

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Atlas vs. Accredited Home Lenders Holding, Co.

Case No. 3:07-cv-00488-H-CAB

NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION

A federal court authorized this notice. This is not a solicitation from a lawyer.

NOTICE OF PENDENCY OF CLASS ACTION: Please be advised that your rights may be affected by a class action lawsuit pending in the United States District Court for the Southern District of California, Case No. 07-00488 (the “Litigation”), if, during the period from November 1, 2005 through and including March 12, 2007, you purchased or acquired Accredited Home Lenders Holding Co. (“Accredited”) Securities and were damaged thereby.¹

NOTICE OF SETTLEMENT: Please be advised that the Court-appointed Lead Plaintiff Arkansas Teacher Retirement System (“Lead Plaintiff”) and plaintiff William F. Kornfeld (“Kornfeld”) (together with Lead Plaintiff, “Plaintiffs”), on behalf of the Settlement Class (as defined in paragraph 1 below), have reached a proposed settlement of the Litigation with Defendants Accredited, James Konrath, Joseph J. Lydon, John S. Buchanan, Stuart D. Marvin, Jeffrey W. Crawford, Jody A. Gunderson, Richard T. Pratt, Gary M. Erickson, Bowers W. Espy, and James H. Berglund (the “Individual Defendants,” collectively with Accredited, “Defendants”), for a total of \$22 million in cash that will resolve all claims in the Litigation.

This Notice explains important rights and options you may have, and the deadlines for exercising them, including the possible receipt of cash from the Settlement. Your legal rights will be affected whether or not you act. Please read this Notice carefully!

The Court in charge of this case still has to decide whether to approve the settlement. Payments will be made if the Court approves the settlement and after potential appeals are resolved. Please be patient.

1. Description of the Litigation and Settlement Class: The Litigation alleges that investors purchased or acquired the common stock or preferred shares of Accredited (“Accredited Securities”) at allegedly artificially inflated prices as a result of Defendants’ dissemination of allegedly materially false and misleading statements. The proposed Settlement, if approved by the Court, will resolve all claims and potential claims of Settlement Class Members against the Defendants and the other Related Parties in the Litigation by all persons and entities who purchased or acquired Accredited Securities between November 1, 2005 and March 12, 2007, inclusive (the “Settlement Class Period”), and who were damaged thereby (the “Settlement Class”), except for certain persons and entities who are excluded from the Settlement Class (*see* question 6 below entitled “Are there exceptions to being included in the Settlement Class?”).

2. Statement of Settlement Class’s Recovery: Subject to Court approval, and as described more fully in questions 8 – 9 below, Plaintiffs on behalf of the Settlement Class, have agreed to settle all claims that were asserted in the Complaint or could have been asserted in any forum that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint and that relate to the purchase or acquisition of Accredited Securities during the Settlement Class Period, in exchange for a settlement payment of \$22,000,000 in cash (the “Settlement Amount”) to be deposited into an interest-bearing escrow account (the “Settlement Fund”). The Net Settlement Fund (the Settlement Fund less taxes, notice and administration costs and attorney fees and expenses) will be distributed in accordance with a Plan of Allocation that is described herein subject to Court approval that will determine how the Net Settlement Fund shall be allocated to members of the Settlement Class.

3. Statement of Average Amount of Recovery Per Share: The Settlement Fund consists of twenty-two million dollars (\$22,000,000) plus interest earned. Your recovery will depend on the number and type of Accredited Securities you purchased or acquired, and the timing of those transactions. It will also depend on the number of valid claim forms that members of the Settlement Class submit and the amount of such claims. Assuming that all of the investors who purchased or acquired Accredited Securities during the Settlement Class Period and suffered damages participate in this settlement, Lead Counsel estimates that the estimated average distribution will be approximately: \$0.34 per share of Accredited common stock; and \$0.24 per preferred share before the deduction of court-approved fees and expenses as described in Questions 8 and 17 below and the

¹ All capitalized terms not otherwise defined in this document shall have the meaning provided in the Stipulation of Settlement dated as of June 23, 2009 (the “Stipulation”).

cost of notice and claims administration. Historically, less than all eligible investors submit claims, resulting in higher average distributions per share.

Defendants disagree with Plaintiffs on the potential liability of Defendants and on the average amount of damages per share, if any, that would be recoverable if Plaintiffs were to prevail on each claim alleged. Defendants deny that they are liable in any respect or that Plaintiffs or other Settlement Class Members suffered any injury. The issues on which the parties disagree include, but are not limited to: (1) whether the statements made or facts allegedly omitted were material, false, misleading, or whether the Defendants are otherwise liable under the securities laws for those statements or omissions; (2) the amount by which the prices of Accredited Securities were allegedly artificially inflated (if at all) during the Settlement Class Period; and (3) the effect of various market forces influencing the trading prices of Accredited Securities at various times during the Settlement Class Period.

4. Statement of Attorneys’ Fees and Expenses: Lead Counsel Bernstein Litowitz Berger & Grossmann LLP will apply to the Court for an award of attorneys’ fees in an amount not to exceed 25% of the Settlement Fund net of Court-approved expenses. In addition, Lead Counsel will apply for the reimbursement of litigation expenses paid or incurred in connection with the prosecution and resolution of the claims in this Litigation, in an amount not to exceed \$750,000. If the Court approves Lead Counsel’s fee and expense application, the average cost per share of common stock will be approximately \$0.01, and the average cost per share of preferred stock will be approximately \$0.01. These litigation expenses, if approved, will come out of the Settlement Fund.

Settlement Class Members are not personally liable for any such fees or expenses. To date, Lead Counsel has not received any payment for its services in conducting the Litigation nor has counsel been paid for their expenses incurred. Plaintiff Kornfeld also intends to apply to the Court for an award of a service award not to exceed \$5,000.

5. Identification of Attorney Representatives: Lead Plaintiff and the Settlement Class are being represented by David R. Stickney, Esq. and Niki L. Mendoza, Esq. of Bernstein Litowitz Berger & Grossmann LLP. Any questions regarding the Settlement should be directed to Mr. Stickney or Mrs. Mendoza at Bernstein Litowitz Berger & Grossmann LLP, 12481 High Bluff Drive, Suite 300, San Diego, CA 92130, (888) 924-1888, blbg@blbglaw.com. For further information regarding the Notice and the Settlement, you may also contact the Claims Administrator at *Atlas v. Accredited Home Lenders Holding Co. Securities Litigation*, c/o The Garden City Group, Inc., PO Box 9397, Dublin, OH 43017-4297 or www.AccreditedSecuritiesLitigation.com, or call 1 (866) 278-7838 toll free.

Statement of Rights, Options and Deadlines:

| YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT | |
|---|---|
| SUBMIT A CLAIM FORM BY NOVEMBER 17, 2009 | The only way to get a payment. |
| EXCLUDE YOURSELF BY OCTOBER 13, 2009 | Get no payment. This is the only option that allows you to ever be part of any other lawsuit about the legal claims in this case. |
| OBJECT BY OCTOBER 13, 2009 | Write to the Court about why you do not like the Settlement, the Plan of Allocation, or counsel’s request for attorneys’ fees and expenses. |
| GO TO A HEARING ON NOVEMBER 2, 2009 AT 10:30 A.M. | Ask to speak in Court concerning the fairness of the Settlement. |
| DO NOTHING BUT REMAIN A SETTLEMENT CLASS MEMBER | If you do nothing, you will remain a Settlement Class Member, and therefore give up rights, but you will get no payment. |

BASIC INFORMATION

1. Why did I get this notice package?

You or someone in your family may have purchased or acquired Accredited Securities during the Settlement Class Period.

The Court directed that you be sent this Notice because you have a right to know about the pendency, and a proposed settlement, of a class action lawsuit, and about all of your options, before the Court decides whether to approve the settlement. If the Court approves it and after objections and appeals (if there are any) are resolved, an administrator appointed by the Court will make the payments that the settlement allows.

This package explains the lawsuit, the settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Southern District of California, and the case is known as *Atlas v. Accredited Home Lenders Holding Co.*, Case No. 07-00488-H-CAB. The plaintiffs representing the Settlement Class are Lead Plaintiff and Kornfeld. The defendants are Accredited and the "Individual Defendants".

2. What is this lawsuit about?

This case was brought as a class action alleging that Defendants made false and misleading statements and omissions in violation of §§ 10(b), 14(a), and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act") and §§ 11, 12(a)(2) and 15 of the Securities Act of 1933 ("Securities Act").

On and after March 16, 2007, Plaintiffs initiated this Litigation by filing several securities class actions in the United States District Court for the Southern District of California (the "Court"). On June 25, 2007, the Court entered an Order consolidating the related cases under Case No. 07-CV-0488-H, appointing Arkansas Teacher as Lead Plaintiff, and approving Lead Plaintiff's selection of Bernstein Litowitz Berger & Grossmann LLP ("Lead Counsel") as Lead Counsel.

On August 24, 2007, plaintiffs filed the Corrected Consolidated Class Action Complaint For Violations Of The Federal Securities Laws ("Complaint") alleging violations of §§ 10(b), 20(a) and 14(a) of the Exchange Act and §§ 11, 12(a)(2) and 15 of the Securities Act against certain Defendants and Accredited Mortgage Loan REIT Trust (the "REIT"). On November 2, 2007, and November 6, 2007, respectively, Defendants moved to dismiss the Complaint, and for judicial notice in support of their motions to dismiss. On December 14, 2007, Plaintiffs filed a response to the motions to dismiss, an opposition to the request for judicial notice, and a motion to strike certain documents referenced in Defendants' motions to dismiss. Defendants filed reply briefs in support of their respective motions to dismiss on December 28, 2007.

On January 4, 2008, the Court entered an Order (1) Denying Accredited's Motion To Dismiss; (2) Granting In Part With Leave To Amend Accredited Mortgage Loan REIT Trust's And The Individual Defendants' Motions To Dismiss; and (3) Denying Plaintiff's Motion To Strike ("MTD Order"). On January 30, 2008, Lead Plaintiff notified the Court that Plaintiffs would not be amending the Complaint but would proceed under the Complaint in accordance with the Court's MTD Order. On March 14, 2008, Defendants answered the Complaint.

The Court held an Early Neutral Evaluation Conference on April 30, 2008. The Parties thereafter conducted a conference pursuant to Federal Rules of Civil Procedure 26(f) and filed a Report of Rule 26(f) Planning Meeting on June 9, 2008. The MTD Order lifted the automatic stay of discovery that applies to securities actions pursuant to the Exchange Act, as amended by the Private Securities Litigation Reform Act of 1995 ("PSLRA"). The completion of the Early Neutral Evaluation Conference lifted the stay pursuant to Local Rule 16. On May 27, 2008, Lead Plaintiff served its First Request For Production Of Documents To All Defendants, and on June 4, 2008, noticed a deposition of Accredited pursuant to Fed. R. Civ. P. 30(b)(6) related to its computer systems. Additional party and non-party discovery followed.

The Court held a Case Management Conference on July 1, 2008. The Court thereafter issued a Case Management Conference Order Regulating Discovery And Other Pretrial Proceedings setting forth certain discovery deadlines, including a discovery cut-off of July 6, 2009; certain deadlines for pretrial disclosures and pretrial motions; a deadline for amending the pleadings; a deadline for briefing, and a hearing date, for Plaintiffs' motion for class certification; and setting a final pretrial conference for October 5, 2009.

On July 24, 2008, August 4, 2008, August 11, 2008, and November 20, 2008, Lead Plaintiff filed motions to compel production of documents by Accredited and third-party Grant Thornton LLP. On August 11, 2008, third-party Grant Thornton LLP filed a motion for protective order. On December 12, 2008, and December 23, 2008, Defendants filed motion to compel production of documents and responses to certain interrogatories. The Court held Discovery Hearings on August 22, 2008, September 5, 2008, December 23, 2008, January 9, 2009, January 28, 2009, February 27, 2009, March 9, 2009, March 17, 2009, April 10, 2009. The Court entered a Proposed Protective Order on August 26, 2008.

On February 9, 2009, the Court issued a Revised Order Regulating Discovery And Other Pretrial Proceedings, resetting certain deadlines, but maintaining the final pretrial conference previously set for October 5, 2009. On February 20, 2009, Plaintiffs filed their motion for class certification, to which Defendants filed oppositions on April 10, 2009.

On April 16, 2009, following extensive settlement discussions overseen by the Mediator, the Honorable Layn Phillips (Ret.), including in-person mediation sessions on March 13, 2009 and April 15, 2009, the Parties notified the Court that a settlement had been reached. In advance of the mediation sessions, the Parties prepared detailed mediation statements. In their mediation statements and at the mediation sessions, the Parties presented their respective views regarding the merits of the Litigation as well as their views concerning available defenses, potential sources of recovery, the evidence and damage analyses.

Pursuant to the Court's April 16, 2009 order and to enable the parties and the Court to focus on documenting and submitting the settlement for the Court's consideration, on April 21, 2009, the Parties submitted a joint motion to vacate the class certification hearing and the prior scheduling orders, and to adopt a proposed schedule of settlement procedures. By Order dated April 27, 2009, the Court granted the Parties' joint motion, vacating the briefing schedule and hearing on Plaintiff's class certification motion, vacating the Court's prior scheduling orders, and issued a scheduling order for submission and consideration of approval of the settlement.

On May 1, 2009, Accredited filed a Voluntary Chapter 11 Bankruptcy Petition in the United States Bankruptcy Court, District of Delaware. The settlement is conditioned on receiving an Order of the Bankruptcy Court approving, solely to the extent necessary, Accredited's participation in the Settlement, and the use of the proceeds of the Directors' and Officers' Liability Insurance Policies to fund the Settlement Fund.

3. Why is this Litigation a class action?

In a class action, one or more people called class representatives (in this case the Lead Plaintiff) sue on behalf of people who have similar claims. All of these people and/or entities are a class or members of the class. One court resolves the issues for all members of the class, except for those who exclude themselves from the class. United States District Judge Marilyn L. Huff is in charge of this class action.

4. Why is there a settlement?

The Court did not decide in favor of Plaintiffs or Defendants. Instead, the lawyers for both sides of the lawsuit have negotiated a settlement, with the assistance of a highly respected mediator, Layn Phillips, that they believe is in the best interests of their respective clients. The settlement allows both sides to avoid the risks and cost of lengthy and uncertain litigation and the uncertainty of a trial and appeals, and permits Settlement Class Members to be compensated without further delay. Plaintiffs and their attorneys believe that the settlement is in the best interest of all Settlement Class Members.

WHO IS IN THE SETTLEMENT

To see if you may get money from this settlement, you first have to decide if you are a Settlement Class Member.

5. How do I know if I am part of the settlement?

The Settlement Class includes all persons and entities who purchased or acquired Accredited Securities between November 1, 2005, through March 12, 2007, inclusive, and who were injured thereby.

6. Are there exceptions to being included in the Settlement Class?

Yes. Excluded from the Settlement Class are Defendants; the officers and directors of Accredited at all relevant times; members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which any Defendant has or had a controlling interest, including the REIT. Also excluded from the Settlement Class are those Persons who timely and validly request exclusion from the Settlement Class as explained in this Notice.

7. I'm still not sure if I am included.

If you still are not sure whether you are included, you can ask for free help. You can call 1 (866) 278-7838 or visit www.AccreditedSecuritiesLitigation.com for more information, or you can call David Stickney or Niki Mendoza at 1-888-924-1888, or you can fill out and return the claim form described in Question 10 to see if you qualify.

THE SETTLEMENT BENEFITS

8. What does the settlement provide?

The Settlement Fund consists of twenty-two million dollars (\$22,000,000). These funds will be distributed to eligible members of the Settlement Class who send in valid and timely claim forms (“Claimants”), after payment of Lead Counsel’s Court-approved legal fees and expenses and Plaintiffs’ expenses, and the taxes, expenses and the costs of claims administration, including the costs of printing and mailing this Notice and the cost of publishing newspaper notice (the “Net Settlement Fund”).

9. How much will my payment be?

Your share of the fund will depend on the number of Accredited Securities represented by valid claim forms that members of the Settlement Class send in and the amount of those claims, how many Accredited Securities you held, what type of Accredited Securities you bought, and when you bought and sold them. A claim will be calculated as follows:

The Net Settlement Fund will be distributed to Claimants under the Plan of Allocation (the “Plan”) described below. The Plan provides that Claimants will be eligible to participate in the distribution of the Net Settlement Fund only if Claimants have a net market loss on all transactions in Accredited Securities during the Settlement Class Period.

To the extent there are sufficient funds in the Net Settlement Fund, each Claimant will receive an amount equal to the Claimant’s “Recognized Loss,” as defined below. If, however, (and as is more likely) the amount in the Net Settlement Fund is not sufficient to permit payment of the total Recognized Loss of each Claimant, then each Claimant shall be paid the percentage of the Net Settlement Fund that each Claimant’s claim bears to the total of the Recognized Losses of all Claimants (i.e., the Claimant’s *pro rata* share). Payment in this manner shall be deemed conclusive against all Claimants.

For purposes of determining the amount a Claimant may recover under the Plan, Lead Counsel conferred with its damage consultant and the Plan reflects an assessment of the damages that they believe could have been recovered had Plaintiffs prevailed at trial.

Defendants do not agree with the characterization that any damages were suffered by Plaintiffs or the Settlement Class.

The Plan, subject to Court approval or modification without further notice, is as follows:

I. GENERAL PROVISIONS

A. Definitions:

1. The defined terms used herein (e.g., “Accredited”), have the meanings given to them in this Notice.
2. The term “market loss” means the amount by which the actual purchase or acquisition price of that security is greater than the actual sale price of that security.
3. The term “market profit” means the amount by which the actual purchase or acquisition price of that security is less than the actual sale price of that security.
4. The term “net market loss” means any market loss that occurs from the trading of Accredited Securities during the Settlement Class Period after deducting any profits made from the trading of other Accredited Securities during the Settlement Class Period.
5. The term “Recognized Loss,” as used herein, is not market loss. Rather, it is a calculation to arrive at a loss figure for purposes of calculating an Authorized Claimant’s *pro rata* participation in the Net Settlement Fund as described below.
6. The term “Recognized Gain,” as used herein, is not market gain. Rather, it is a calculation to arrive at a gain figure for purposes of calculating an Authorized Claimant’s *pro rata* participation in the Net Settlement Fund as described below.
7. The term “disclosure days” means those days during the Settlement Class Period when Accredited first issued allegedly false statements concerning certain of the factual allegations in the Complaint. These dates include: November 1, 2005, December 19, 2005 and March 6, 2007.
8. The term “corrective disclosure days” means those days during the Settlement Class Period on which the change in price of Accredited Securities was attributable to corrections regarding the allegedly fraudulent misstatements being disseminated into the market. These dates include: August 9, 2006, August 11, 2006, October 19, 2006, March 5, 2007, March 12, 2007 and March 13, 2007.

- B. To Receive a Distribution from the Net Settlement Fund, a Settlement Class Member MUST:
1. Establish membership in the Settlement Class;
 2. Have purchased or otherwise acquired one of the Accredited Securities listed in ¶ C, below;
 3. Complete and sign a Proof of Claim form and supply all required documentation;
 4. Submit the completed claim form and documentation to the Claims Administrator on or before November 17, 2009; and
 5. Have incurred a Recognized Loss and otherwise be deemed an Authorized Claimant.
- C. Persons Who Purchased or Otherwise Acquired Any of the Following Accredited Securities During the Settlement Class Period May be Eligible for Participation in the Distribution:
1. Accredited common stock, including but not limited to those shares acquired pursuant to a Registration Statement and Prospectus for the merger between Accredited and Aames; and/or
 2. Accredited Mortgage Loan REIT Trust's 9.75% Series A Perpetual Cumulative Preferred Shares ("preferred stock" or "preferred shares").
- D. Each Proof of Claim Form Must Separately Set Forth:
1. The Claimant's opening securities position in Accredited common stock and/or preferred stock as of the close of trading on October 31, 2005, the day before the first day of the Settlement Class Period;
 2. Each transaction, i.e., purchase, acquisition, or sale, made during the Settlement Class Period (and continuing through June 8, 2007) in any Accredited Security, including the number of Accredited Securities acquired in exchange for securities of Aames Investment Corporation; and
 3. Each Claimant's ending securities position in Accredited common stock and/or preferred stock as of the close of trading on June 8, 2007, 90 days after the last day of the Settlement Class Period.

II. FACTORS CONSIDERED IN DEVELOPING THE PLAN OF ALLOCATION

- A. The Recognized Loss for a Claimant's transactions will be calculated by the Claims Administrator in consultation with Lead Counsel in accordance with the provisions of this Plan of Allocation. Factors considered in developing the Plan of Allocation include, among others:
1. The volume of publicly traded Accredited Securities purchased, acquired or sold during the Settlement Class Period;
 2. The time period in which an Accredited Security was purchased or acquired;
 3. Whether the security was held until after the end of the Settlement Class Period (March 12, 2007) or whether it was sold during the Settlement Class Period and, if so, when it was sold;
 4. The alleged artificial inflation in the price of Accredited Securities at different times during the Settlement Class Period attributable to Defendants' false statements as alleged in this case (alleged "artificial inflation") as calculated by Lead Plaintiff's consultant. Based on the opinions of its damages consultant, Lead Counsel assumed, for purposes of determining the Recognized Loss, that there were varied amounts of alleged artificial inflation in prices of Accredited Securities for the entire Settlement Class Period, based on the assumption that Lead Plaintiff could adequately allege and prove liability for that entire period.
 5. The type of security involved (common stock or preferred stock).

III. CALCULATION OF RECOGNIZED LOSS OR GAIN FOR CLAIMS GENERALLY

A "Recognized Loss" or "Gain" will be calculated for each purchase or acquisition of Accredited Securities that occurred during the Settlement Class Period, listed in the claim form, and for which adequate documentation is provided.

A. Computation of Artificial Inflation for Accredited Securities

For purposes of developing the Plan of Allocation, Lead Plaintiff's consultant calculated the amount of alleged artificial inflation in the daily closing market prices for Accredited Securities for each day of the Settlement Class Period. In computing alleged artificial inflation, Lead Plaintiff's consultant considered price changes of Accredited Securities in reaction to certain public announcements regarding Accredited, and adjusted the price changes in Accredited Securities for changes that were attributable to market forces unrelated to the alleged fraud.

The alleged artificial inflation for Accredited common stock and preferred stock is set forth in Tables A and B, respectively, attached to this Notice.

B. Use of “FIFO” Methodology for Computation of Recognized Losses for Settlement Class Members Who Made Multiple Transactions In Accredited Securities During the Settlement Class Period

For Settlement Class Members who made multiple purchases, acquisitions or sales of Accredited Securities during the Settlement Class Period, the earliest subsequent sale of the same type of security shall be matched first against those securities in the claimant’s opening position on the first day of the Settlement Class Period, and then matched chronologically thereafter against each purchase or acquisition of that same type of security made during the Settlement Class Period. Purchases, acquisitions and sales of Accredited Securities shall be deemed to have occurred on the “trade” date as opposed to the “settlement” date.

C. No Recognized Losses For Certain Purchases and Sales

Purchases or acquisitions of Accredited Securities that are matched to sales prior to the first corrective disclosure day (i.e., August 9, 2006) will have a Recognized Loss of zero. This is because any losses prior to the first corrective disclosure were not allegedly caused by that disclosure, but rather allegedly by other market forces, and the alleged artificial inflation amount remained constant or was increasing during this time period. Similarly, individuals who purchased and sold Accredited Securities solely during a subsequent period in which the amount of alleged artificial inflation remained constant (i.e., individuals who purchased and sold the same amount of Accredited Securities during the period August 11, 2006 through October 18, 2006), will also have a Recognized Loss of zero.

There is no Recognized Loss attributable to short sales.

D. Acquisition by Gift, Inheritance or Operation of Law

If a Class Member acquired Accredited Securities during the Settlement Class Period by way of gift, inheritance or operation of law (“gift acquisition”) (except those shares exchanged by reason of the merger of Aames Investment Corporation with Accredited), such a claim will be computed by using the date and price of the original purchase and not the date and price of transfer. To the extent those Accredited Securities were originally purchased prior to commencement of the Settlement Class Period, the Recognized Loss for that acquisition shall be zero.

E. Employee Stock Options

For Settlement Class Members who acquired Accredited Securities by exercising employee stock options granted to him or her by Accredited, the purchase price shall be the exercise price or strike price that the Settlement Class Member actually paid.

F. Payments Less Than \$10.00

A payment to any Settlement Class Member that would amount to less than \$10.00 in total will not be included in the calculation of the Net Settlement Fund, and no payment to these Settlement Class Members will be distributed.

IV. CALCULATION OF RECOGNIZED LOSS AND GAIN

A. Recognized Loss

1. For shares of Accredited Securities held as of the close of trading on October 31, 2005, the day before the beginning of the Settlement Class Period, the Recognized Loss is zero.
2. Shares of Accredited Securities purchased or acquired (including share exchange acquisitions) from November 1, 2005 through March 12, 2007:
 - (a) and that were still held at the close of trading on March 12, 2007: For each share of Accredited Securities that was purchased or acquired during the Settlement Class Period and was still held at the close of trading on March 12, 2007, the Recognized Loss per share (which is limited to be non-negative) is the lesser of: (a) the alleged artificial inflation amount indicated in the relevant Table A or B, for the date such share was purchased or acquired; or (b) the purchase price or acquisition price per share (including commissions and other charges) less the rolling average closing price during the 90 days after the end of the Settlement Class Period as indicated in Table C for the date such share was sold, or June 8, 2007 if still held on June 8, 2007.
 - (b) and that were sold during the Settlement Class Period: For each share of Accredited Securities that was purchased or acquired during the Settlement Class Period, and that was sold during the Settlement Class Period, the Recognized Loss per share (which is limited to be non-negative) is the lesser of: (a) the amount by which the alleged artificial inflation per share on the date of purchase or acquisition exceeds the alleged artificial inflation per share on the date of sale, as set forth in the relevant Table A or B; or (b) the purchase price less the sales price.

B. Recognized Gain

1. Shares of Accredited Securities held as of the close of trading on October 31, 2005, the day before the beginning of the Settlement Class Period:
 - (a) and that were still held at the close of trading on March 12, 2007: For each share of Accredited Securities that was held as of the close of trading on October 31, 2005 and was still held at the close of trading on March 12, 2007, the Recognized Gain per share is zero.
 - (b) and that were sold during the Settlement Class Period: For each share of Accredited Securities that was held as of the close of trading on October 31, 2005, and that was sold during the Settlement Class Period, the Recognized Gain per share is the alleged artificial inflation per share on the date of sale, as set forth in the relevant Table A or B.
2. Shares of Accredited Securities purchased or acquired (including share exchange acquisitions) from November 1, 2005 through March 12, 2007:
 - (a) and that were still held at the close of trading on March 12, 2007: For each share of Accredited securities that was purchased or acquired during the Settlement Class Period and was still held at the close of trading on March 12, 2007, the Recognized Gain per share is zero.
 - (b) and that were sold during the Settlement Class Period: For each share of Accredited Securities that was purchased or acquired during the Settlement Class Period, and that was sold during the Settlement Class Period, the Recognized Gain per share (which is limited to be non-negative) is the amount by which the alleged artificial inflation per share on the date of sale exceeds the alleged artificial inflation per share on the date of purchase or acquisition, as set forth in the relevant Table A or B.

C. Special Factors Related to the Acquisition of Accredited Common Stock from the Accredited/Aames Merger:

1. Shares of Accredited common stock acquired during the Settlement Class Period in connection with the Accredited/Aames merger will have a Recognized Loss and/or Gain based upon the criteria referred to in Sections IV(A) and IV(B), except:
2. Shares of Accredited common stock acquired in connection with the Accredited/Aames merger will be deemed to have been acquired on October 1, 2006 at a price of \$35.94 per share.

V. COMPUTATION OF NET RECOGNIZED LOSS FOR EACH SETTLEMENT CLASS MEMBER

Recognized Loss or Gain with respect to a purchase or acquisition of an Accredited Security (e.g., common stock or preferred stock), is calculated by multiplying the number of shares of each such security by the appropriate Recognized Loss or Gain for a single share of that security, as described in Section IV.

The Net Recognized Loss for each Settlement Class Member is calculated by (1) adding the Recognized Losses for each Accredited Security purchased or acquired by the Settlement Class Member during the Settlement Class Period (i.e., adding all Recognized Losses for common stock and/or preferred stock); and (2) subtracting any Recognized Gains for each Accredited Security held or sold by the Settlement Class Member during the Settlement Class Period (i.e., subtracting all Recognized Gains for common stock and/or preferred stock).

NOTE: ALL MARKET PROFITS SHALL BE SUBTRACTED FROM ALL MARKET LOSSES ON ALL TRANSACTIONS IN ACCREDITED DURING THE SETTLEMENT CLASS PERIOD TO DETERMINE THE NET MARKET LOSS OF EACH SETTLEMENT CLASS MEMBER.

For purposes of determining whether a Claimant had a market profit or suffered a market loss from his, her or its overall transactions in any Accredited Security during the Settlement Class Period, the Claims Administrator shall: (i) total the amount paid (including commissions and other charges) for all Accredited Securities purchased during the Settlement Class Period by the Claimant (the "Total Purchase Amount"); (ii) match any sales of each respective Accredited Security during the Settlement Class Period first against the Claimant's opening position in each respective Accredited Security (the proceeds of those sales will not be considered for purposes of calculating gains or losses); (iii) total the amount received (net of commissions, etc.) for sales of the remaining Accredited Security sold during the Settlement Class Period (the "Sales Proceeds"); and (iv) assign the holding price indicated in Table C for each security (the closing price of each Accredited Security on March 13, 2007) for the number of Accredited Securities purchased during the Settlement Class Period and still held at the end of the Settlement Class Period ("Holding Value"). The Total Purchase Amount (i) less the Sales Proceeds (ii) and less the Holding Value (iii) will be deemed a Claimant's market profit or market loss (a profit occurs if a negative number is calculated) on his, her or its overall transactions in each Accredited Security during the Settlement Class Period.

IF, DURING THE SETTLEMENT CLASS PERIOD, A SETTLEMENT CLASS MEMBER MADE A NET MARKET PROFIT IN HIS, HER OR ITS TRANSACTIONS IN ACCREDITED SECURITIES, THE AMOUNT OF THE SETTLEMENT CLASS MEMBER'S RECOGNIZED LOSS SHALL BE ZERO.

IF, DURING THE SETTLEMENT CLASS PERIOD, A SETTLEMENT CLASS MEMBER HAS A NET MARKET LOSS IN HIS, HER OR ITS TRADING IN ACCREDITED SECURITIES THAT IS LESS THAN HIS, HER OR ITS RECOGNIZED LOSS, THE SETTLEMENT CLASS MEMBER'S CLAIM SHALL BE LIMITED TO THE SETTLEMENT CLASS MEMBER'S NET MARKET LOSS.

VI. DISTRIBUTION OF THE NET SETTLEMENT FUND

"Net Recognized Loss" will be used for calculating the relative amount of participation by authorized claimants in the Net Settlement Fund and does not reflect the actual amount an authorized claimant can expect to recover from the Net Settlement Fund. The Net Recognized Losses of all Authorized Claimants may be greater than the Net Settlement Fund. In such event, subject to the \$10.00 minimum payment requirement discussed above, each Authorized Claimant shall receive his, her or its *pro rata* share of the Net Settlement Fund, which shall be his, her or its Net Recognized Loss divided by the total of all Net Recognized Losses to be paid, multiplied by the total amount in the Net Settlement Fund.

Although short sales will have no Recognized Loss under the Plan of Allocation, any Recognized Gain attributable to such short sales will be used to offset Recognized Losses from other transactions. Furthermore, market gains or losses attributable to short sales will be calculated as part of the market gain or loss calculation.

Accredited Securities acquired by means of a gift, inheritance, or operation of law shall only be considered if the shares in question were purchased during the Settlement Class Period by the donor, decedent, or transferor, and the donor, someone on behalf of the decedent, or transferor does not submit a Claim Form with respect to the shares. In such instances, if possible, the recipient must provide documentation of the original purchase in addition to the transfer.

For all Accredited Securities, the Court has reserved jurisdiction to allow, disallow or adjust the claim of any Settlement Class Member on equitable grounds.

Payment pursuant to the Plan shall be conclusive against all Claimants. No Person shall have any claim against Lead Counsel, Lead Plaintiff, the Claims Administrator, Defendants and their Related Parties, or any Person designated by Lead Counsel based on distributions made substantially in accordance with the Stipulation and the Settlement contained therein, the Plan of Allocation, or further order(s) of the Court. All Settlement Class Members who fail to timely submit a Proof of Claim within such period, or such other period as may be ordered by the Court, or otherwise allowed, shall be forever barred from receiving any payments pursuant to the settlement, but will in all other respects be subject to and bound by the terms of the settlement, including the releases. Notwithstanding the foregoing, Lead Counsel may, in its discretion, accept for processing late submitted claims so long as the distribution of the Net Settlement Fund to Authorized Claimants is not materially delayed.

HOW YOU GET A PAYMENT – SUBMITTING A CLAIM FORM

10. How can I get a payment?

To qualify for a payment, you must send in a claim form. A claim form is enclosed with this Notice. Read the instructions carefully, fill out the form, include all the documents the form asks for, sign it, and mail it in the enclosed envelope postmarked no later than November 17, 2009.

11. When would I get my payment?

The Court will hold a Settlement Hearing on November 2, 2009 at 10:30 a.m., to decide whether to approve the settlement. The Court may adjourn or continue the Settlement Hearing without further notice to the Settlement Class. If the Court approves the settlement, there could be appeals. It is always uncertain if or when these appeals will be resolved favorably for the settlement. Resolving them can take time, perhaps more than a year. It also takes time for all the claim forms to be processed. If there are no appeals and depending on the number of claims submitted, the claims administrator could distribute the Settlement Fund as early as nine months after the Settlement Hearing. Please be patient.

12. What am I giving up to get a payment or stay in the Settlement Class?

Unless you exclude yourself, you are staying in the Settlement Class, and that means you cannot sue, or be part of any other lawsuit against the Defendants about the same issues or the claims that were or could have been raised in the Litigation. To receive the payment under the settlement, if the settlement is approved, you must release all "Released Claims" against Defendants and their "Related Parties" (as defined below).

“**Released Claims**” means all rights, demands, liabilities, claims (including “Unknown Claims” as defined in the Stipulation) and causes of action of every nature and description, whether arising under federal, state, common or foreign law, that Plaintiffs or any other member of the Settlement Class (a) asserted in the Complaint, or (b) could have asserted in any forum that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint and that relate to the purchase or acquisition of Accredited Securities during the Settlement Class Period.

“**Related Parties**” means with respect to each Defendant, the immediate family members, heirs, executors, administrators, successors, assigns, present and former employees, officers, directors, attorneys, legal representatives, insurers, reinsurers, and agents of each of them, and any person or entity which is or was related to or affiliated with any Defendant or in which any Defendant has or had a controlling interest and the present and former parents, subsidiaries, divisions, affiliates, predecessors, successors, employees, officers, directors, attorneys, assigns, legal representatives, insurers, reinsurers, and agents of each of them. The Related Parties, with respect to Accredited, includes but is not limited to the REIT.

EXCLUDING YOURSELF FROM THE SETTLEMENT

13. How do I exclude myself from the settlement?

You can exclude yourself from the settlement. If you do not want a payment from the settlement, but you want to keep any right to sue any of the Defendants or any of the Related Parties about the claims you would otherwise be releasing in this settlement, then you must take steps to exclude yourself from the settlement. This is called excluding yourself or is sometimes referred to as opting out of the class.

To exclude yourself, you must send a letter by mail saying that you want to be excluded from *Atlas v. Accredited Home Lenders Holding Co.* You must submit a list of all of your transactions in Accredited Securities during the period between November 1, 2005 and March 12, 2007, inclusive and the dates and prices of such transactions. Be sure to also include your name, address, telephone number, and signature. You must mail your exclusion request postmarked no later than October 13, 2009, to:

Atlas v. Accredited Home Lenders Holding Co. Securities Litigation
c/o The Garden City Group, Inc.
PO Box 9397
Dublin, OH 43017-4297

You cannot exclude yourself on the phone or by e-mail. If you ask to be excluded, you will not get any settlement payment, and you cannot object to the settlement. Also, you will not be legally bound by anything that happens in this lawsuit, and you would not be prevented by this settlement from suing Defendants and their Related Parties for the Released Claims in the future. However, if you exclude yourself and bring your own lawsuit, you would be subject to all the risks of litigation, including the risk that your lawsuit would be rejected because you filed it too late.

If you do not file your request for exclusion on time, you will be legally bound by all the proceedings in this Litigation, including all court orders and judgments in the Litigation, even if you have a lawsuit pending against the Released Persons that covers Released Claims, or if you subsequently start a lawsuit or an arbitration or any other proceedings against any of the Released Persons that are covered by the Released Claims.

14. If I do not exclude myself, can I sue Defendants for the same thing later?

No. Unless you exclude yourself, you give up any right to sue Defendants or their Related Parties for the claims that this settlement resolves. Remember, the exclusion deadline is October 13, 2009.

15. If I exclude myself, can I get money from this settlement?

No. If you exclude yourself, do not send in a claim form to ask for any money. Once you exclude yourself, you will receive no cash payment even if you also submit a claim form, unless you withdraw your notice of exclusion before the deadline.

THE LAWYERS REPRESENTING YOU

16. Do I have a lawyer in this case?

Lead Plaintiff and the Settlement Class are represented by the law firm of Bernstein Litowitz Berger & Grossmann LLP. This law firm is referred to as Lead Counsel. You will not be charged for the work of the lawyers of Lead Counsel. If you want to be represented by your own lawyer, you may hire one at your own expense.

17. How will the lawyers be paid?

At the Settlement Hearing, Lead Counsel will request the Court to award attorneys fees of 25% of the Settlement Fund, plus payment of expenses not to exceed \$750,000, which were incurred in connection with the Litigation, plus interest thereon. If the Court approves Lead Counsel's fee and expense application, the average cost per share of common stock will be approximately \$0.01, and the average cost per share of preferred stock will be approximately \$0.01. This compensation will be paid from the Settlement Fund. Settlement Class Members are not personally liable for any such fees or expenses. To date, Lead Counsel has not received any payment for their services in conducting the Litigation nor has counsel been paid for its expenses incurred. Plaintiff Kornfeld also intends to apply to the Court for an award of a service award not to exceed \$5,000.

OBJECTING TO THE SETTLEMENT

18. How do I tell the Court that I do not like the Settlement?

If you're a member of the Settlement Class (and you have not excluded yourself), you can object to the proposed settlement if you do not like any part of it. You can give reasons why you think the Court should not approve the settlement, the Plan of Allocation or the request for attorneys' fees and expenses. The Court will consider your views. To object, you must send a signed letter saying that you object to the proposed settlement in "*Atlas v. Accredited Home Lenders Holding Co.*, Case No. 07-cv-00488-H-CAB, (United States District Court for the Southern District of California)." Your letter must include your name, address, telephone number and your original signature (no copies). You must also include all your transactions in Accredited Securities during the Settlement Class Period and the dates and prices of such transactions. Mail the objection postmarked no later than October 13, 2009, to:

Clerk of the Court
United States District Court
for the Southern District of California
880 Front Street, Room 4290
San Diego, CA 92101-8900

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP
DAVID R. STICKNEY
NIKI L. MENDOZA
12481 High Bluff Drive, Suite 300
San Diego, CA 92130

and

PAUL, HASTINGS, JANOFSKY & WALKER LLP
CHRISTOPHER H. McGRATH
4747 Executive Drive, 12th Floor
San Diego, CA 92121

You may object either on your own or through an attorney that you hire at your own expense. If you do hire an attorney to represent you, your attorney must file a notice of appearance with the clerk of the Court and deliver a copy of that notice to Lead Counsel and Defendants' counsel no later than October 13, 2009.

If you do not follow the directions in this notice for objecting to the settlement, you will forfeit all rights that you may have to object to and/or appeal this settlement unless the Court orders otherwise. You will be bound by the orders and judgments in this lawsuit.

19. What is the difference between objecting to the settlement and excluding myself from the settlement?

Objecting is telling the Court that you do not like something about the proposed settlement. You can object only if you stay in the Settlement Class. Excluding yourself is telling the Court that you do not want to be part of the Settlement Class. If you exclude yourself, you have no basis to object because the case no longer applies to you.

THE COURT'S SETTLEMENT HEARING – SCHEDULED FOR NOVEMBER 2, 2009

The Court will hold a hearing to decide whether to approve the proposed settlement. You may attend, but you do not have to.

20. When and where will the Court decide whether to approve the settlement?

The Court will hold a hearing at 10:30 a.m. on November 2, 2009, at the United States District Court for the Southern District of California, located at 940 Front Street, San Diego, CA 92101-8900, in Courtroom 13 ("Settlement Hearing"). The Court may adjourn or continue the Settlement Hearing without further notice to the Settlement Class. At this hearing, the Court will consider whether the settlement is fair, reasonable and adequate. If there are objections, the Court will consider them. The Court will listen to people who have asked to speak at the hearing. The Court will also decide whether to approve the Plan of Allocation, and the payment of fees, costs and expenses to Lead Counsel, including the award to Lead Plaintiff to compensate it for its time and effort in this case. We do not know how long the hearing will take or whether the Court will make its decision about the settlement on that day or sometime later.

21. Do I have to come to the hearing?

Settlement Class Members do not need to appear at the hearing or take any other action to indicate that they approve of the settlement. Lead Counsel will answer questions the Court may have about the settlement. But if you would like to attend the hearing, you are welcome to do so, at your own expense. If you send an objection, you do not have to come to Court to talk about it. The Court will consider your written objection, as long as you mailed your objection in on time (see response to question 18). You may also pay your own lawyer to attend, but it is not necessary.

22. May I speak at the hearing?

If you object to the settlement, you may ask the Court for permission to speak at the hearing. To do so, you must include with your objection (see response to question 18) a statement saying that it is your “Notice of Intention to Appear in *Atlas v. Accredited Home Lenders Holding Co.*, Case No. 07-cv-00488-H-CAB (United States District Court for the Southern District of California).” Persons who intend to object to any part of the settlement and wish to present evidence at the hearing must also include in their written objection the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the hearing.

You cannot speak at the Settlement Hearing if you exclude yourself from the settlement.

IF YOU DO NOTHING

23. What happens if I do nothing at all?

If you do nothing, you will not receive any payments from this settlement. However, unless you exclude yourself, you will not be able to start a lawsuit, or be part of any other lawsuit against the Defendants or their Related Parties about the Released Claims in this case ever again.

GETTING MORE INFORMATION

24. Are there more details about the proposed settlement?

This Notice summarizes the proposed settlement. More details are in a Stipulation of Settlement dated June 23, 2009 (the “Stipulation”), which has been filed with the Court. You can inspect a copy of the Stipulation at the office of the Clerk of the United States District Court for the Southern District of California, 880 Front Street, Room 4290, San Diego, CA 92101-8900, during regular business hours or at www.AccreditedSecuritiesLitigation.com.

25. How do I get more information?

For additional, detailed information concerning the matters involved in this lawsuit, you may inspect the pleadings, the orders of the Court, and other papers filed in this lawsuit at the office of the Clerk of the United States District Court for the Southern District of California, 880 Front Street, Room 4290, San Diego, CA 92101-8900, during regular business hours.

You can also contact (1) the Claims Administrator at 1-866-278-7838; or (2) Lead Counsel David R. Stickney or Niki L. Mendoza, Bernstein Litowitz Berger & Grossmann LLP, 12481 High Bluff Drive, Suite 300, San Diego, CA 92130, 1-888-924-1888. *Please do not call the Court or the Clerk of the Court for additional information about the settlement.*

26. Special notice to nominees

Nominees who purchased or otherwise acquired Accredited Securities for beneficial owners who are Settlement Class Members are directed to: (a) request within fourteen (14) days of receipt of this Notice additional copies of this Notice and the Claim Form from the Claims Administrator for such beneficial owners; or (b) send a list of the names and addresses of such beneficial owners to the Claims Administrator within fourteen (14) days after receipt of this Notice. If a nominee elects to send this Notice to beneficial owners, such nominee is directed to mail this Notice within fourteen (14) days of receipt of the copies of the Notice from the Claims Administrator, and upon such mailing, the nominee shall send a statement to the Claims Administrator confirming that the mailing was made as directed, and the nominee shall retain the list of names and addresses for use in connection with any possible future notice to the Settlement Class.

Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for or advancement of reasonable administrative costs actually incurred or expected to be incurred in connection with forwarding the Notice and which would not have been incurred but for the obligation to forward the Notice, upon submission of appropriate documentation to the Claims Administrator.

By Order of the United States District Court for the Southern District of California.

DATED: August 4, 2009