

ACCREDITED HOME LENDERS HOLDING CO  
Form 10-Q  
September 18, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-32275

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**ACCREDITED HOME LENDERS HOLDING CO.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

15253 Avenue of Science  
San Diego, California 92128

04-3669482  
(I.R.S. Employer  
Identification No.)

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(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 858-676-2100

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.001 Par Value	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  or No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  or No

The number of outstanding shares of the registrant's common stock as of August 31, 2007 was 25,154,069.

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### **SERVICE MARKS AND TRADE NAMES**

Accredited Home Lenders, Inc. ( AHL ), a wholly owned subsidiary of the registrant, owns the following service marks and trademarks for its United States operations: Accredited Home Lenders<sup>®</sup>, Accredited Home Lenders<sup>®</sup> and logo, Home Funds Direct<sup>®</sup> and logos, Axiom Financial Services<sup>®</sup>, Axiom Financial Services<sup>®</sup> and logo, FRONTDOOR<sup>®</sup>, FRONTDOOR<sup>®</sup> and logo, Inzura<sup>SM</sup>, Inzura<sup>SM</sup> and logo, Common Sense for Uncommon Loans<sup>®</sup>, AAMES INVESTMENT<sup>®</sup>, INFORMEDBROKER<sup>®</sup>, LendingBridge<sup>SM</sup> and logo, and Aames Direct<sup>®</sup>, Aames Capital<sup>®</sup>, Aames<sup>®</sup>, Aames Investment<sup>®</sup>, and Aames Home Loan<sup>®</sup>; and the following service marks and trademarks for the registrant's Canadian operations: Accredited Home Lenders Canada<sup>®</sup>, Accredited Home Lenders<sup>®</sup> and logo, Common Sense for Uncommon Loans<sup>MC</sup>, Prêteurs Résidentiels Accrédités Canada<sup>MC</sup>, and We Give You Credit For Being Human<sup>®</sup>.

### **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements. When used in this report, statements which are not historical in nature, including the words anticipate, estimate, should, expect, believe, intend and similar expressions are intended to identify forward-looking statements. This report includes statements containing expectations regarding the integration of Aames Investment Corporation and other internal matters, external development and projections of revenues, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this report are based upon our management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

our ability to operate at a profit, or sustain consecutive periods of net losses and remain a going concern, due to adverse market conditions and other factors beyond our control;

our ability to maintain sufficient liquidity to sustain operations;

whether or not our pending merger with an affiliate of Lone Star Fund V (U.S.), L.P. is consummated;

our ability to realize cost savings, synergies and economies of scale from our acquisition of Aames Investment Corporation and our ability to improve profitability of the combined operations;

repurchase rates on the mortgage loans that we sell or securitize, which may reduce our cash available for operations and liquidity;

acceleration of debt repayment obligations due to a failure to meet the covenants contained in our credit facilities, including covenants on minimum profitability, interest coverage, liquidity, and net worth requirements as well as limitations on total indebtedness;

the degree and nature of our competition, including without limitation their impact on the rates that we are able to charge our borrowers;

changes in demand for, or value of, mortgage loans due to the attributes, mix and performance of the mortgage loans we originate; the characteristics of our borrowers; and fluctuations in the real estate market, the interest rates or the market in which we sell or

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securitize our mortgage loans;

a general deterioration in economic or political conditions, including without limitation any slow down in the national and/or local real estate markets;

our ability to accurately make estimates about matters that are inherently uncertain under our critical accounting policies;

changes in government regulations that affect our ability to originate and service mortgage loans;

changes in the credit markets, which affect our ability to borrow money to originate mortgage loans;

our ability to employ and retain qualified employees;

our ability to protect and hedge our mortgage loan portfolio against adverse interest rate movements;

our ability to adapt to and implement technological changes; and

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the other factors referenced in this report, including, without limitation, under the sections entitled ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and ITEM 1A. Risk Factors.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

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In this Form 10-Q, unless the context requires otherwise, Accredited, Company, we, our, and us means Accredited Home Lenders Holding Co and its subsidiaries.

**PART I****ITEM 1. Financial Statements****ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	March 31, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 371,606	\$ 173,113
Restricted cash	111,337	96,758
Accrued interest receivable	47,508	68,128
Mortgage loans held for sale, net	419,488	2,073,268
Mortgage loans held for investment, net of allowance of \$136,647 and \$138,250, respectively	7,645,895	8,478,682
Derivative assets, including margin account	24,527	83,148
Deferred income tax asset, net	120,798	120,560
Real estate owned, net	130,658	104,818
Prepaid expenses and other assets	103,700	103,270
Furniture, fixtures and equipment, net	46,671	47,301
<b>Total assets</b>	<b>\$ 9,022,188</b>	<b>\$ 11,349,046</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES:</b>		
Credit facilities-loans held for sale	\$ 430,194	\$ 2,786,077
Securitization and other financing	8,005,282	7,642,842
Income taxes payable, current	15,045	
Accrued expenses and other liabilities	191,392	266,056
<b>Total liabilities</b>	<b>8,641,913</b>	<b>10,694,975</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 14)</b>		
<b>MINORITY INTEREST IN REIT SUBSIDIARY</b>	<b>97,922</b>	<b>97,922</b>
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$.001 par value; authorized 5,000,000 shares; no shares issued or outstanding		
Common stock, \$.001 par value; authorized 75,000,000 shares; issued and outstanding 25,094,111 shares and 25,026,234 shares, respectively	25	25
Additional paid-in capital	315,241	311,683
Accumulated other comprehensive income (loss)	(10,798)	6,388
Retained earnings (accumulated deficit)	(22,115)	238,053
<b>Total stockholders equity</b>	<b>282,353</b>	<b>556,149</b>

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Total liabilities and stockholders' equity	\$ 9,022,188	\$ 11,349,046
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts) (Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>REVENUES:</b>		
Interest income	\$ 195,260	\$ 194,458
Interest expense	(136,876)	(112,136)
Net interest income	58,384	82,322
Provision for losses on mortgage loans held for investment	(25,324)	(16,537)
Net interest income after provision	33,060	65,785
Gain (loss) on sale of mortgage loans, net	(178,878)	70,552
Mortgage loan servicing income	2,908	3,407
Other income	8,345	1,950
Total net revenues	(134,565)	141,694
<b>OPERATING EXPENSES:</b>		
Salaries, wages and benefits	64,612	47,526
General and administrative expenses	21,127	15,154
Occupancy	15,234	6,398
Advertising and promotion	7,834	5,154
Depreciation and amortization	4,690	4,427
Total operating expenses	113,497	78,659
Income (loss) before income taxes and minority interest	(248,062)	63,035
Income tax provision	9,611	24,717
Minority interest dividends on preferred stock of subsidiary	2,495	2,495
Net income (loss)	\$ (260,168)	\$ 35,823
Earnings (loss) per common share:		
Basic	\$ (10.29)	\$ 1.66
Diluted	\$ (10.29)	\$ 1.61
Weighted average shares outstanding:		
Basic	25,282	21,553
Diluted	25,282	22,279

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands) (Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (260,168)	\$ 35,823
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,690	4,427
Provision for losses on mortgage loans held for investment	25,324	16,537
Provision for losses on repurchases and premium recapture	24,394	3,154
Minority interest dividends paid on preferred stock of subsidiary	2,495	2,495
Deferred income tax provision (benefit)	2,969	(5,298)
Unrealized (gain) loss on derivatives	(13,810)	9,702
Adjustment into earnings for gain on derivatives from other comprehensive income	(7,162)	(7,071)
Stock-based compensation expense	3,451	2,141
Excess tax benefit from stock-based payment arrangements	(238)	(2,355)
Other	2,240	2,818
Changes in operating assets and liabilities:		
Restricted cash	(14,579)	(6,200)
Mortgage loans held for sale originated, net of fees	(1,858,931)	(3,574,352)
Cost of mortgage loans sold, net of fees	3,574,026	3,102,526
Principal payments received and other changes in mortgage loans held for sale	32,294	39,606
Accrued interest receivable	20,620	(2,123)
Derivative assets, including margin account	60,796	12,756
Prepaid expenses and other assets	11,716	(7,945)
Income taxes payable	15,045	(53,297)
Accrued expenses and other liabilities	(112,178)	(1,077)
Net cash provided by (used in) operating activities	1,512,994	(427,733)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Principal payments received and other changes on mortgage loans held for investment	680,286	522,647
Capital expenditures	(4,055)	(8,461)
Net cash provided by investing activities	676,231	514,186
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net changes in credit facilities loans held for sale	(2,372,319)	(603,397)
Net proceeds from issuance of asset backed commercial paper	71,595	71,595
Proceeds from issuance of securitization and other financing, net of fees	775,819	997,727
Payments on securitization and other financing	(673,297)	(531,230)
Net proceeds from issuance of common stock through employee stock plans	64	1,550
Net proceeds from issuance of term debt and warrants, net of fees	226,700	-
Net proceeds from issuance of trust preferred securities	54,209	-
Excess tax benefit from stock-based payment arrangements	238	2,355
Payment by consolidated subsidiary of preferred stock dividends	(2,495)	(2,495)
Net cash used in financing activities	(1,991,081)	(63,895)
Effect of exchange rate changes on cash	349	326

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Net increase in cash and cash equivalents	198,493	22,884
Beginning balance, cash and cash equivalents	173,113	44,714
Ending balance, cash and cash equivalents	\$ 371,606	\$ 67,598

The accompanying notes are an integral part of these consolidated financial statements.

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