., Eastern Daylight Time, on the date that is two business days immediately preceding the closing date of the merger. We currently anticipate that the closing will occur on October 2, 2006. Accredited and Aames will announce any change in the anticipated closing date (and the due date for elections). If Accredited and Aames do not announce a change in the date, the closing date will be October 2, 2006. You are also asked to return your Aames stock certificate(s) representing your shares of Aames common stock with your stock election form. Failure to do so will not affect the effectiveness of your stock election, but it is likely to result in your receipt of the merger consideration (whether Accredited stock or cash) later (assuming the merger proposals are approved and the merger is consummated) than if you were to send in your stock certificates with your stock election form.

If the exchange agent does not receive from an Aames stockholder a properly completed and signed election form with respect to shares of Aames common stock by 5:00 p.m., Eastern Daylight Time, on the date that is two business days immediately preceding the closing date of the merger, Accredited will determine, in its sole discretion, which of those shares have made cash elections or stock elections in a manner intended to honor to the fullest extent possible the elections of Aames stockholders who timely made such an election.

Q: *Can Aames stockholders change or revoke their election?*

A: Yes. Aames stockholders can revoke their election by giving written notice of revocation or, in the case of a change, a properly completed revised election form to the exchange agent, provided the written notice is received by the exchange agent no later than 5:00 p.m., Eastern Daylight Time, on the date that is two business days immediately preceding the closing date of the merger. After this time, Aames stockholders may not revoke their elections unless the exchange agent is legally required to permit revocations.

Q: *Should Aames stockholders send in their Aames stock certificates now?*

A: Yes. Holders of Aames common stock should send in their election form and Aames stock certificate(s) as directed in the election form. However, failure to send your Aames stock certificate will not affect the effectiveness of your election.

Accredited stockholders should retain their stock certificates, as they will not be exchanged in the merger.

Q: *What do I need to do now?*

A: **Please vote your shares as soon as possible, so that your shares may be represented at the appropriate special meeting.** You may vote by proxy by signing your proxy card and mailing it in the enclosed return envelope, or you may vote in person at the special meeting. Aames stockholders should also complete their election form as soon as possible and return it in the enclosed envelope together with their Aames shares.

Q: *Whom should I call if I have questions?*

A: *Accredited Stockholders*

Stockholders of Accredited who have questions about the proposals described in this joint proxy statement and prospectus may call Accredited at 866-901-6605.

Aames Stockholders

Stockholders of Aames who have questions about the proposals described in this joint proxy statement and prospectus may call Aames Investor Relations at 800-829-2929 ext 4709.

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SUMMARY

This section summarizes particular selected information about the merger from this joint proxy statement and prospectus. To understand the merger fully, we strongly encourage you to read carefully this entire joint proxy statement and prospectus and the documents which we have filed with the Securities and Exchange Commission. We have included a copy of the merger agreement in this joint proxy statement and prospectus as Annex A.

*We incorporate by reference important business and financial information about Accredited and Aames into this document. For a description of this information and how to obtain the documents that we have filed with the Securities and Exchange Commission, see *Where You Can Find More Information* on page 109.*

*In addition to the other information included or incorporated by reference in this joint proxy statement and prospectus (including the matters addressed in *Cautionary Statement Concerning Forward-Looking Statements*) you should consider the following in determining whether to vote in favor of the applicable proposal related to the merger.*

The Companies

(See Page 45)

Accredited Home Lenders Holding Co.

15090 Avenue of Science

San Diego, California 92128

(858) 676-2100

Accredited Home Lenders Holding Co. is a mortgage company operating throughout the United States and in Canada. Accredited originates, finances, securitizes, services, and sells non-prime mortgage loans secured by residential real estate. Founded in 1990, Accredited is headquartered in San Diego, California. Accredited focuses on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios, the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. Accredited originates loans primarily based upon the borrower's willingness and ability to repay the loan and the adequacy of the collateral. Its experienced management team has developed incentive programs, technology tools and business processes intended to focus Accredited's employees on originating non-prime mortgage loans with the financial and other characteristics that generate profits.

In June 2006, Accredited entered into an agreement to purchase the wholesale business of Aames for a cash price of \$4,050,000, including estimated expenses of \$50,000. The purchase price has been allocated to leasehold assets of \$89,000 and goodwill of \$3,961,000. This purchase was intended to reduce attrition of Aames employees and maximize the potential synergies from the combination of Accredited's and Aames's wholesale businesses that would otherwise occur in connection with the merger at the present time rather than wait for the completion of the merger. The addition of Aames's wholesale group to Accredited's wholesale operations is expected to add capabilities and additional market presence with little overlap.

For additional information about Accredited and its business, see *The Merger*, *The Companies*, *Accredited Home Lenders Holding Co.*, and *Where You Can Find More Information*.

Aames Investment Corporation

350 South Grand Avenue

Los Angeles, California 90071

(323) 210-5000

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Aames Investment Corporation was formed in February 2004 to build and manage a portfolio of high yielding, subprime residential mortgage loans to offer its stockholders the opportunity for attractive dividend yields and earnings growth. In November 2004, it completed an initial public offering, and, concurrently with that offering, a reorganization whereby Aames Financial Corporation, formerly Aames Investment Corporation's parent company, became its wholly owned subsidiary.

Aames Financial is a national mortgage banking company, founded in 1954, which focuses primarily on originating, selling and servicing residential mortgage loans through its retail channel under the name Aames Home Loan. From 1996 through July 2006, Aames Financial also originated mortgage loans through its wholesale channel. Aames Investment sold its wholesale operations to Accredited in June and July 2006. Aames's strategy is to use its equity capital and funds borrowed under revolving warehouse and repurchase facilities to finance mortgage loan originations, and to use those financing sources, together with on-balance sheet securitizations, to finance its real estate investment trust, or REIT, portfolio of mortgage loans. Aames retains in its REIT portfolio a portion of its mortgage loan originations, largely hybrid/adjustable rate mortgage loans. Aames sells the remainder, including a majority of the fixed-rate mortgage loans that it originates, on a whole loan servicing-released basis to third parties.

For additional information about Aames and its business, see [The Merger](#), [The Companies](#), [Aames Investment Corporation](#) and [Where You Can Find More Information](#).

AHL Acquisition, LLC

15090 Avenue of Science

San Diego, California 92128

(858) 676-2100

AHL Acquisition, LLC, or Merger Sub, is a Maryland limited liability company, recently organized as a wholly-owned subsidiary of Accredited solely for the purpose of effecting the merger. It has no material assets, prior business or operations and has not engaged in any activities except in connection with the merger. Upon completion of the merger, Aames will merge with and into Merger Sub and Merger Sub will be the surviving company.

Vote Required to Approve the Proposals

(See Pages 41, 42 and 43)

Accredited Stockholders

Accredited stockholders will vote on:

A proposal to approve the issuance of shares of Accredited common stock pursuant to the merger agreement. Approval of this proposal requires the affirmative vote of the holders of at least a majority of all shares of Accredited common stock that are voted at the Accredited special meeting.

A proposal to approve and adopt an amendment to Accredited's Amended and Restated Certificate of Incorporation to increase the number of shares of capital stock Accredited is authorized to issue to 80,000,000 consisting of 5,000,000 shares of preferred stock and 75,000,000 shares of common stock. Approval of this proposal requires the affirmative vote of the holders of at least a majority of all shares of Accredited common stock that are outstanding and entitled to vote at the Accredited special meeting.

Completion of the merger is not conditioned on approval of the proposal to amend the Amended and Restated Certificate of Incorporation.

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Accredited directors and executive officers as a group own and are entitled to vote approximately 15% of the outstanding shares of Accredited common stock. Each of the directors and executive officers of Accredited has indicated that he or she intends to vote his or her shares in favor of the proposals outlined above. Additionally, James A. Konrath, Accredited's Chairman of the Board and Chief Executive Officer, and Joseph J. Lydon, Accredited's President and Chief Operating Officer, have entered into an agreement with Aames pursuant to which they agreed to vote their shares of Accredited common stock in support of the issuance of shares of Accredited common stock in connection with the merger at the Accredited special meeting. The shares of Accredited common stock subject to these agreements represent approximately 12% of the outstanding shares of Accredited common stock entitled to vote at the Accredited special meeting.

Aames Stockholders

Aames stockholders will vote on a proposal to approve the merger. Approval of this proposal requires the affirmative vote of the holders of at least a majority of all shares of Aames common stock that are outstanding and entitled to vote at the Aames special meeting.

The members of the Aames board of directors (i.e., A. Jay Meyerson, Jenne K. Britell, Ph.D., David H. Elliott, John F. Farrell, Jr., Mani A. Sadeghi, Robert A. Spass and Stephen E. Wall), certain members of Aames's management to be employed by Accredited following the merger (i.e., H. James Fullen and Michael J. Matthews) and Aames's largest stockholder, Specialty Finance Partners, have each entered into a voting and support agreement with Accredited pursuant to which each agreed to vote its shares of Aames common stock in support of the merger proposal at the Aames special meeting, as well as against any third-party acquisition proposal or other proposal that would impede or adversely effect the merger. The shares of Aames common stock subject to these agreements represent approximately 27% of the outstanding shares of Aames common stock entitled to vote at the Aames special meeting. A form of the voting and support agreement is included as Annex B to this joint proxy statement and prospectus. In addition, each other executive officer of Aames (who are entitled to vote an aggregate of less than 1% of the outstanding shares of Aames common stock) has indicated that he intends to vote his shares in favor of the merger proposal outlined above.

The same Aames stockholders who have entered in the voting and support agreements have also each entered into an agreement with Accredited pursuant to which each has agreed to elect to receive 100% of the merger consideration to which they are entitled in shares of Accredited common stock and to not sell, transfer or otherwise dispose of their Accredited common stock for a period of 180 days following the merger.

The Merger

(See Page 45)

The merger agreement provides for Aames to be merged with and into Merger Sub, with Merger Sub remaining as the surviving company and a wholly owned subsidiary of Accredited. After the merger, Aames will cease to exist and its stock will no longer be publicly traded.

As a result of the merger, each share of Aames common stock issued and outstanding immediately prior to the merger will be converted into the right to receive *one* of the following:

- (1) cash in an amount equal to \$51.94 multiplied by the exchange ratio (described below), which we refer to as the cash consideration, *or*
- (2) a fraction of a share of Accredited common stock equal to the exchange ratio, which we refer to as the stock consideration.

The exchange ratio was initially set at 0.1030. That means that on the day that we executed the merger agreement (and subject to the limitations described below) each share of Aames common stock would have been converted into \$5.35 in cash *or* a fraction of a share of Accredited common stock that had a value of \$5.35 (based

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on the closing price of Accredited common stock on the day that we executed the merger agreement). However, the value of the stock consideration will fluctuate with changes in the value of Accredited common stock. See Risk Factors Value of Accredited common stock to be received in the merger will fluctuate; all holders may not receive the same value.

In addition, the exchange ratio will be reduced by any dividends declared or paid by Aames prior to the closing. We will reduce the exchange ratio by multiplying it by 1 minus a fraction, the numerator of which is the amount of any dividends Aames declares or pays prior to closing and the denominator of which is the aggregate consideration to be paid by Accredited for Aames. The aggregate consideration is the product of (1) \$5.35 and (2) the aggregate number of shares of Aames common stock outstanding or issuable in respect of Aames restricted stock awards or restricted stock units immediately prior to the consummation of the merger. At the date of the merger agreement, the value of the aggregate consideration was approximately \$340 million.

Subject to the proration and allocation provisions described below, Aames stockholders will be entitled to elect the form of consideration that they are to receive with respect to each of their shares of Aames common stock. To understand how the proration and allocation provisions work, you need to be familiar with two concepts: the cash pool and the cash election number.

The portion of the aggregate consideration (defined above) that will be payable in cash, which we refer to as the cash pool, is equal to approximately \$109 million. At the date of the merger agreement, the cash pool represented approximately 32% percent of the aggregate consideration. However, the cash pool will be reduced by the aggregate amount of dividends declared or paid by Aames prior to the closing of the merger. The maximum number of shares of Aames common stock convertible into the right to receive cash in the merger, or the cash election number, will be determined by dividing the cash pool by the cash consideration (defined above).

Under the merger agreement, Aames is required to pay prior to closing a dividend in an amount equal to Aames' s estimated 2006 REIT taxable income plus any other amounts that Aames would need to distribute to qualify as a REIT for its final taxable year and to avoid to the extent reasonably possible the incurrence of income or excise tax. Aames currently estimates that, if the closing were to occur on September 30, 2006, it would pay a dividend of approximately \$30 million in the aggregate (or \$0.48 per share) pursuant to this provision, although Aames cannot provide any assurance as to the amount of any such dividend.

Example: By way of example only, if Aames were to declare dividends prior to closing in the aggregate amount of \$30 million (and using the approximate value of aggregate consideration of \$340 million), then:

the exchange ratio would be reduced as follows:
 $0.1030 \times (1 - \$30 \text{ million}/\$340 \text{ million})$ or 0.0939

each share of Aames common stock would be converted into one of the following:
 cash in an amount equal to \$4.88 ($\51.94×0.0939), or

0.0939 of a share of Accredited common stock (which had a value of \$4.26 based on the closing price of Accredited common stock on July 31, 2006)

and the cash pool will have been reduced to approximately \$79 million, with the remaining consideration payable in shares of Accredited common stock.

An election to receive all cash is called a cash election and an election to receive all stock is called a stock election. Shares held by Aames stockholders who do not make an election will be deemed to have made a non-election and Accredited will determine, in its sole discretion, which of those shares have made cash elections or stock elections in a manner intended to honor to the fullest extent possible the elections of stockholders who choose to make such elections.

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If Aames stockholders make cash elections in excess of the cash available for distribution, the aggregate excess number of Aames shares in respect of which a cash election was made will be converted into shares in respect to which a stock election was made on a pro-rata basis for each Aames stockholder who made the cash election.

If Aames stockholders make stock elections in excess of the stock available for distribution, the aggregate excess number of Aames shares in respect of which a stock election was made will be converted into shares in respect of which a cash election was made on a pro-rata basis for each Aames stockholder who made the stock election.

We encourage you to read the merger agreement carefully because it is the legal document that governs the merger.

Our Recommendations to Stockholders

(See Page 49)

To Accredited Stockholders:

The Accredited board of directors unanimously approved the merger agreement and believes that the merger is in the best interest of Accredited and its stockholders and recommends that Accredited stockholders vote FOR the Accredited proposal to issue shares of Accredited common stock in connection with the merger. The Accredited board of directors also recommends that Accredited stockholders vote FOR the proposal to amend Accredited's Amended and Restated Certificate of Incorporation to increase the number of shares of capital stock Accredited is authorized to issue.

To Aames Stockholders:

The Aames board of directors unanimously approved and adopted the merger agreement and believes that the merger is in the best interest of Aames and its stockholders and recommends that Aames stockholders vote FOR the Aames merger proposal.

Opinions of Financial Advisors

(See Pages 52 and 57)

In connection with the merger, the boards of directors of Accredited and Aames each received an opinion from its respective financial advisors. These opinions are addressed to the boards of directors and do not constitute recommendations to any stockholder as to the form of consideration to be elected in the merger or any other matters relating to the merger.

Accredited received a written opinion dated May 24, 2006 from its financial advisor J.P. Morgan Securities Inc., or JPMorgan, to the effect that, as of May 24, 2006 and based upon and subject to the matters set forth in the opinion, the merger consideration to be paid by Accredited in the merger was fair to Accredited from a financial point of view to Accredited. JPMorgan's opinion does not constitute a recommendation to any stockholder as to the form of consideration to be elected in the merger, how such stockholder should vote or act with respect to any matters relating to the merger and does not address any other aspect of the merger or related transactions, the price at which Accredited common stock will trade at any time in the future or the decision of Accredited to engage in the merger. JPMorgan assumed no responsibility for updating or revising its opinion based on circumstances or events occurring after the date thereof. We have included this opinion in this joint proxy statement and prospectus as Annex C. **Accredited urges its stockholders to read the opinion of JPMorgan**

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Securities Inc. in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken.