

AMERICAN EQUITY CAPITAL TRUST V
Form S-3ASR
September 28, 2012
[Table of Contents](#)

As filed with the Securities and Exchange Commission on September 28, 2012

Registration No. 333-

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

American Equity Investment Life Holding Company

(Exact name of registrant as specified in charter)

Iowa
(State or other jurisdiction of incorporation or organization)

42-1447959
(I.R.S. Employer Identification Number)

American Equity Capital Trust V

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of incorporation or organization)

20-3761213
(I.R.S. Employer Identification Number)

American Equity Capital Trust VI

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of incorporation or organization)

20-3761298
(I.R.S. Employer Identification Number)

**6000 Westown Parkway
West Des Moines, Iowa 50266**

(515) 221-0002

(Address, including zip code, and telephone number, including area code, of registrants' principal executive offices)

**John M. Matovina
Chief Executive Officer and President
6000 Westown Parkway
West Des Moines, Iowa 50266
(515) 221-0002**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Shilpi Gupta

Skadden, Arps, Slate, Meagher & Flom LLP

155 North Wacker Drive

Chicago, Illinois 60606

(312) 407-0700

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement, as determined by market conditions and other factors.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of larger accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o

Accelerated filer x

Non-accelerated filer (Do not check if a smaller reporting company) o

Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be registered(1)(2)(3)	Proposed maximum offering price per unit(1)(2)(3)	Proposed maximum aggregate offering price(1)(2)(3)	Amount of registration fee(4)
Debt securities, preferred stock (par value \$1 per share), common stock (par value \$1 per share), depositary shares, warrants, stock purchase contracts and stock purchase units of American Equity Investment Life Holding Company				
Trust preferred securities of American Equity Capital Trust V and American Equity Capital Trust VI				
Guarantees of American Equity Investment Life Holding Company with respect to the trust preferred securities of American Equity Capital Trust V and American Equity Capital Trust VI(5)				

(1) Not specified as to each class of securities to be registered pursuant to General Instruction II.E of Form S-3 under the Securities Act of 1933, as amended (the Securities Act).

(2) The registrants are hereby registering an indeterminate amount and number of each applicable identified class of the identified securities, which may be offered from time to time at indeterminate prices, including securities that may be purchased by underwriters. Securities registered hereunder may be sold separately, together or as units with other securities registered hereunder.

(3)

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The registrants are hereby registering an indeterminate amount and number of each identified class of the identified securities as may be issued upon conversion, exchange, exercise or settlement or any other securities that provide for such conversion, exchange, exercise or settlement.

- (4) In accordance with Rules 456(b) and 457(r), the registrants are deferring payment of the registration fee.
 - (5) No separate consideration will be received for the guarantees of the trust preferred securities, and no additional registration fee for the guarantees will be due pursuant to Rule 457(n). Debt securities may be purchased by each of the trusts with the proceeds of the sale of trust preferred securities, in which case no separate consideration will be received for the debt securities. Such debt securities may be later distributed to the holders of the trust preferred securities upon dissolution of the trusts.
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Table of Contents

PROSPECTUS

**American Equity
Investment Life Holding Company**

Debt Securities

Preferred Stock

Common Stock

Depositary Shares

Warrants

Stock Purchase Contracts

Stock Purchase Units

**American Equity Capital Trust V
American Equity Capital Trust VI**

Trust Preferred Securities Fully and Unconditionally

Guaranteed by American Equity Investment Life Holding Company

We may offer, issue and sell, together or separately, from time to time:

- debt securities, which may be senior debt securities or subordinated debt securities;
- shares of our preferred stock;

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- shares of our common stock;
- depositary shares representing an interest in our preferred stock;
- warrants to purchase our debt securities, shares of our common stock, shares of our preferred stock, depositary shares or securities of third parties or other rights;
- stock purchase contracts to purchase our debt securities, shares of our common stock, shares of our preferred stock, depositary shares, warrants, trust preferred securities, other property of American Equity Investment Life Holding Company or securities of an entity unaffiliated with American Equity Investment Life Holding Company, a basket of such securities or any combination of the above; and
- stock purchase units, each representing ownership of a stock purchase contract and debt securities, trust preferred securities of American Equity Capital Trust V and American Equity Capital Trust VI, or our debt obligations of third-parties, including U.S. treasury securities or any combination of the foregoing, securing the holder's obligation to purchase our common stock or other securities under the stock purchase contracts.

American Equity Capital Trust V and American Equity Capital Trust VI are Delaware statutory trusts. The trusts may offer, issue and sell, from time to time, trust preferred securities. We will guarantee the payment of dividends and payments on liquidation or redemption of the trust preferred securities, as described in this prospectus and in an applicable prospectus supplement. We will own the trust interests represented by the common securities to be issued by each trust. Each trust exists for the sole purpose of issuing its trust interests and investing the proceeds in debt securities, unless an applicable prospectus supplement indicates otherwise.

Specific terms of these securities will be provided in one or more supplements to this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you make your investment decision.

Table of Contents

We and the trusts may offer securities through underwriting syndicates managed or co-managed by one or more underwriters or directly to purchasers. The prospectus supplement for each offering of securities will describe in detail the plan of distribution for that offering. For general information about the distribution of securities offered, please see "Plan of Distribution" in this prospectus.

Our common stock is listed on the New York Stock Exchange under the trading symbol "AEL." Unless we state otherwise in a prospectus supplement, we will not list any other securities offered on an exchange.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement or a free writing prospectus.

Investing in our securities involves risks. You should carefully read and consider the risk factors included in our periodic reports, in any prospectus supplements relating to specific offerings of securities and in other documents that we file with the Securities and Exchange Commission. See "Risk Factors" on page 2.

None of the Securities and Exchange Commission, any state securities commission, the Iowa Commissioner of Insurance or any other regulatory body has approved or disapproved of any of these securities or determined if this prospectus or any accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 28, 2012

Table of Contents

TABLE OF CONTENTS

	Page
<u>ABOUT THIS PROSPECTUS</u>	i
<u>FORWARD-LOOKING STATEMENTS</u>	i
<u>AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY</u>	1
<u>THE TRUSTS</u>	1
<u>RISK FACTORS</u>	2
<u>USE OF PROCEEDS</u>	2
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	2
<u>DESCRIPTION OF SECURITIES</u>	3
<u>DESCRIPTION OF DEBT SECURITIES</u>	3
<u>DESCRIPTION OF CAPITAL STOCK</u>	14
<u>DESCRIPTION OF DEPOSITARY SHARES</u>	19
<u>DESCRIPTION OF WARRANTS</u>	21
<u>DESCRIPTION OF TRUST PREFERRED SECURITIES AND TRUST GUARANTEES</u>	24
<u>DESCRIPTION OF STOCK PURCHASE CONTRACTS</u>	30
<u>DESCRIPTION OF STOCK PURCHASE UNITS</u>	31
<u>PLAN OF DISTRIBUTION</u>	32
<u>LEGAL MATTERS</u>	35
<u>EXPERTS</u>	35
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	35

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a joint registration statement filed by American Equity Investment Life Holding Company, American Equity Capital Trust V and American Equity Capital Trust VI with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf process, we may sell, from time to time, any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we and the trusts may offer, which is not meant to be a complete description of each security. Each time that securities are sold, a prospectus supplement containing specific information about the terms of that offering will be provided, including the specific amounts, prices and terms of the securities offered. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any applicable prospectus supplement, you should rely on the information in the applicable prospectus supplement. You should read this prospectus, any applicable prospectus supplement and any applicable free writing prospectus prepared by or on behalf of us, together with additional information described under the heading **Where You Can Find More Information**.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us, the trusts and the securities to be offered. The registration statement, including the exhibits, can be read at the SEC web site or at the SEC offices mentioned under the heading **Where You Can Find More Information**.

You should rely only on the information contained or incorporated by reference in this prospectus and any applicable prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer to sell or soliciting an offer to purchase these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information contained in this prospectus or any prospectus supplement is accurate on any date other than the date on the front cover of such documents or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus or any prospectus supplement is delivered or securities are sold on a later date. Neither the delivery of this prospectus or any applicable prospectus supplement nor any distribution of securities pursuant to such documents shall, under any circumstances, create any implication that there has been no change in the information set forth in this prospectus supplement or any applicable prospectus supplement or in our affairs since the date of this prospectus or any applicable prospectus supplement.

All references to we, us, our, the company or American Equity in this prospectus are to American Equity Investment Life Holding Company. References in this prospectus to the trusts refer to American Equity Capital Trust V and American Equity Capital Trust VI.

FORWARD-LOOKING STATEMENTS

This prospectus (including the information incorporated by reference) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, trend analyses and other information contained in this prospectus and elsewhere (such as in filings by us with the SEC, press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as anticipate, believe, plan, estimate, expect, intend and other similar expressions, constitute forward-looking statements. We caution that these statements may and often do vary from actual results and the

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differences between these statements and actual results can be material. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements.

Factors that could contribute to these differences include, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the fair value of our investments, which could result in impairments and other than temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;
- customer response to new products and marketing initiatives;
- changes in the Federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increasing competition in the sale of annuities;

Table of Contents

- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products; and
- the risk factors or uncertainties listed from time to time in our filings with the SEC that are incorporated by reference in this prospectus.

You should not place undue reliance on any forward-looking statements. Forward-looking information is intended to reflect opinions as of the date of this prospectus. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements described in this prospectus, whether as a result of new information, future events, changed circumstances or any other reason after the date of this prospectus.

Table of Contents

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY

We are a full service underwriter of fixed annuity and life insurance products through our wholly-owned life insurance subsidiaries, American Equity Investment Life Insurance Company, American Equity Investment Life Insurance Company of New York, and Eagle Life Insurance Company. Our business consists primarily of the sale of fixed index and fixed rate annuities and, accordingly, we have only one business segment. Our business strategy is to focus on our annuity business and earn predictable returns by managing investment spreads and investment risk. We are currently licensed to sell our products in 50 states and the District of Columbia.

Our executive offices are located at 6000 Westown Parkway, West Des Moines, IA 50266, and our telephone number is (515) 221-0002. Our web site address is www.american-equity.com. Information contained on our website is not incorporated by reference in and does not constitute a part of this prospectus.

THE TRUSTS

We created two Delaware statutory trusts, each pursuant to a declaration of trust executed by us as sponsor for each trust and its trustees. The trusts are named American Equity Capital Trust V and American Equity Capital Trust VI.

We have filed, as an exhibit to the registration statement of which this prospectus is a part, a form of Amended and Restated Declaration of Trust for each trust which contains the terms and conditions under which the trusts will issue and sell their preferred securities and common securities. We refer to each Amended and Restated Declaration of Trust as a declaration with respect to that trust.

Unless an applicable prospectus supplement provides otherwise, each trust exists solely to:

- issue and sell preferred securities, which we refer to as trust preferred securities. The proceeds of the trust preferred securities will be invested in a specified series of our debt securities;
- issue and sell common securities, which we refer to as trust common securities. The trust common securities will be issued and sold to us in exchange for cash. The proceeds from the sale will be invested in a specified series of our debt securities; and
- engage in other activities only as are necessary, convenient or incidental to the above two purposes.

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Neither trust will borrow money, issue debt, reinvest proceeds derived from investments, pledge any of its assets nor otherwise undertake or permit to be undertaken any activity that would cause it to not be classified as a grantor trust for United States federal income tax purposes.

We will own all of the trust common securities. The holder of the trust common securities will receive payments that will be made on a ratable basis with the trust preferred securities. However, the right of the holder of the trust common securities to payment in respect of distributions and payments upon liquidation, redemption or otherwise will be subordinated to the right of the trust preferred securities holders if there is a continuing event of default under the declaration.

We will acquire trust common securities having an aggregate liquidation amount equal to the percentage set forth in the applicable prospectus supplement of the total capital of the trust.

Each trust will have a term of 55 years but may end earlier if its declaration so provides.

We will pay all fees and expenses related to each trust and the offering of the trust preferred securities by each trust.

The principal place of business of each trust is c/o American Equity Investment Life Holding Company, 6000 Westown Parkway, West Des Moines, IA 50266. The telephone number is (515) 221-0002.

The trustees of each trust will conduct the business and affairs of their respective trusts. The trustees' duties and obligations will be governed by the declaration of their respective trust. Each trust's trust common securities holders will be entitled to appoint, remove, replace or change the number of trustees for their respective trust.

Table of Contents

Each trust will include the following trustees:

- at least one regular trustee, which is a person who is an employee or officer of or who is affiliated with us;
- at least one property trustee, which is a financial institution that is not affiliated with us and which will act as property trustee and indenture trustee for the purposes of the Trust Indenture Act of 1939, as amended (the Trust Indenture Act), pursuant to the terms described in an applicable prospectus supplement; and
- at least one Delaware trustee, which is an individual resident of, or a legal entity with a principal place of business in, the State of Delaware, unless the trust's property trustee maintains a principal place of business in the State of Delaware and otherwise meets the requirements of applicable law.

The trustees of each trust are collectively referred to as the trustees. Unless otherwise indicated in an applicable prospectus supplement, the property trustee will be U.S. Bank National Association and the Delaware trustee will be U.S. Bank Trust National Association, with its Delaware office located at 300 Delaware Avenue, Suite 812, Wilmington, DE 19809.

RISK FACTORS

Investing in our securities involves risk. Before you decide whether to purchase any of our securities, in addition to the other information, documents or reports included or incorporated by reference into this prospectus and any prospectus supplement or other offering materials, you should carefully consider the risk factors in the section entitled Risk Factors in any prospectus supplement as well as our most recent Annual Report on Form 10-K and in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed subsequent to the Annual Report on Form 10-K, which are incorporated by reference into this prospectus and any prospectus supplement in their entirety, as the same may be amended, supplemented or superseded from time to time by our filings under the Exchange Act. For more information, see the section entitled Where You Can Find More Information. These risks could materially and adversely affect our business, results of operations and financial condition and could result in a partial or complete loss of your investment.

USE OF PROCEEDS

Unless otherwise indicated in an applicable prospectus supplement, we intend to use the net proceeds from the sale of the offered securities for general corporate purposes. The trusts will use all proceeds from the sale of trust preferred securities to purchase our debt securities. We may provide additional information on the use of the net proceeds from the sale of the offered securities in an applicable prospectus supplement or other offering materials relating to the offered securities.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges on a historical basis for the periods indicated. The ratios are calculated by dividing earnings by fixed charges. Earnings consist of income before income taxes and minority interests plus fixed charges. Fixed charges consist of interest expense and the portion of operating leases that are representative of the interest factor. Interest expense includes interest sensitive and index product benefits and amortization of deferred sales inducements, interest expense on notes payable, interest expense on subordinated debentures, interest expense on amounts due under repurchase agreements and other interest expense.

We did not have any preferred stock outstanding for the periods presented, and therefore the ratio of earnings to combined fixed charges and preferred stock dividends would be the same as the ratios of earnings to fixed charges presented below.

**Ratio of Earnings to Fixed Charges Including Interest Sensitive and Index Product Benefits
and Amortization of Deferred Sales Inducements**

	Six Months Ended June 30, 2012	2011	2010	2009	2008	2007
Ratio of earnings to fixed charges	1.1x	1.1x	1.1x	1.2x	1.3x	1.1x

**Ratio of Earnings to Fixed Charges Excluding Interest Sensitive and Index Product Benefits
and Amortization of Deferred Sales Inducements**

The following table sets forth our ratio of earnings to fixed charges excluding interest sensitive and index product benefits and amortization of deferred sales inducements. This ratio is presented here to reflect the effect of excluding interest sensitive and index product benefits and amortization of deferred sales inducements, which we believe are not indicative of interest expense related to amounts borrowed. Interest sensitive and index product benefits and amortization of deferred sales inducements do not require cash outlays unless and until annuity holders elect to withdraw their annuity account balances, subject to applicable surrender charges. Therefore, we view such expenses as operating expenses and treat them as such in our consolidated statements of operations.

	Six Months Ended June 30, 2012	2011	2010	2009	2008	2007
Ratio of earnings to fixed charges	3.1x	3.9x	2.7x	3.7x	2.6x	1.6x

Table of Contents

DESCRIPTION OF SECURITIES

This prospectus contains summary descriptions of the debt securities, preferred stock, common stock, depositary shares, warrants, stock purchase contracts, stock purchase units, trust preferred securities and trust guarantees that we and/or the trusts may sell from time to time. These summary descriptions are not meant to be complete descriptions of each security. However, at the time of an offering and sale, this prospectus, together with the applicable prospectus supplements, will contain the material terms of the securities being offered.

DESCRIPTION OF DEBT SECURITIES

As used in this prospectus, debt securities means the debentures, notes, bonds and other evidences of indebtedness that we may issue from time to time in one or more series. The debt securities will either be senior debt securities or subordinated debt securities. Senior debt securities will be issued under a senior indenture and subordinated debt securities will be issued under a subordinated indenture. This prospectus sometimes refers to the senior indenture and the subordinated indenture collectively as the indentures. Unless the applicable prospectus supplement states otherwise, the trustee under the indentures will be U.S. Bank National Association. The trustee will be a financial institution that is not affiliated with us.

The indentures are filed as exhibits to the registration statement of which this prospectus forms a part. The statements and descriptions in this prospectus or in any prospectus supplement regarding provisions of the indentures and debt securities are summaries thereof, do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the indentures and the debt securities, including the definitions therein of certain terms. Accordingly, we strongly encourage you to refer to the indentures and the debt securities for a complete understanding of the terms and conditions applicable to the indentures and the debt securities. You should read this description of the debt securities and the indentures and the prospectus supplement relating to the applicable series of debt securities before you buy any debt securities.

General

The debt securities will be our unsecured senior or subordinated obligations. The term senior is generally used to describe debt obligations which entitle the holder to receive payment of principal and interest upon the happening of certain events prior to the holders of subordinated debt. Events which can trigger the right of holders of senior indebtedness to receive payment of principal and interest prior to payments to the holders of subordinated indebtedness include insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or an event of default under the senior indebtedness.

We may issue the senior debt securities, pursuant to the senior indenture, in one or more series. All series of senior debt securities issued under the senior indenture will be equal in ranking. The senior debt securities also will rank equally with all our other unsecured indebtedness, other than unsecured indebtedness expressly designated by the holders thereof to be subordinate to our senior debt securities.

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The senior indebtedness issued pursuant to the senior indenture will rank junior and be subordinate to any of our secured indebtedness. In the event of a bankruptcy or other liquidation event involving a distribution of assets to satisfy our outstanding indebtedness or an event of default under a loan agreement relating to the secured indebtedness, the holders of our secured indebtedness would be entitled to receive payment of principal and interest prior to payments on the senior indebtedness issued under the senior indenture.

Additionally, the senior indebtedness issued pursuant to the senior indenture will rank junior and be subordinate to any indebtedness of our subsidiaries. In the event of a bankruptcy, receivership, liquidation or similar event involving a subsidiary, the assets of that subsidiary would be used to satisfy claims of creditors of the subsidiary, including liabilities under contracts of insurance and annuities written by our insurance subsidiaries, rather than our creditors. As a result of the application of the subsidiary's assets to satisfy claims of policyholders and creditors, the value of the stock of the subsidiary would be diminished and perhaps rendered worthless. Any such diminution in the value of the shares of our subsidiaries would adversely impact our financial condition and

Table of Contents

possibly impair our ability to meet our obligations on the debt securities. In addition, any liquidation of the assets of a subsidiary to satisfy claims of the subsidiary's creditors might make it impossible for such subsidiary to pay dividends to us. This inability to pay dividends would further impair our ability to satisfy our obligations under the debt securities.

The debt securities issued under the subordinated indenture will be subordinate in right of payment in respect of principal of (and premium, if any) and interest owing under the subordinated debt securities to all our senior indebtedness in the manner described below under the caption Subordination.

The indentures do not limit the aggregate principal amount of debt securities that we may issue and provide that we may issue debt securities from time to time in one or more series, in each case with the same or various maturities, at par or at a discount. We may issue additional debt securities of a particular series without the consent of the holders of the debt securities of such series outstanding at the time of the issuance. Any such additional debt securities, together with all other outstanding debt securities of that series, will constitute a single series of debt securities under the applicable indenture. The indentures also do not limit our ability to incur other debt.

We will provide a prospectus supplement to accompany this prospectus for each series of debt securities we offer. Each prospectus supplement will describe the terms relating to the specific series of debt securities being offered. These terms will include some or all of the following:

- the title of debt securities and whether they are subordinated debt securities or senior debt securities;
- any limit on the aggregate principal amount of the debt securities;
- the price or prices at which we will sell the debt securities;
- the maturity date or dates of the debt securities;
- the rate or rates of interest, if any, which may be fixed or variable, per annum at which the debt securities will bear interest, or the method of determining such rate or rates, if any;
- the date or dates from which any interest will accrue or the method by which such date or dates will be determined;

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- the dates on which we will pay interest on the debt securities and the regular record date for determining who is entitled to the interest payable on any interest payment date;
- the right, if any, to extend the interest payment periods and the duration of any such deferral period, including the maximum consecutive period during which interest payment periods may be extended;
- whether the amount of payments of principal of (and premium, if any) or interest on the debt securities may be determined with reference to any index, formula or other method, such as one or more currencies, commodities, equity indices or other indices, and the manner of determining the amount of such payments;
- the place or places where the principal of (and premium, if any) and interest on the debt securities will be payable;
- if we possess the option to do so, the periods within which and the prices at which we may redeem the debt securities, in whole or in part, pursuant to optional redemption provisions, and the other terms and conditions of any such provisions;

Table of Contents

- our obligation, if any, to redeem, repay or purchase debt securities by making periodic payments to a sinking fund or through an analogous provision or at the option of holders of the debt securities, and the period or periods within which and the price or prices at which we will redeem, repay or purchase the debt securities, in whole or in part, pursuant to such obligation, and the other terms and conditions of such obligation;
- the denominations in which the debt securities will be issued, if other than denominations of \$1,000 and integral multiples of \$1,000;
- the currency, currencies or currency unit in which we will pay the principal of (and premium, if any) or interest on the debt securities, if not United States dollars;
- provisions, if any, granting special rights to holders of the debt securities upon the occurrence of specified events;
- any additions to the events of default or our covenants with respect to the applicable series of debt securities;
- the terms, if any, upon which the holders may convert or exchange such debt securities into other securities or property;
- whether any of the debt securities will be issued in global form and, if so, the terms and conditions upon which global debt securities may be exchanged for certificated debt securities;
- the depository for global or certificated debt securities;
- any special tax implications of the debt securities;
- any trustees, authenticating or paying agents, transfer agents or registrars or other agents with respect to the debt securities; and
- any other terms of the debt securities not inconsistent with the provisions of the indentures, as amended or supplemented, and any other terms which may be required by or advisable under applicable laws or regulations.

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Unless otherwise specified in the applicable prospectus supplement, the debt securities will not be listed on any securities exchange.

Unless otherwise specified in the applicable prospectus supplement, debt securities will be issued in fully-registered form without coupons.

Debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. The applicable prospectus supplement will describe the federal income tax consequences and special considerations applicable to any such debt securities. The debt securities may also be issued as indexed securities or securities denominated in foreign currencies or currency units, as described in more detail in the prospectus supplement relating to any of the particular debt securities. The prospectus supplement relating to specific debt securities will also describe any special considerations and certain additional tax considerations applicable to such debt securities.

Table of Contents

Subordination

Subordinated debt securities will be subordinate and junior in right of payment to all of our senior indebtedness.

Under the subordinated indenture, senior indebtedness means all amounts due on obligations in connection with any of the following, whether outstanding at the date of execution of the subordinated indenture or thereafter incurred or created:

- the principal of (and premium, if any) and interest in respect of our indebtedness for borrowed money and indebtedness evidenced by securities, debentures, bonds or other similar instruments issued by us;

- all our capital lease obligations;

- all our obligations issued or assumed as the deferred purchase price of property, all our conditional sale obligations and all our obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business);

- all our obligations for the reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction;

- all our obligations in respect of interest rate swap, cap or other agreements, interest rate future or options contracts, currency swap agreements, currency future or option contracts and other similar agreements;

- all obligations of the types referred to above of other persons for the payment of which we are responsible or liable as obligor, guarantor or otherwise; and

- all obligations of the types referred to above of other persons secured by any lien on any property or asset of ours whether or not such obligation is assumed by us.

Senior indebtedness does not include:

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- indebtedness or monetary obligations to trade creditors created or assumed by us or any of our subsidiaries in the ordinary course of business in connection with the obtaining of materials or services;
- indebtedness that is by its terms subordinated to or ranks equal with the subordinated debt securities; and
- any indebtedness of us to our affiliates (including all debt securities and guarantees in respect of those debt securities issued to any trust, partnership or other entity affiliated with us that is a financing vehicle of us in connection with the issuance by such financing entity of preferred securities or other securities guaranteed by us) unless otherwise expressly provided in the terms of any such indebtedness.

Senior indebtedness shall continue to be senior indebtedness and be entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of such senior indebtedness.

In the event and during the continuation of any default by us in the payment of principal, premium, interest or any other payment due on any of our senior indebtedness, or in the event that the maturity of any of our senior indebtedness has been accelerated because of a default, then no payment will be made by us with respect to the

Table of Contents

principal (including redemption and sinking fund payments) of (or premium, if any) or interest on the subordinated debt securities.

In the event of the acceleration of the maturity of any subordinated debt securities, the holders of all senior indebtedness outstanding at the time of such acceleration will first be entitled to receive payment in full of all amounts due on the senior indebtedness before the holders of the subordinated debt securities will be entitled to receive any payment of principal of (and premium, if any) or interest on the subordinated debt securities.

In addition, if any of the following events occurs, we will pay in full all senior indebtedness before we make any payment on account of the principal of (and premium, if any) or interest on the subordinated debt securities to any holder of subordinated debt securities:

- any dissolution or winding-up or liquidation or reorganization of us, whether voluntary or involuntary or in bankruptcy, insolvency or receivership;

- any general assignment by us for the benefit of creditors; or

- any other marshaling of our assets or liabilities.

In such event, any payment or distribution under the subordinated debt securities, whether in cash, securities or other property, which would otherwise (but for the subordination provisions) be payable or deliverable in respect of the subordinated debt securities, will be paid or delivered directly to the holders of senior indebtedness in accordance with the priorities then existing among such holders until all senior indebtedness has been paid in full. If any payment or distribution under the subordinated debt securities is received by the trustee of any subordinated debt securities in contravention of any of the terms of the subordinated indenture and before all the senior indebtedness has been paid in full, such payment or distribution or security will be received in trust for the benefit of, and paid over or delivered and transferred to, the holders of the senior indebtedness at the time outstanding in accordance with the priorities then existing among such holders for application to the payment of all senior indebtedness remaining unpaid to the extent necessary to pay all such senior indebtedness in full.

The subordinated indenture does not limit the amount of senior indebtedness that we can incur.

If debt securities are issued to a trust in connection with the issuance of trust preferred securities, such debt securities may thereafter be distributed pro rata to the holders of such trust securities in connection with the dissolution of such trust upon the occurrence of certain events described in the applicable prospectus supplement.

Restrictive Covenant

The following restrictive covenant shall apply to each series of senior debt securities:

Limitations on Dispositions of Stock of Certain Subsidiaries. So long as any senior debt securities are outstanding and subject to the provisions of the senior indenture regarding mergers, consolidations and sales of assets, neither we nor any of our subsidiaries will sell or otherwise dispose of any shares of capital stock (other than preferred stock having no voting rights of any kind) of:

- American Equity Investment Life Insurance Company;

- American Equity Investment Life Insurance Company of New York;

- any successor to substantially all of the business of American Equity Investment Life Insurance Company or American Equity Investment Life Insurance Company of New York which is also a subsidiary of us; or

Table of Contents

- any corporation (other than us) having direct or indirect control of American Equity Investment Life Insurance Company, American Equity Investment Life Insurance Company of New York or any such successor.

Except for, in each case:

- a sale or other disposition of any of such stock to a direct or indirect wholly-owned subsidiary of us;
- a sale or other disposition of shares which are directors qualifying shares;
- a sale or other disposition of all of such stock for at least fair value (as determined by our board of directors acting in good faith); or
- a sale or other disposition required to comply with an order of a court or regulatory authority of competent jurisdiction, other than an order issued at our request or the request of any of our subsidiaries.

Consolidation, Merger, Sale of Assets and Other Transactions

We may not (i) merge with or into or consolidate with another corporation or sell, assign, transfer, lease or convey all or substantially all of our properties and assets to, any other corporation other than a direct or indirect wholly-owned subsidiary of us, and (ii) no corporation may merge with or into or consolidate with us or, except for any direct or indirect wholly-owned subsidiary of us, sell, assign, transfer, lease or convey all or substantially all of its properties and assets to us, unless:

- we are the surviving corporation or the corporation formed by or surviving such merger or consolidation or to which such sale, assignment, transfer, lease or conveyance has been made, if other than us, has
- expressly assumed by supplemental indenture all the obligations of us under the debt securities, the indentures, and any guarantees of preferred securities or common securities issued by the trusts;
- immediately after giving effect to such transaction, no default or event of default has occurred and is continuing;

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- if at the time any preferred securities of the trusts are outstanding, such transaction is not prohibited under the applicable declaration of trust and the applicable preferred securities guarantee of each trust; and
- we deliver to the trustee an officer's certificate and an opinion of counsel, each stating that the supplemental indenture complies with the applicable indenture.

Events of Default, Notice and Waiver

The following shall constitute events of default under the indentures with respect to each series of debt securities:

- our failure to pay any interest on any debt security of such series when due and payable, continued for 30 days;
- our failure to pay principal of (or premium, if any) any debt security of such series when due, regardless of whether such payment became due because of maturity, redemption, acceleration or otherwise, or is required by any sinking fund established with respect to such series;

Table of Contents

- our failure to observe or perform any other of our covenants or agreements with respect to such debt securities for 90 days after we receive notice of such failure;
- certain defaults with respect to our debt (other than the debt securities or non-recourse debt) in any aggregate principal amount in excess of \$50,000,000 consisting of the failure to make any payment at maturity or that results in acceleration of the maturity of such debt; and
- certain events of bankruptcy, insolvency or reorganization of us.

If an event of default with respect to any debt securities of any series outstanding under either of the indentures shall occur and be continuing, the trustee under such indenture or the holders of at least 25% in aggregate principal amount of the debt securities of that series outstanding may declare, by notice as provided in the applicable indenture, the principal amount (or such lesser amount as may be provided for in the debt securities of that series) of all the debt securities of that series outstanding to be due and payable immediately; provided that, in the case of an event of default involving certain events in bankruptcy, insolvency or reorganization, acceleration is automatic; and, provided further, that after such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the nonpayment of accelerated principal, have been cured or waived. Upon the acceleration of the maturity of original issue discount securities, an amount less than the principal amount thereof will become due and payable. Reference is made to the prospectus supplement relating to any original issue discount securities for the particular provisions relating to acceleration of maturity thereof.

Any past default under either indenture with respect to debt securities of any series, and any event of default arising therefrom, may be waived by the holders of a majority in aggregate principal amount of all debt securities of such series outstanding under such indenture, except in the case of (i) default in the payment of the principal of (or premium, if any) or interest on any debt securities of such series or (ii) default in respect of a covenant or provision which may not be amended or modified without the consent of the holder of each outstanding debt security of such series affected.

The trustee is required, within 90 days after the occurrence of a default (which is known to the trustee and is continuing), with respect to the debt securities of any series (without regard to any grace period or notice requirements), to give to the holders of the debt securities of such series notice of such default; provided, however, that, except in the case of a default in the payment of the principal of (and premium, if any) or interest, or in the payment of any sinking fund installment, on any debt securities of such series, the trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interests of the holders of the debt securities of such series.

The trustee, subject to its duties during default to act with the required standard of care, may require indemnification by the holders of the debt securities of any series with respect to which a default has occurred before proceeding to exercise any right or power under the indentures at the request of the holders of the debt securities of such series. Subject to such right of indemnification and to certain other limitations, the holders of a majority in principal amount of the outstanding debt securities of any series under either indenture may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee with respect to the debt securities of such series.

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No holder of a debt security of any series may institute any action against us under either of the indentures (except actions for payment of overdue principal of (and premium, if any) or interest on such debt security) unless (i) the holder has given to the trustee written notice of an event of default and of the continuance thereof with respect to the debt securities of such series specifying an event of default, as required under the applicable indenture, (ii) the holders of at least 25% in aggregate principal amount of the debt securities of that series then outstanding under such indenture shall have requested the trustee to institute such action, (iii) the holder or holders have offered the trustee reasonable indemnity for its costs, expenses and liabilities, (iv) the trustee shall not have instituted such action

Table of Contents

within 60 days of such request and (v) the holders of a majority in principal amount of the outstanding debt securities of each affected series did not direct the trustee to refrain from instituting the action.

We are required to furnish annually to the trustee statements either stating that no default exists or specifying any default that does exist.

Discharge, Defeasance and Covenant Defeasance

We may discharge or defease our obligations under each indenture as set forth below. For purposes of the indentures, obligations with respect to debt securities are discharged and defeased when, through the fulfillment of the conditions summarized below, we are released and discharged from performing any further obligations under the relevant indenture with respect to the debt securities. Covenant defeasance occurs when we are released from performing any further obligations under specific covenants in the indenture relating to the debt securities.

We may discharge certain obligations to holders of any series of debt securities issued under either the senior indenture or the subordinated indenture which have not already been delivered to the trustee for cancellation and which have either become due and payable or are by their terms due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the trustee cash or U.S. government obligations (as defined in either indenture), as trust funds in an amount certified to be sufficient to pay when due, whether at maturity or upon redemption, the principal of (and premium, if any) and interest on such debt securities.

We may elect either (i) to defease and be discharged from any and all obligations with respect to the debt securities of or within any series (except as otherwise provided in the relevant indenture) (defeasance) or (ii) to be released from our obligations with respect to certain covenants applicable to the debt securities of or within any series (covenant defeasance), upon the irrevocable deposit with the relevant indenture trustee, in trust for such purpose, of money and/or U.S. government obligations which through the payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on such debt securities to maturity or redemption, as the case may be, and any mandatory sinking fund or analogous payments thereon. As a condition to defeasance or covenant defeasance, we must deliver to the trustee an opinion of counsel to the effect that the holders of such debt securities will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred. Such opinion of counsel, in the case of defeasance under clause (i) above, must refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable federal income tax law occurring after the date of the relevant indenture. In addition, in the case of either defeasance or covenant defeasance, we shall have delivered to the trustee (i) an officers' certificate to the effect that the relevant debt securities exchange(s) have informed us that neither such debt securities nor any other debt securities of the same series, if then listed on any securities exchange, will be delisted as a result of such deposit and (ii) an officers' certificate and an opinion of counsel, each stating that all conditions precedent with respect to such defeasance or covenant defeasance have been complied with.

We may exercise our defeasance option with respect to such debt securities notwithstanding our prior exercise of our covenant defeasance option.

Modification and Waiver

We are restricted in our ability to modify the indentures. However, we may in certain circumstances modify the indentures either before or after the debt securities are issued. The following is a summary of the applicable provisions under the indentures.

With the Consent of Securityholders. We and the applicable trustee may also modify the indentures or any supplemental indenture in a manner that affects the interests or rights of the holders of debt securities with the consent of the holders of a least a majority in aggregate principal amount of the outstanding debt securities of each affected series issued under the indenture.

Table of Contents

However, the indentures require the consent of each holder of debt securities that would be affected by any modification which would:

- extend the fixed maturity of any debt securities of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof;
- reduce the amount of principal of an original issue discount debt security or any other debt security payable upon acceleration of the maturity thereof;
- change the currency in which any debt security or any premium or interest is payable;
- impair the right to enforce any payment on or with respect to any debt security;
- adversely change the right to convert or exchange, including decreasing the conversion rate or increasing the conversion price of, any debt security (if applicable);
- reduce the percentage in principal amount of outstanding debt securities of any series, the consent of the holders of which is required for modification or amendment of the indentures or for waiver of compliance with certain provisions of the indentures or for waiver of certain defaults;
- reduce the requirements contained in the indentures for quorum or voting; or
- modify any of the above provisions.

If debt securities are held by a trust or a trustee of a trust, a supplemental indenture that affects the interests or rights of the holders of debt securities will not be effective until the holders of not less than a majority in liquidation preference of the preferred securities of the applicable trust have consented to the supplemental indenture; provided, further, that if the consent of the holder of each outstanding debt security is required, the supplemental indenture will not be effective until each holder of the preferred securities of the applicable trust has consented to the supplemental indenture.

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The indentures permit the holders of at least a majority in aggregate principal amount of the outstanding debt securities of any series issued under the indenture which is affected by the modification or amendment to waive our compliance with certain covenants contained in the indentures.

Without the Consent of Securityholders. In addition, we and the applicable trustee may supplement the indentures for certain purposes which would not materially adversely affect the interests or rights of the holders of debt securities of a series without the consent of those holders for one or more of the following purposes:

- to cure any ambiguity, defect, or inconsistency in the indentures, in any supplemental indenture or in the debt securities issued under the indentures;
- to provide for uncertificated debt securities in addition to or in place of certificated debt securities;
- to add to the covenants of us for the benefit of the holders of all or any series of debt securities or to surrender any right or power conferred upon us under the indentures;
- to add to, delete from or revise the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of debt securities, as set forth in the indentures;
- to make any change that does not adversely affect the rights of any securityholder in any material respect;

Table of Contents

- to provide for the issuance of and establish the form and terms and conditions of the debt securities of any series, to establish the form of any certifications required to be furnished pursuant to the terms of the indentures or any series of debt securities or to add to the rights of the holders of any series of debt securities;
- to add any additional events of default for the benefit of the holders of all or any series of debt securities;
- to secure the debt securities;
- to evidence and provide for the acceptance of appointment under the indentures by a successor trustee with respect to the debt securities of one or more series and to add to or change any of the provisions of the indentures; or
- to evidence the succession of another corporation to us, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligation of us under the indentures.

Payment and Paying Agents

Payment of interest on a debt security on any interest payment date will be made to the person in whose name a debt security is registered at the close of business on the record date for the interest.

Principal of (and premium, if any) and interest on the debt securities of a particular series will be payable at the office of such paying agent or paying agents as we may designate for such purpose from time to time. Notwithstanding the foregoing, at our option, payment of any interest may be made by check mailed to the address of the person entitled thereto as such address appears in the security register.

We may act as our own paying agent or appoint one or more paying agents for payments with respect to debt securities of each series. All paying agents initially designated by us for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by us to a paying agent for the payment of the principal, interest or premium, if any, on any debt security which remain unclaimed at the end of two years after such principal, interest or premium, if any, has become due and payable will be repaid to us upon request, and the holder of such debt security thereafter may look only to us for payment thereof.

Denominations, Registrations and Transfer

Unless an accompanying prospectus supplement states otherwise, debt securities will be represented by one or more global certificates registered in the name of a nominee for The Depository Trust Company, or DTC. In such case, each holder's beneficial interest in the global securities will be shown on the records of DTC and transfers of beneficial interests will only be effected through DTC's records. We will describe the specific terms of the depositary arrangement with respect to any series of debt securities represented by a registered global security in the prospectus supplement relating to that series.

A holder of debt securities may only exchange a beneficial interest in a global security for certificated securities registered in the holder's name if:

- DTC notifies us that it is unwilling or unable to continue serving as the depositary for the relevant global securities or DTC ceases to maintain certain qualifications under the Exchange Act and no successor depositary has been appointed for 90 days; or

Table of Contents

- we determine, in our sole discretion, that the global security shall be exchangeable.

If debt securities are issued in certificated form, they will only be issued in the minimum denomination specified in the accompanying prospectus supplement and integral multiples of such denomination. Transfers and exchanges of such debt securities will only be permitted in such minimum denomination. Transfers of debt securities in certificated form may be registered at the offices of an agent appointed by us under the indentures. Exchanges of debt securities for an equal aggregate principal amount of debt securities in different denominations may also be made at such locations.

Governing Law

The indentures and debt securities will be governed by, and construed in accordance with, the internal laws of the State of New York, without regard to its principles of conflicts of laws, except to the extent that the Trust Indenture Act is applicable, in which case the Trust Indenture Act will govern.

Relationship With the Trustees

The trustee under the indentures is U.S. Bank National Association. We and our subsidiaries maintain ordinary banking and trust relationships with a number of banks and trust companies, including the trustee under the indentures.

Conversion or Exchange Rights

The prospectus supplement will describe the terms, if any, on which a series of debt securities may be convertible into or exchangeable for other debt securities. These terms will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. These provisions may allow or require the number of other securities to be received by the holders of such series of debt securities to be adjusted.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

The following description briefly summarizes certain information regarding our capital stock. This information does not purport to be complete and is subject in all respects to the applicable provisions of the Iowa Business Corporation Act (the "BCA"), our articles of incorporation, as amended (our "amended articles of incorporation"), and our amended and restated bylaws (our "bylaws").

Our authorized capital stock consists of 202,000,000 shares, of which 200,000,000 shares are common stock, par value \$1 per share, and 2,000,000 shares are preferred stock, par value \$1 per share. As of September 21, 2012, we had issued and outstanding 62,799,591 shares of common stock and no shares of preferred stock.

Common Stock

Each outstanding share of our common stock is entitled to one vote per share on each matter submitted to the vote of shareholders. Cumulative voting for the election of directors is not permitted, and the holders of a majority of shares voting for the election of directors can elect all members of the board of directors. Subject to the rights of holders of preferred stock, holders of our common stock have equal ratable rights to dividends from funds legally available therefor, when, as and if declared by the board of directors. Holders of our common stock are entitled to share ratably in all of our assets available for distribution upon our liquidation, dissolution or winding up. Holders of our common stock have no preemptive, conversion, redemption or subscription rights.

In 2011 and 2010, we paid an annual cash dividend of \$0.12 and \$0.10, respectively, per share on our common stock. We intend to continue to pay an annual cash dividend on such shares so long as we have sufficient capital and/or future earnings to do so. However, we anticipate retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Any further determination as to dividend policy will be made by our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition and future prospects and such other factors as our board of directors may deem relevant.

Since we are a holding company, our ability to pay cash dividends depends in large measure on our subsidiaries' ability to make distributions of cash or property to us. Financial covenants under our existing or future loan agreements and reinsurance agreements, or provisions of the laws of the states where we or our subsidiaries are organized, may limit our subsidiaries' ability to make sufficient distributions to us to permit us to pay cash dividends on our common stock.

As of September 21, 2012, there were approximately 9,800 holders of our common stock.

Preferred Stock

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We are authorized to issue up to 2,000,000 shares of preferred stock. Our amended articles of incorporation authorize our board, without any further stockholder action or approval, to issue these shares from time to time in one or more series with such rights and preferences as may be determined by our board of directors. Our board may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock.

Options

As of September 21, 2012, (a) options to purchase a total of 5,906,950 shares of common stock were outstanding and (b) up to 4,896,893 additional shares of common stock may be subject to options granted in the future. All of the options contain standard anti-dilution provisions.

Table of Contents**Trust Preferred Securities**

Our subsidiary trusts have issued fixed rate and floating rate trust preferred securities and the trusts have used the proceeds from these offerings to purchase subordinated debentures from us. We also issued subordinated debentures to the trusts in exchange for all of the common securities of each trust. The sole assets of the trusts are the subordinated debentures and any interest accrued thereon. The terms of the preferred securities issued by each trust parallel the terms of the subordinated debentures. Our obligations under the subordinated debentures and related agreements provide a full and unconditional guarantee of payments due under the trust preferred securities.

Following is a summary of subordinated debt obligations to the trusts at December 31, 2011 and 2010:

	2011	2010	Interest Rate	Due Date
	(Dollars in thousands)			
American Equity Capital Trust I*	\$ 22,893	\$ 22,893	8%	September 30, 2029
American Equity Capital Trust II	\$ 76,090	\$ 75,932	5%	June 1, 2047
American Equity Capital Trust III	\$ 27,840	\$ 27,840	**LIBOR + 3.90%	April 29, 2034
American Equity Capital Trust IV	\$ 12,372	\$ 12,372	**LIBOR + 4.00%	January 8, 2034
American Equity Capital Trust VII	\$ 10,830	\$ 10,830	**LIBOR + 3.75%	December 14, 2034
American Equity Capital Trust VIII	\$ 20,620	\$ 20,620	**LIBOR + 3.75%	December 15, 2034
American Equity Capital Trust IX	\$ 15,470	\$ 15,470	**LIBOR + 3.65%	June 15, 2035
American Equity Capital Trust X	\$ 20,620	\$ 20,620	**LIBOR + 3.65%	September 15, 2035
American Equity Capital Trust XI	\$ 20,620	\$ 20,620	**LIBOR + 3.65%	December 15, 2035
American Equity Capital Trust XII	\$ 41,238	\$ 41,238	**LIBOR + 3.50%	April 7, 2036
	\$ 268,593	\$ 268,435		

* All outstanding trust preferred securities and trust common securities were either converted into shares of our common stock at the election of the holder or redeemed by American Equity Capital Trust I on July 10, 2012.

** - three month London Interbank Offered Rate

American Equity Capital Trust I issued 865,671 shares of 8% trust preferred securities, of which 2,000 shares were held by one of our subsidiaries. All outstanding trust preferred securities and trust common securities were either converted into shares of our common stock at the election of the holder or redeemed by American Equity Capital Trust I on July 10, 2012.

The principal amount of the subordinated debentures issued by us to American Equity Capital Trust II (Trust II) is \$100.0 million. These debentures were assigned a fair value of \$74.7 million at the date of issue (based upon an effective yield-to-maturity of 6.8%). The difference between the fair value at the date of issue and the principal amount is being accreted over the life of the debentures.

Indemnification of Directors and Executive Officers and Limitation of Liability

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Section 490.202 of the IBCA permits a corporation to include a provision in its articles of incorporation permitting or making obligatory the indemnification of a director for liability to any person for any action taken, or any failure to take any action, as a director, except liability for (i) the receipt of a financial benefit to which the person is not entitled, (ii) an intentional infliction of harm on the corporation or its shareholders, (iii) unlawful distributions to shareholders, or (iv) an intentional violation of criminal law.

Our amended articles of incorporation provide that our directors will not be liable to us or our shareholders for money damages for any action taken, or any failure to take any action, as a director, except liability for (1) the

Table of Contents

amount of a financial benefit received by a director to which the director is not entitled; (2) intentional infliction of harm on us or our shareholders; (3) a violation of Section 490.833 of the IBCA, which relates to liability for unlawful distributions; and (4) an intentional violation of criminal law.

Our amended articles of incorporation also provide that each individual who was or is a director of the company who was or is made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director of the company, or is or was serving at the request of the company as a director, officer, partner, trustee, employee or agent of another corporation shall be indemnified and held harmless by the company to the fullest extent permitted by applicable law, except liability for:

- the amount of a financial benefit received by a director to which the director is not entitled;
- an intentional infliction of harm on the company or its shareholders;
- an unlawful distribution to shareholders; and
- an intentional violation of criminal law.

Our bylaws also provide that each person who was or is a party or is threatened to be made a party to any threatened, pending or completed civil or criminal action or proceeding by reason of the fact that such person is or was a director of the company or is or was serving at our request as a director of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by us to the fullest extent permitted by Iowa law. This right to indemnification shall also include the right to be paid by us the expenses incurred in connection with any such proceeding in advance of its final disposition to the fullest extent authorized by Iowa law. This right to indemnification shall be a contract right. We may, by action of our board of directors, provide indemnification to our officers, employees and agents to the extent and to the effect as the board of directors determines to be appropriate and authorized by Iowa law.

Our bylaws also authorize us to purchase insurance for our directors, officers and employees and persons who serve at our request as directors, officers, members, employees, fiduciaries or agents of other enterprises, against any expense, liability or loss incurred in such capacity, whether or not we would have the power to indemnify such persons against such expense or liability under the bylaws. We maintain insurance coverage for our officers and directors as well as insurance coverage to reimburse us for potential costs for indemnification of directors and officers.

Selected Amended Articles of Incorporation and Bylaws Provisions

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Our amended articles of incorporation and bylaws include provisions that may have the effect of discouraging, delaying or preventing (a) a change in control of us or (b) an unsolicited acquisition proposal that a shareholder might consider favorable, including a proposal that might result in the payment of a premium over the market price for the shares held by shareholders. These provisions are summarized in the following paragraphs.

Classified Board of Directors. Our amended articles of incorporation and bylaws provide for our board of directors to be divided into three classes of directors serving staggered, three year terms. The classification of the board of directors has the effect of requiring at least two annual shareholder meetings to replace a majority of the members of the board of directors.

Notice Procedures. Our bylaws establish advance notice procedures with regard to all shareholder proposals to be brought before meetings of our shareholders, including proposals relating to the nomination of candidates for election as directors, the removal of directors and amendments to our amended articles of incorporation and bylaws.

Shareholder Meetings. Our bylaws provide that special meetings may be called only by the board of directors or shareholders owning at least 50% of all the votes entitled to be cast on any issue proposed at the special meeting.

Table of Contents

Authorized but Unissued or Undesignated Capital Stock. Our amended articles of incorporation grant the board of directors broad power to establish the rights and preferences of authorized and unissued preferred stock. The issuance of shares of preferred stock pursuant to the board of directors' authority could (a) decrease the amount of earnings and assets available for distribution to holders of common stock, (b) adversely affect the rights and powers, including voting rights, of such holders and (c) have the effect of delaying, deferring or preventing a change in control of us. The board of directors does not currently intend to seek shareholder approval prior to any issuance of preferred stock, unless otherwise required by law or the rules of any exchange on which the securities are then traded.

Iowa Takeover Statute

We are subject to Section 490.1110 of the IBCA which prohibits certain business combination transactions between an Iowa corporation and any interested shareholder for a period of three years after the date on which such shareholder became an interested shareholder, unless:

- the board of directors approves, prior to such date, either the proposed business combination or the proposed acquisition of stock which resulted in the shareholder becoming an interested shareholder;
- upon consummation of the transaction in which the shareholder becomes an interested shareholder, the interested shareholder acquires at least 85% of those shares of the voting stock of the corporation which are not held by the directors, officers or certain employee stock plans; or
- on or subsequent to the consummation date, the business combination with the interested shareholder is approved by the board of directors and also approved at a shareholders' meeting by the affirmative vote of the holders of at least two-thirds of the outstanding shares of the corporation's voting stock other than shares held by the interested shareholder.

Section 490.1110 defines business combination to include:

- a merger or consolidation involving the corporation and any interested shareholder;
- any sale, lease, exchange, mortgage, pledge, transfer, or other disposition of 10% or more of the assets of the corporation involving the interested shareholder;
- any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested shareholder;

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- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested shareholder; or

- any other transaction resulting in a financial benefit to the interested shareholder under Iowa law.

In general, an interested shareholder is any person beneficially owning 10% or more of the outstanding voting stock of the corporation and any person affiliated with or controlled by such person. Person means any individual, corporation, partnership, unincorporated association or other entity.

State Statutory Provisions

Section 490.1108A of the IBCA provides that in considering acquisition proposals, our directors may consider, in addition to the consideration of the effects of any action on stockholders, the effects on our employees, suppliers, creditors, customers and the communities in which we operate, as well as our long-term and short-term interests. Consideration of any or all community interest factors is not a violation of the business judgment rule, even if our directors reasonably determine that effects on a community or other factors outweigh the financial or other benefits to us or a stockholder or group of stockholders. Section 490.624A of the IBCA also includes authorization of poison pills which include, without limitation, terms and conditions of stock rights or options

Table of Contents

issued by a corporation that preclude or limit the exercise, transfer or receipt of stock rights by persons owning or offering to acquire a specified number or percentage of a corporation's outstanding shares.

The provisions of state law that we describe above could have the effect of delaying, deferring or preventing a change in control of the company if our board of directors determines that a change of control is not in our best interests, those of our stockholders and other constituencies. In addition, the regulatory restrictions on the acquisition of our securities may also deter attempts to effect, or prevent the consummation of, a change in control of the company.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

Table of Contents

DESCRIPTION OF DEPOSITARY SHARES

General Terms

We may elect to offer depositary shares representing receipts for fractional interests in preferred stock. In this case, we will issue receipts for depositary shares, each of which will represent a fraction of a share of a particular series of preferred stock, as the case may be.

We will deposit the shares of any series of preferred stock represented by depositary shares under a deposit agreement between us and a depositary which we will name in the applicable prospectus supplement. Subject to the terms of the deposit agreement, an owner of a depositary share will be entitled, in proportion to the applicable fraction of a share of preferred stock represented by the depositary share, to all the rights and preferences of the preferred stock represented by the depositary share, including, as the case may be, interest, dividend, voting, conversion, redemption, sinking fund, repayment at maturity, subscription and liquidation rights.

The following description of the terms of the deposit agreement is a summary. It summarizes only those terms of the deposit agreement that we believe will be most important to a decision to invest in our depositary shares. You should keep in mind, however, that it is the deposit agreement, and not this summary, which defines the rights of a holder of depositary shares. There may be other provisions in the deposit agreement that are also important to you. You should read the deposit agreement for a full description of the terms of the depositary shares. We will file a copy of the deposit agreement with the SEC at or before the time of the offering of the applicable series of depositary shares. This summary is subject to and qualified by reference to the description of the particular terms of your series of depositary shares described in the applicable prospectus supplement.

Interest, Dividends, and Other Distributions

The depositary will distribute all payments of interest, cash dividends or other cash distributions received on the preferred stock to record holders of depositary shares relating to the preferred stock in proportion to the number of depositary shares that they own.

In the event of a distribution other than in cash, the depositary will distribute property received by it to the appropriate record holders of depositary shares in an equitable manner, unless the depositary determines that it is not feasible to make a distribution. In that case the depositary may sell the property and distribute the net proceeds from the sale to such record holders.

Redemption of Depositary Shares

If we redeem a series of preferred stock represented by depositary shares, the depositary will redeem the depositary shares from the proceeds received by the depositary resulting from the redemption. The redemption price per depositary share will be equal to the applicable fraction of

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the redemption price per share of preferred stock payable in relation to the redeemed series of preferred stock. Whenever we redeem shares of preferred stock held by the depositary, the depositary will redeem as of the same redemption date the number of depositary shares representing the shares of preferred stock redeemed. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by lot, proportionately or by any other equitable method as the depositary may determine.

Voting the Preferred Stock

Upon receipt of notice of any meeting at which the holders of any series of deposited preference shares are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary shares relating to such preferred stock. Each record holder of the depositary shares on the record date will be entitled to instruct the depositary how to vote the amount of the preferred stock represented by that holder's depositary shares. The record date for the depositary shares will be the same date as the record date for preferred stock. The depositary will endeavor, to the extent practicable, to vote the amount of the preferred stock represented by the depositary shares in accordance with those instructions. We will agree to take all reasonable action which the

Table of Contents

depository may deem necessary to enable the depository to do so. The depository will abstain from giving instructions or directions with respect to the voting shares of the preferred stock if it does not receive specific instructions from the holder of depository shares representing the preferred stock.

Amendment and Termination of the Deposit Agreement

We and the depository may amend the form of depository receipt evidencing the depository shares and any provision of the deposit agreement at any time. However, any amendment which materially and adversely alters the rights of the holders of the depository shares will not be effective unless the amendment has been approved by the holders of at least a majority of the depository shares then outstanding. Every holder of an outstanding depository receipt at the time any amendment becomes effective, or any transferee of the holder, will be deemed, by continuing to hold the depository receipt, or by reason of the acquisition thereof, to consent and agree to the amendment and to be bound by the deposit agreement as amended thereby.

The deposit agreement will automatically terminate if:

- all outstanding depository shares have been redeemed,
- each share of preferred stock has been converted into other preference shares or has been exchanged for debt securities, or
- there has been a final distribution in respect of the preferred stock, including in connection with our liquidation, dissolution or winding-up, and the repayment, redemption or distribution proceeds, as the case may be, have been distributed.

Resignation and Removal of Depository

The depository may resign at any time by delivering to us notice of its election to do so. We also may, at any time, remove the depository. Any resignation or removal will take effect upon the appointment of a successor depository and its acceptance of such appointment. We must appoint the successor depository within 60 days after delivery of the notice of resignation or removal. The successor depository must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

Charges of Depository

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We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay all charges of the depositary in connection with the initial deposit of the preferred stock and issuance of depositary receipts, all withdrawals of shares of preferred stock by holders of depositary shares and any redemption of the preferred stock. Holders of depositary shares will pay other transfer and other taxes and governmental charges, as well as the other charges that are expressly provided in the deposit agreement to be for their account.

Miscellaneous

The depositary will forward all reports and communications from us which are delivered to the depositary and which we are required or otherwise determine to furnish to holders of preferred stock.

Neither we nor the depositary will be liable if we are or it is prevented or delayed by law or any circumstances beyond our or its control in performing any obligations under the deposit agreement. Our and its obligations under the deposit agreement will be limited to performance in good faith of our and its duties under the deposit agreement and neither we nor it will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares, depositary receipts or preference shares unless satisfactory indemnity is furnished. We and the depositary may rely upon written advice of counsel or accountants, or upon information provided by holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

Table of Contents

DESCRIPTION OF WARRANTS

We may issue warrants for the purchase of our debt securities, common stock, preferred stock, depositary shares or securities of third parties or other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing. We may issue warrants independently or together with other securities, and they may be attached to or separate from the other securities. Each series of warrants will be issued under a separate warrant agreement that we will enter into with a bank or trust company, as warrant agent, as detailed in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation, or agency or trust relationship, with the holders of the warrants. We will file a copy of the warrant and warrant agreement with the SEC each time we issue a series of warrants, and these warrants and warrant agreements will be incorporated by reference into the registration statement of which this prospectus is a part. A holder of our warrants should refer to the provisions of the applicable warrant agreement and prospectus supplement for more specific information.

The following description of the terms of the warrants is a summary. It summarizes only those terms of the warrants and the warrant agreement which we believe will be most important to your decision to invest in our warrants. You should keep in mind, however, that it is the warrant agreement and the warrant certificate relating to the warrants, and not this summary, which defines the rights of a warrant holder. There may be other provisions in the warrant agreement and the warrant certificate relating to the warrants which are also important to you. You should read these documents for a full description of the terms of the warrants. This summary is subject to and qualified by reference to the description of the particular terms of your series of warrants described in the applicable prospectus supplement.

Debt Warrants

We will describe in the applicable prospectus supplement the terms of warrants to purchase debt securities that we may offer, the warrant agreement relating to the debt warrants and the warrant certificates representing the debt warrants. These terms will include the following:

- the title of the debt warrants,

- the debt securities for which the debt warrants are exercisable,

- the aggregate number of the debt warrants,

- the principal amount of debt securities that may be purchased upon exercise of each debt warrant, and the price or prices at which we will issue the debt warrants,

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- the procedures and conditions relating to the exercise of the debt warrants,
- the designation and terms of any related debt securities issued with the debt warrants, and the number of debt warrants issued with each debt security,
- the date, if any, on and after which the debt warrants and the related securities will be separately transferable,
- the date on which the right to exercise the debt warrants commences, and the date on which the right will expire,
- the maximum or minimum number of the debt warrants that may be exercised at any time,
- whether the debt warrants are issued in registered or bearer form,
- information with respect to book entry procedures, if any,

Table of Contents

- if applicable, a discussion of material United States federal income tax considerations,
- any other terms of the debt warrants and terms, procedures and limitations relating to the exercise of the debt warrants, and
- the terms of the securities that may be purchased upon exercise of the debt warrants.

We will also describe in the applicable prospectus supplement any provisions for a change in the exercise price or expiration date of the warrants and the kind, frequency and timing of any notice to be given. Certificates representing debt warrants will be exchangeable for new debt warrant certificates of different denominations, and debt warrants may be exercised at the corporate trust office of the warrant agent or any other office that we indicate in the applicable prospectus supplement. Prior to exercise, holders of debt warrants will not have any of the rights of holders of the debt securities purchasable upon that exercise and will not be entitled to payments of principal, premium, if any, or interest on the debt securities purchasable upon the exercise.

Other Warrants

We may issue other warrants. We will describe in the applicable prospectus supplement the following terms of those warrants:

- the title of the warrants,
- the securities, which may include preferred stock or common stock, for which the warrants may be exercised,
- the aggregate number of the warrants,
- the number of securities that may be purchased upon exercise of each warrant, and the price or prices at which we will issue the warrants,
- the procedures and conditions relating to the exercise of the warrants,

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- the designation and terms of any related securities issued with the warrants, and the number of warrants issued with each security,
- the date, if any, on and after which the warrants and the related securities will be separately transferable,
- the date on which the right to exercise the warrants commences and the date on which the right will expire,
- the maximum or minimum number of warrants that may be exercised at any time,
- if applicable, a discussion of material United States federal income tax considerations, and
- any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

We will also describe in the applicable prospectus supplement any provisions for a change in the exercise price or the expiration date of the warrants and the kind, frequency and timing of any notice to be given. Certificates representing warrants will be exchangeable for new warrant certificates of different denominations, and warrants may be exercised at the corporate trust office of the warrant agent or any other office that we indicate in the applicable prospectus supplement. Prior to the exercise, the holder of warrants will not have any of the rights of holders of the preferred stock, common stock or other securities purchasable upon that exercise and will not be entitled to dividend payments, if any, or voting rights of the preferred stock, common stock or other securities purchasable upon the exercise.

Table of Contents

Exercise of Warrants

We will describe in the prospectus supplement relating to the warrants the principal amount or the number of our securities that may be purchased for cash upon exercise of a warrant, and the exercise price. Warrants may be exercised as described in the prospectus supplement relating to the warrants at any time up to the close of business on the expiration date stated in the prospectus supplement. Unexercised warrants will become void after the close of business on the expiration date.

We will forward the securities purchasable upon the exercise as soon as practicable after receipt of payment and the properly completed and executed warrant certificate at the corporate trust office of the warrant agent or other office stated in the applicable prospectus supplement. If less than all of the warrants represented by the warrant certificate are exercised, we will issue a new warrant certificate for the remaining warrants.

Enforcement

The holders of warrants, without the consent of the warrant agent, may, on their own behalf and for their own benefit enforce, and may substitute and maintain any suit, action, or proceeding against us to enforce these rights to exercise and receive the securities purchasable upon exchange of the warrants.

Table of Contents

DESCRIPTION OF TRUST PREFERRED SECURITIES AND TRUST GUARANTEES

This section describes the general terms and provisions of the trust preferred securities that may be offered by this prospectus. When the trusts offer to sell a particular series of the trust preferred securities, a prospectus supplement will describe the specific terms of the series. The prospectus supplement will also indicate whether the general terms described in this section apply to that particular series of trust preferred securities.

Specified terms and provisions of the trust preferred securities and related trust guarantees are described in this section. The summary is not complete and is qualified in its entirety by reference to all of the provisions of the declarations of trust, the trust preferred securities and the trust guarantees, including the definitions therein of certain items. Accordingly, we strongly encourage you to refer to the declarations, the trust preferred securities and the trust guarantees for a complete understanding of the terms and conditions applicable to the declarations, the trust preferred securities and the trust guarantees. You should read this description of the trust preferred securities and the declarations and the prospectus supplement relating to the applicable series of the trust preferred securities before you buy any trust preferred securities. The forms of amended and restated declarations of trust and forms of trust guarantees are filed as exhibits to the registration statement of which this prospectus is a part.

Trust Preferred Securities

Each declaration will authorize the trustees of each trust to issue on behalf of the trust one series of trust preferred securities and one series of trust common securities. We collectively refer to the trust preferred securities and the trust common securities as the trust securities. The trust preferred securities will be issued to the public pursuant to the registration statement of which this prospectus is a part, and the trust common securities will be issued directly or indirectly to us.

The trust preferred securities will have the terms, including dividends, redemption, voting, conversion, liquidation and other preferred, deferred or other special rights or restrictions as are described in the applicable declaration or made part of the declaration by the Trust Indenture Act.

Refer to the applicable prospectus supplement relating to the trust preferred securities of each trust for specific terms, including:

- the distinctive designation of trust preferred securities;

- the number of trust preferred securities issued by the trust;

- the annual distribution rate, or method of determining the rate, for trust preferred securities issued by the trust and the date or dates upon which the distributions will be payable and any right to defer payment thereof;

- whether distributions on trust preferred securities issued by the trust will be cumulative, and, in the case of trust preferred securities having cumulative distribution rights, the date or dates or method of determining the date or dates from which distributions on trust preferred securities issued by the trust will be cumulative;
- the amount or amounts which will be paid out of the assets of the trust to the trust preferred securities holders upon voluntary or involuntary dissolution, winding-up or termination of the trust;
- the terms and conditions, if any, upon which the related series of our debt securities may be distributed to trust preferred securities holders;
- the obligation, if any, of the trust to purchase or redeem trust preferred securities issued by the trust and the price or prices at which, the period or periods within which and the terms and conditions upon which trust preferred securities issued by the trust will be purchased or redeemed, in whole or in part, pursuant to the obligation;

Table of Contents

- the voting rights, if any, of trust preferred securities issued by the trust in addition to those required by law, including the number of votes per trust preferred security and any requirement for the approval by the trust preferred securities holders, as a condition to specified action or amendments to the applicable declaration;
- the rights, if any, to defer distributions on the trust preferred securities by extending the interest payment period on the related debt securities; and
- any other relevant rights, preferences, privileges, limitations or restrictions of trust preferred securities issued by the trust that are consistent with the applicable declaration or applicable law.

Pursuant to the declaration, the property trustee will own our debt securities purchased by the applicable trust for the benefit of the trust preferred securities holders and the trust common securities holders. The payment of dividends out of money held by the applicable trust, and payments upon redemption of trust preferred securities or liquidation of any trust, will be guaranteed by us to the extent described below under Trust Guarantees. The trust guarantees, when taken together with our obligations under such debt securities, the indenture under which such debt securities are issued and the applicable declaration, will provide a full, irrevocable and unconditional guarantee on a subordinated basis of payments due on the trust preferred securities, to the extent described below under Trust Guarantees. No single document standing alone or operating in conjunction with fewer than all of the other documents constitutes such guarantee. It is only the combined operation of these documents that has the effect of providing a full, irrevocable and unconditional guarantee of the trust's obligations under the trust preferred securities.

Specific United States federal income tax considerations applicable to an investment in trust preferred securities will be described in the applicable prospectus supplement.

In connection with the issuance of trust preferred securities, each trust will also issue one series of trust common securities. Each declaration will authorize the regular trustees of a trust to issue on behalf of the trust one series of trust common securities having the terms, including dividends, conversion, redemption, voting, liquidation rights or the restrictions described in the applicable declaration. Except as otherwise provided in the applicable prospectus supplement, the terms of the trust common securities issued by the trust will be substantially identical to the terms of the trust preferred securities issued by the trust, and the trust common securities will rank on equal terms with, and payments will be made on a ratable basis with, the trust preferred securities. However, upon an event of default under the applicable declaration, the rights of the holders of the trust common securities to payment in respect of dividends and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the trust preferred securities holders. Except in limited circumstances, the trust common securities will also carry the right to vote and appoint, remove or replace any of the trustees of the related trust. All of the trust common securities of each trust will be directly or indirectly owned by us.

The applicable prospectus supplement will describe whether we and/or certain of our subsidiaries maintain deposit accounts and conduct other banking transactions, including borrowings in the ordinary course of business, with the property trustee.

Modification of the Declaration. We are restricted in our ability to modify the declaration. The following is a summary of the provisions with respect to amendments to the declaration. No amendment to the declaration may be made:

- unless, in the case of any proposed amendment, the property trustee shall have first received an officers certificate from each of the trust and the sponsor that such amendment is permitted by, and conforms to, the terms of the declaration (including the terms of securities issued thereunder);

- unless, in the case of any proposed amendment which affects the rights, powers, duties, obligations or immunities of the property trustee, the property trustee shall have first received:

Table of Contents

- an officers certificate from each of the trust and the sponsor that such amendment is permitted by, and conforms to, the terms of this declaration (including the terms of securities issued thereunder); and

- an opinion of counsel (who may be counsel to the sponsor or the trust) that such amendment is permitted by, and conforms to, the terms of declaration (including the terms of securities issued thereunder); and

- to the extent the result of such amendment would be to:
 - cause the trust to fail to continue to be classified for purposes of United States federal income taxation as a grantor trust;
 - reduce or otherwise adversely affect the powers of the property trustee in contravention of the Trust Indenture Act; or
 - cause the trust to be deemed to be an investment company required to be registered under the Investment Company Act.

At such time after the trust has issued any securities that remain outstanding, any amendment that would adversely affect the rights, privileges or preferences of any holder of securities issued under the declaration may be effected only with such additional requirements as may be set forth in the terms of such securities.

The sections of the declaration governing the registration and transfer of securities issued under the trust by the regular trustees and modifications of the declaration shall not be amended without the consent of all of the holders of the securities issued under the declaration.

The provisions of the declaration governing the sponsor's purchase of trust common securities and the responsibilities of the sponsor under the declaration shall not be amended without the consent of the holders of a majority in liquidation preference of the trust common securities.

The rights of the holders of the trust common securities under the declaration to increase or decrease the number of, and appoint and remove trustees shall not be amended without the consent of the holders of a majority in liquidation preference of the trust common securities.

The declaration may be amended without the consent of the holders of the securities issued under the declaration to:

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- cure any ambiguity;
- correct or supplement any provision in the declaration that may be defective or inconsistent with any other provision of this declaration;
- add to the covenants, restrictions or obligations of the sponsor;
- conform to any change in Rule 3a-5 under the Exchange Act or written change in interpretation or application of Rule 3a-5 by any legislative body, court, government agency or regulatory authority which amendment does not have a material adverse effect on the rights, preferences or privileges of the holders of securities issued under the declaration; and
- cause the trust to continue to be classified for United States federal income tax purposes as a grantor trust.

Enforcement of Certain Rights by Holders of Preferred Securities. If an event of default occurs, and is continuing, under the declaration of either trust, the holders of the preferred securities of that trust would typically rely on the property trustee to enforce its rights as a holder of the related debt securities against us. Additionally, those who together hold a majority of the liquidation amount of the trust's preferred securities will have the right to:

Table of Contents

- direct the time, method and place of conducting any proceeding for any remedy available to the property trustee; or
- direct the exercise of any trust or power conferred upon the property trustee under the declaration, including the right to direct the property trustee to exercise the remedies available to it as a holder of our debt securities.

If the property trustee fails to enforce its rights under the applicable series of debt securities, a holder of trust preferred securities of such trust may, after a period of 30 days has elapsed from such holder's written request to the property trustee to enforce such rights, institute a legal proceeding directly against us to enforce the property trustee's rights under the applicable series of debt securities without first instituting any legal proceeding against the property trustee or any other person or entity.

Notwithstanding the foregoing, if an event of default occurs and the event is attributable to our failure to make any payment on the debt securities when due, a preferred securities holder of the trust may directly institute a proceeding for the enforcement of this payment.

Trust Guarantees

General. We will irrevocably and unconditionally agree, to the extent described in the trust guarantees, to pay in full, to the trust preferred securities holders of each trust, the trust guarantee payments (as defined below), except to the extent paid by the trust, as and when due, regardless of any defense, right of set-off or counterclaim which the trust may have or assert. Our obligation to make a trust guarantee payment may be satisfied by direct payment of the required amounts by us to the trust preferred securities holders or by causing the applicable trust to pay the required amounts to the holders.

The following payments regarding the trust preferred securities, which we refer to as the trust guarantee payments, to the extent not paid by the applicable trust, will be subject to the trust guarantees, without duplication:

- any accrued and unpaid distributions which are required to be paid on the trust preferred securities, to the extent the trust has funds available to make these payments;
- the redemption price payable out of available funds, with respect to any trust preferred securities called for redemption by the trust, to the extent the trust has funds available to make that payment; and
- upon a liquidation of the trust, other than in connection with the distribution of our debt securities to the trust preferred securities holders, the lesser of (i) the aggregate of the liquidation preference and all accrued and unpaid distributions on the trust preferred securities to the date of payment, to the extent the trust has funds available to make that payment; and (ii) the amount of assets of the trust remaining available

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for distribution to the holders of the trust preferred securities upon liquidation of the trust.

Subordination. Our obligation under each guarantee to make the guarantee payments will be an unsecured obligation of us and will rank:

- subordinate and junior in right of payment to all of our other liabilities, except those obligations or liabilities ranking equal to or subordinate to the guarantees by their terms;
- equally with the most senior preferred or preference stock now or hereafter issued by us and with any guarantee now or hereafter entered into by us in respect of any preferred or preference stock of any of our affiliates; and
- senior to all of our common stock.

If subordinated debt securities are issued to the applicable trust, the terms of the trust preferred securities will provide that each holder of trust preferred securities by accepting the trust preferred securities agrees to the subordination provisions and other terms of the guarantee related to subordination.

Table of Contents

Each guarantee will be unsecured and, because we are principally a holding company, will be effectively subordinated to all existing and future liabilities of our subsidiaries, including liabilities under contracts of insurance and annuities written by our insurance subsidiaries. The guarantee does not limit the incurrence or issuance of other secured or unsecured debt by us.

Covenants of American Equity. In each trust guarantee, we will covenant that, so long as any trust preferred securities issued by the trust remain outstanding, and if (i) we will have exercised our right to defer interest payments on the debt securities and such extension shall be continuing, (ii) we shall be in default with respect to our payment or under obligations under the trust guarantee, or (iii) there will have occurred and be continuing any event that, with the giving of notice or lapse of time or both, would constitute an event of default under the indenture, we will not do any of the following:

- declare or pay any dividend on, make any distributions regarding, or redeem, purchase or acquire or >
5,212 \$ \$6,880

Table of Contents

The effect of derivative instruments on our Consolidated Statements of Operations for the three and nine-month periods ended September 30, 2010 and 2009 was as follows (in thousands):

	Amount of Gain/(Loss) Recognized in OCI (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in Cash Flow Hedging Relationships					
Three Months Ended September 30, 2010					
Interest Rate Swap Contracts		Floorplan		Floorplan	
	\$ (1,132)	Interest expense	\$ (692)	Interest expense	\$ (903)

Three Months Ended September 30, 2009					
Interest Rate Swap Contracts		Floorplan		Floorplan	
	\$ (2,018)	Interest expense	\$ (1,020)	Interest expense	\$ (76)

	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Derivatives Not Designated as Hedging Instruments		
Three Months Ended September 30, 2010		
Interest Rate Swap Contracts	Floorplan	
	interest expense	\$
Three Months Ended September 30, 2009		
Interest Rate Swap Contracts	Floorplan	
	interest expense	\$

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCI into	Amount of Gain/(Loss) Reclassified from Accumulated	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
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	Portion)	Income (Effective Portion)	OCI into Income (Effective Portion)	Portion and Amount Excluded from Effectiveness Testing)	Portion and Amount Excluded from Effectiveness Testing)
Nine Months Ended September 30, 2010					
Interest Rate Swap Contracts		Floorplan		Floorplan	
	\$ (5,164)	Interest expense	\$ (2,216)	Interest expense	\$ (1,390)
Nine Months Ended September 30, 2009					
Interest Rate Swap Contracts		Floorplan		Floorplan	
	\$ (748)	Interest expense	\$ (2,937)	Interest expense	\$ 320

Table of Contents

	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Derivatives Not Designated as Hedging Instruments		
Nine Months Ended September 30, 2010		
Interest Rate Swap Contracts	Floorplan interest expense	\$
Nine Months Ended September 30, 2009		
Interest Rate Swap Contracts	Floorplan interest expense	\$ (6)

See also Notes 5 and 12.

Note 12. Fair Value Measurements

We adopted the provisions of Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements on January 1, 2010. The adoption requires disclosures about recurring and non-recurring fair value measurements, including transfers into and out of Level 1 and Level 2 fair value measurement categories. Clarification was also provided on the amount of disaggregation, inputs and valuation techniques required.

Additionally, information about purchases, sales, issuances and settlements on a gross basis will be required for Level 3 fair value measurements in interim and year-end periods ending after December 15, 2010. Since this pertains only to footnote disclosure, we do not believe it will have a material impact on our financial position or results of operations.

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

Level 1 quoted prices in active markets for identical securities;

Level 2 other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.; and

Level 3 significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing financial assets and liabilities are not necessarily an indication of the risk associated with investing in them.

We use the income approach to determine the fair value of our interest rate swaps using observable Level 2 market expectations at measurement date and an income approach to convert estimated future cash flows to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the swap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs, including the cash rates for very short term, futures rates for up to two years and LIBOR swap rates beyond the derivative maturity are used to predict future reset rates to discount those future cash flows to present value at

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measurement date. Inputs are collected from Bloomberg on the last market day of the period. The same methodology is used to determine the rate used to discount the future cash flows. The valuation of the interest rate swaps also takes into consideration our own, as well as the counterparty's, risk of non-performance under the contract. See also Note 11.

Table of Contents

We estimate the fair value of our assets held for sale and liabilities related to assets held for sale based on a market valuation approach, which uses prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets or liabilities, as well as our historical experience in divestitures, acquisitions and real estate transactions. When available, we use inputs from independent valuation experts, such as brokers and real estate appraisers, to corroborate our internal estimates. As these valuations contain unobservable inputs, we classified the assets held for sale and liabilities related to assets held for sale as Level 3.

We estimate the fair value of long-lived assets that are recorded at fair value based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets or liabilities, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value. Real estate appraisers' and brokers' valuations are typically developed using one or more valuation techniques including market, income and replacement cost approaches. As these valuations contain unobservable inputs, we classified the long-lived assets as Level 3.

There were no changes to our valuation techniques during the nine-month period ended September 30, 2010.

There were no non-financial assets and liabilities measured at fair value at September 30, 2010, other than the option to purchase two of our stores provided to one of our executives in 2009, the value of which is estimated to be insignificant at September 30, 2010, based on the current and future expected performance of these stores (Level 3 input). The following table summarizes our non-financial assets and liabilities measured at fair value at December 31, 2009 (in thousands):

	December 31, 2009	
	Fair Value	Input Level
Assets held for sale	\$ 11,693	Level 3
Liabilities related to assets held for sale	5,050	Level 3
Franchise value	1,691	Level 3
Long-lived assets	52,419	Level 3

The following tables summarize valuation adjustments recorded in our Consolidated Statements of Operations on non-financial assets measured and recorded at fair value on a non-recurring basis for the three-month period ended September 30, 2009 and the nine-month periods ended September 30, 2010 and 2009 (in thousands):

There were no valuation adjustments recorded for the three-month period ended September 30, 2010.

Three Months Ended September 30, 2009	Fair Value Measurement Using			Gain/(Loss)
	Level 1	Level 2	Level 3	
Assets held for sale	\$	\$	\$ 124,845	\$ (2,633)

Table of Contents

Valuation adjustments recorded in the three-months ended September 30, 2009 for assets held for sale totaled \$2.6 million. \$2.0 million was included as a component of asset impairment charges and \$0.6 million was included as a component of income (loss) from discontinued operations, net of tax, in our Consolidated Statements of Operations. See also Note 14.

Nine Months Ended September 30, 2010	Fair Value Measurement Using			Gain/(Loss)
	Level 1	Level 2	Level 3	
Long-lived assets held and used:				
Building and improvements	\$	\$	\$ 23,559	\$ (8,573)
Land	\$	\$	\$ 13,499	\$ (6,178)

Nine Months Ended September 30, 2009	Fair Value Measurement Using			Gain/(Loss)
	Level 1	Level 2	Level 3	
Assets held for sale	\$	\$	\$ 124,845	\$ (8,729)

Valuation adjustments recorded in the nine-months ended September 30, 2009 for assets held for sale totaled \$8.7 million. Of this amount, \$7.2 million was included as a component of asset impairment charges and \$1.5 million was included as a component of income (loss) from discontinued operations, net of tax, in our Consolidated Statements of Operations. See also Note 14.

We had \$147.4 million and \$162.4 million of long-term fixed interest rate debt outstanding as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010, this debt had maturity dates between November 2011 and October 2029. We calculate the estimated fair value of our fixed rate debt using a discounted cash flow methodology. Using estimated current interest rates based on a similar risk profile and duration, the fixed cash flows are discounted and summed to compute the fair value of the debt. Based on this analysis, we have determined that the fair value of this long-term fixed interest rate debt was approximately \$160.5 million and \$166.8 million at September 30, 2010 and December 31, 2009, respectively. We believe the carrying value of our variable rate debt approximates fair value.

Note 13. Acquisitions

On July 19, 2010, we acquired the inventory, equipment, intangible assets and certain reserves related to Honda of Bend and agreed to the transfer of Chevrolet and Cadillac brands from Bob Thomas Chevrolet Cadillac, both located in Bend, Oregon. On August 9, 2010, we acquired the inventory, equipment, real estate, intangible assets and certain reserves related to Toyota of Billings from Prestige Toyota, located in Billings, Montana. Consideration paid for acquisitions totaled \$25.5 million, of which \$23.7 million was paid in cash and \$1.8 million was financed through a floorplan credit facility. The fair values of assets acquired and liabilities assumed are not material to our Consolidated Balance Sheets. The results of operations of the acquired stores are included in our Consolidated Financial Statements from the date of acquisition.

Note 14. Discontinued Operations

We perform an internal evaluation of our store performance, on a store-by-store basis, in the last month of each quarter. If a store does not meet certain return on investment criteria established by our management team, the location is included on a watch list and is considered for potential disposition. Factors we consider in reaching the conclusion to dispose of a store include: (i) operating results of the store over a predetermined period of time subsequent to placing the store on the watch list, including prospects for improved financial performance; (ii) extent of capital improvements and commitments thereto necessary to optimize operational efficiencies and marketability of the associated franchise; (iii) outlook as to the economic prospects for the local market and viability of the franchise within that market; and (iv) geographic location and franchise mix of our portfolio.

Table of Contents

Once we have reached a decision to dispose of a store, we evaluate the following criteria as required by U.S. generally accepted accounting standards:

our management team, possessing the necessary authority, commits to a plan to sell the store;

the store is available for immediate sale in its present condition;

an active program to locate buyers and other actions that are required to sell the store are initiated;

a market for the store exists and we believe its sale is likely. We also expect to record the transfer of the store as a completed sale within one year;

active marketing of the store commences at a price that is reasonable in relation to the estimated fair market value; and

our management team believes it is unlikely that changes will be made to the plan or to withdraw the plan to dispose of the store. If we determine the above criteria have been met, we classify the store assets to be disposed of, and liabilities directly associated with those assets, as held for sale in our Consolidated Balance Sheets.

We reclassify the store's operations to discontinued operations in our Consolidated Statements of Operations, on a comparable basis for all periods presented, provided we do not expect to have any significant continuing involvement in the store's operations after its disposal.

At December 31, 2009, two operating stores and three properties were classified as held for sale. Both operating stores were under contract to sell, and, based on our evaluation, we believe the locations met the criteria to be classified as held for sale at that time. Based on subsequent negotiations with the buyer in the first quarter of 2010, management concluded that it was no longer probable that the sale of these stores would be effected, resulting in the determination that these two operating stores no longer met all of the criteria for classification as held for sale at March 31, 2010. Therefore, in the first quarter of 2010, assets and related liabilities associated with two stores were reclassified from assets held for sale to held and used. Their associated results of operations were retrospectively reclassified from discontinued operations to continuing operations for all periods presented.

In the second quarter of 2010, we classified the operating results of Fresno Dodge, which was sold during the quarter, as discontinued operations. Additionally, one of the properties classified as held for sale as of December 31, 2009 was sold. Management evaluated the remaining two properties to determine if classification remained appropriate. Based on new facts and circumstances previously considered unlikely, management no longer believes the sales are probable. As a result the properties were reclassified to assets held and used in June 2010.

As of September 30, 2010 and December 31, 2009, we had no assets classified and two stores and three properties classified, respectively, as held for sale. Assets held for sale included the following (in thousands):

	September 30, 2010	December 31, 2009
Inventories	\$	\$ 8,098
Property, plant and equipment		3,572
Intangible assets		23
	\$	\$ 11,693

Table of Contents

Liabilities related to assets held for sale included the following (in thousands):

	September 30, 2010	December 31, 2009
Floorplan notes payable	\$	\$ 2,888
Real estate debt		2,162
	\$	\$ 5,050

Certain financial information related to discontinued operations was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	\$	\$ 13,601	\$ 6,002	\$ 88,549
Pre-tax loss from discontinued operations	\$	\$ (1,514)	\$ (341)	\$ (5,202)
Gain (loss) on disposal activities		(799)	(294)	8,313
		(2,313)	(635)	3,111
Income tax benefit (expense)		1,051	254	(1,136)
Income (loss) from discontinued operations, net of income tax benefit	\$	\$ (1,262)	\$ (381)	\$ 1,975
Amount of goodwill and other intangible assets disposed of	\$	\$	\$	\$ 1,037
Cash generated from disposal activities	\$	\$ 4,556	\$ 941	\$ 26,607

The gain (loss) on disposal activities included the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Goodwill and other intangible assets	\$	\$ 261	\$	\$ 11,259
Property, plant and equipment		(108)	(210)	(1,230)
Inventory		(414)		945
Other		(538)	(84)	(2,661)
	\$	\$ (799)	\$ (294)	\$ 8,313

Interest expense is allocated to stores classified as discontinued operations for actual flooring interest expense directly related to the new vehicles in the store. Interest expense related to our working capital, acquisition and used vehicle credit facility is allocated based on the amount of assets pledged towards the total borrowing base. Interest expense included as a component of discontinued operations was as follows (in thousands):

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	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Flooring interest	\$	\$ 40	\$ 51	\$ 408
Other interest		552	69	1,949
Total interest	\$	\$ 592	\$ 120	\$ 2,357

Note 15. Self-Insured Medical Plan Coverage

In the first quarter of 2010, we modified our employee medical insurance plan coverage. Effective with the plan year starting January 1, 2010, we changed employee coverage from a fully insured plan to a self-insured plan, except for a population of employees in select California dealerships that remain on a fully insured plan. We carry specific stop-loss coverage insurance in the event a large claim is made under the plan. We estimate the cost to provide medical benefits for existing claims, including claims incurred but not reported, based primarily on an analysis of our historical claims experience, the design of the plan and expectations of medical cost growth factors. We monitor actual claims activity and related costs on a regular basis and evaluate their impact on our assumptions. Any changes to assumptions, including actual claims experience and medical cost factors, may result in the recognition of additional charges, which could have a material adverse impact on our financial position and results of operations.

Table of Contents

At September 30, 2010, the self-insured medical plan reserve, net of payments made in the period, totaled \$1.1 million, and was included in accrued liabilities on our Consolidated Balance Sheets.

Note 16. Severance Reserve

In the second quarter of 2010, we entered into an agreement with Jeffrey DeBoer, Senior Vice President and Chief Financial Officer, stipulating a one-time cash payment associated with the acceptance of his resignation no later than October 31, 2010. Under the terms of the agreement, we will also provide out-placement consulting services for a maximum of two years, the option to purchase two vehicles leased from us and a pro-rated portion of his variable compensation. Mr. DeBoer also will provide his services as a consultant for up to two years.

As a result of this agreement, we recorded a reserve totaling \$0.7 million in the second quarter of 2010 as a component of Selling, General and Administrative expense on our Consolidated Statements of Operations. No amounts had been paid as of September 30, 2010.

Note 17. Share Repurchases

In June 2000, our Board of Directors authorized the repurchase of up to 1,000,000 shares of our Class A common stock. Through September 30, 2010, we have purchased a total of 580,624 shares under this program, 100,893 of which were purchased in 2010 for an average price of \$7.88 per share. As of September 30, 2010, 419,376 shares remained available for purchase pursuant to this program. We may continue to repurchase shares from time to time in the future as conditions warrant.

Note 18. Subsequent Event

Common Stock Dividend

On October 27, 2010, we announced that our Board of Directors approved a dividend of \$0.05 per share on our Class A and Class B common stock for the third quarter of 2010. The dividend will total approximately \$1.3 million and will be paid on November 26, 2010 to shareholders of record on November 12, 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations **Forward Looking Statements and Risk Factors**

Some of the statements under the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" and elsewhere in this Form 10-Q constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, you can identify forward-looking statements by terms such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential, and continue or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. Some of the important factors that could cause actual results to differ from our expectations are discussed in Part II - Other Information, Item 1A. in this Form 10-Q and in the Risk Factors section of our Annual Report on Form 10-K, as supplemented and amended from time to time in Quarterly Reports on Form 10-Q and the Company's other filings with the SEC.

While we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. Any forward-looking statement speaks

only as of the date on which it is made. The Company assumes no obligation to update or revise any forward-looking statements.

Table of Contents**Overview**

We are a leading operator of automotive franchises and retailer of new and used vehicles and services. As of October 29, 2010, we offered 26 brands of new vehicles and all brands of used vehicles in 85 stores in the United States and online at Lithia.com. We sell new and used cars and light trucks, replacement parts, provide vehicle maintenance, warranty, paint and repair services and arrange related financing, service contracts, protection products and credit insurance.

Over the past two years, we have restructured our operations to align our costs with current industry vehicle sales levels. We believe that we are well positioned to benefit from an increase in new vehicle sales above current levels. We believe the actions we have taken over the past two years demonstrate the resiliency of our Company. However, no assurances can be given that industry sales will not experience a further decline, or that our restructuring plan was sufficient to meet our operating objectives in a declining market.

We continue to believe that the fragmented nature of the automotive retailing sector provides us with the opportunity to achieve growth through consolidation. We have completed over 100 acquisitions since our initial public offering in 1996. Our acquisition strategy has been to acquire underperforming stores and, through the application of our centralized operating structure, improve store profitability. We believe the current economic environment provides us with attractive acquisition opportunities.

Results of Continuing Operations

The results of operations of stores classified as discontinued operations have been presented on a comparable basis for all periods presented in the accompanying consolidated statements of operations. The following tables set forth the changes in our operating results from continuing operations in the three and nine-month periods ended September 30, 2010 compared to the three- and nine-month periods ended September 30, 2009:

(Dollars in thousands)	Three Months Ended September 30,		Increase (Decrease)	%
	2010	2009		
Revenues:				
New vehicle	\$ 293,237	\$ 266,769	\$ 26,468	9.9%
Used vehicle retail	158,798	129,857	28,941	22.3
Used vehicle wholesale	30,869	20,223	10,646	52.6
Finance and insurance	18,928	15,704	3,224	20.5
Service, body and parts	77,733	74,538	3,195	4.3
Fleet and other	3,122	895	2,227	248.8
Total revenues	582,687	507,986	74,701	14.7
Cost of sales:				
New vehicle	269,018	242,963	26,055	10.7
Used vehicle retail	135,533	110,115	25,418	23.1
Used vehicle wholesale	30,835	20,207	10,628	52.6
Service, body and parts	39,673	38,611	1,062	2.8
Fleet and other	2,684	597	2,087	349.6
Total cost of sales	477,743	412,493	65,250	15.8
Gross profit	104,944	95,493	9,451	9.9
Asset impairment charges		1,967	(1,967)	(100.0)
Selling, general and administrative	77,468	71,557	5,911	8.3
Depreciation and amortization	4,238	3,883	355	9.1
Operating income	23,238	18,086	5,152	28.5

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Floorplan interest expense	(3,085)	(3,053)	32	1.0
Other interest expense	(3,725)	(3,291)	434	13.2
Other income, net	73	25	48	192.0
Income from continuing operations before taxes	16,501	11,767	4,734	40.2
Income tax expense	(6,709)	(4,792)	1,917	40.0
Income from continuing operations	\$ 9,792	\$ 6,975	\$ 2,817	40.4

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30,		Increase (Decrease)	% Increase (Decrease)
	2010	2009		
Revenues:				
New vehicle	\$ 777,575	\$ 670,835	\$ 106,740	15.9%
Used vehicle retail	441,533	365,202	76,331	20.9
Used vehicle wholesale	79,904	54,487	25,417	46.6
Finance and insurance	49,840	44,098	5,742	13.0
Service, body and parts	218,526	219,807	(1,281)	(0.6)
Fleet and other	8,629	2,090	6,539	312.9
Total revenues	1,576,007	1,356,519	219,488	16.2
Cost of sales:				
New vehicle	712,857	612,942	99,915	16.3
Used vehicle retail	378,427	313,465	64,962	20.7
Used vehicle wholesale	79,198	54,071	25,127	46.5
Service, body and parts	111,541	113,900	(2,359)	(2.1)
Fleet and other	7,392	1,078	6,314	585.7
Total cost of sales	1,289,415	1,095,456	193,959	17.7
Gross profit	286,592	261,063	25,529	9.8
Asset impairment charges	14,751	7,164	7,587	105.9
Selling, general and administrative	223,320	209,469	13,851	6.6
Depreciation and amortization	13,389	11,943	1,446	12.1
Operating income	35,132	32,487	2,645	8.1
Floorplan interest expense	(8,403)	(8,628)	(225)	(2.6)
Other interest expense	(10,842)	(10,639)	203	1.9
Other income, net	356	1,447	(1,091)	(75.4)
Income from continuing operations before taxes	16,243	14,667	1,576	10.7
Income tax expense	(6,522)	(5,937)	585	9.9
Income from continuing operations	\$ 9,721	\$ 8,730	\$ 991	11.4

Certain key performance metrics used to manage our business were as follows for the three- and nine-month periods ended September 30, 2010 and 2009:

	Percent of Total Revenues	Gross Margin	Percent of Total Gross Profit
Three Months Ended September 30, 2010			
New vehicle	50.3%	8.3%	23.1%
Used vehicle retail	27.3	14.7	22.2
Used vehicle wholesale	5.4	0.1	0.0
Finance and insurance ⁽¹⁾	3.2	100.0	18.0
Service, body and parts	13.3	49.0	36.3
Fleet and other	0.5	14.0	0.4

Three Months Ended September 30, 2009

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	Percent of Total Revenues	Gross Margin	Percent of Total Gross Profit
New vehicle	52.5%	8.9%	24.9%
Used vehicle retail	25.6	15.2	20.7
Used vehicle wholesale	3.9	0.1	0.1
Finance and insurance ⁽¹⁾	3.1	100.0	16.4
Service, body and parts	14.7	48.2	37.6
Fleet and other	0.2	33.3	0.3

	Percent of Total Revenues	Gross Margin	Percent of Total Gross Profit
Nine Months Ended September 30, 2010			
New vehicle	49.3%	8.3%	22.6%
Used vehicle retail	28.0	14.3	22.0
Used vehicle wholesale	5.1	0.9	0.3
Finance and insurance ⁽¹⁾	3.2	100.0	17.4
Service, body and parts	13.9	49.0	37.3
Fleet and other	0.5	14.3	0.4

	Percent of Total Revenues	Gross Margin	Percent of Total Gross Profit
Nine Months Ended September 30, 2009			
New vehicle	49.5%	8.6%	22.2%
Used vehicle retail	26.9	14.2	19.8
Used vehicle wholesale	3.9	0.8	0.1
Finance and insurance ⁽¹⁾	3.3	100.0	16.9
Service, body and parts	16.2	48.2	40.6
Fleet and other	0.2	48.4	0.4

(1) Commissions reported net of anticipated cancellations.

Table of Contents

Same-store sales percentage increases (decreases) were as follows:

	Three months ended September 30, 2010 vs. three months ended September 30, 2009
New vehicle retail, excluding fleet	8.0%
Used vehicle retail	19.8
Used vehicle wholesale	51.8
Total vehicle sales, excluding fleet	13.8
Finance and insurance	18.8
Service, body and parts	2.5
Total sales, excluding fleet	12.2

	Nine months ended September 30, 2010 vs. nine months ended September 30, 2009
New vehicle retail, excluding fleet	14.8%
Used vehicle retail	18.8
Used vehicle wholesale	45.4
Total vehicle sales, excluding fleet	17.7
Finance and insurance	11.5
Service, body and parts	(1.2)
Total sales, excluding fleet	14.4

Same-store sales are calculated for stores that were in operation as of September 30, 2010, and only include the months of operations for both comparable periods. For example, a store acquired in March 2009 would be included in same store operating data beginning in April 2010, after its first complete comparable month of operations. Thus, operating results for same store comparisons would include only the periods of April through December of both comparable years.

Certain other financial information was as follows:

	Three Months Ended September 30,	
	2010	2009
Total gross margin	18.0%	18.8%
Selling, general and administrative expenses as a % of gross profit	73.8	74.9
Operating margin	4.0	3.6
Pre-tax margin	2.8	2.3
	Nine Months Ended September 30,	
	2010	2009
Total gross margin	18.2%	19.2%

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Selling, general and administrative expenses as a % of gross profit	77.9	80.2
Operating margin	2.2	2.4
Pre-tax margin	1.0	1.1

Table of Contents**Results of Operations**

For the three months ended September 30, 2010, we realized a reported net income of \$9.8 million, or \$0.37 per diluted share. For the three months ended September 30, 2009, we realized a reported net income of \$5.7 million, or \$0.27 per diluted share.

For the nine months ended September 30, 2010, we realized a reported net income of \$9.3 million, or \$0.36 per diluted share. For the nine months ended September 30, 2009, we realized a reported net income of \$10.7 million, or \$0.51 per diluted share.

Non-GAAP Financial Measures

Due to the non-core nature of certain non-cash charges related to asset impairments, lease termination and severance reserves, disposal gains and gains on extinguishment of debt, we are providing our results of operations excluding these items. We believe that each of the non-GAAP financial measures provided improves the transparency of our disclosure, by presenting our results that exclude the impact of these items that affect the period-to-period comparability of our core operations. These presentations are not intended to provide selling, general and administrative costs, operating income, income from continuing operations before taxes or net income in accordance with GAAP and should not be considered an alternative to GAAP measures

The following table reconciles certain reported GAAP amounts per the Consolidated Statements of Operations to the comparable non-GAAP income (loss) amounts (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Selling, General and Administrative				
As reported	\$ 77,468	\$ 71,557	\$ 223,320	\$ 209,469
Disposal gain (loss)		(393)	365	(956)
Lease termination and severance reserves			(1,334)	
Adjusted	\$ 77,468	\$ 71,164	\$ 222,351	\$ 208,513
As a % of revenue				
As reported	13.3%	14.1	14.2%	15.4%
Adjusted	13.3	14.0	14.1	15.4
As a % of gross profit				
As reported	73.8%	74.9%	77.9%	80.2%
Adjusted	73.8	74.5	77.6	79.9
Operating Income				
As reported	\$ 23,238	\$ 18,086	\$ 35,132	\$ 32,487
Asset impairments and disposal gains, net		2,360	14,451	8,120
Lease termination and severance reserves			1,334	
Adjusted	\$ 23,238	\$ 20,446	\$ 50,917	\$ 40,607
As a % of revenue				
As reported	4.0%	3.6%	2.2%	2.4%
Adjusted	4.0	4.0	3.2	3.0

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
Income from Continuing Operations Before Income Taxes				
As reported	\$ 16,501	\$ 11,767	\$ 16,243	\$ 14,667
Asset impairments and disposal gains, net		2,360	14,451	8,120
Lease termination and severance reserves			1,334	
Gain on extinguishment of debt				(1,317)
Adjusted	\$ 16,501	\$ 14,127	\$ 32,028	\$ 21,470
As a % of revenue				
As reported	2.8%	2.3%	1.0%	1.1%
Adjusted	2.8	2.8	2.0	1.6
Three Months Ended September 30,				
Diluted income (loss)				
per share				
Income (loss)				
	2010	2009	2010	2009
Continuing Operations				
As reported	\$ 9,792	\$ 6,975	\$ 0.37	\$ 0.33
Asset impairments and disposal gains, net		1,571		0.07
Adjusted	\$ 9,792	\$ 8,546	\$ 0.37	\$ 0.40
Discontinued Operations				
As reported	\$	\$ (1,262)	\$	\$ (0.06)
Impairments and disposal loss, net		306		0.01
Adjusted	\$	\$ (956)	\$	\$ (0.05)
Consolidated Operations				
As reported	\$ 9,792	\$ 5,713	\$ 0.37	\$ 0.27
Adjusted	\$ 9,792	\$ 7,590	\$ 0.37	\$ 0.35
Nine Months Ended September 30,				
Diluted income (loss)				
per share				
Income (loss)				
	2010	2009	2010	2009
Continuing Operations				
As reported	\$ 9,721	\$ 8,730	\$ 0.37	\$ 0.42
Asset impairments and disposal gains, net	8,777	5,002	0.34	0.24
Lease termination and severance reserves	725		0.03	
Gain on extinguishment of debt		(812)		(0.04)
Adjusted	\$ 19,223	\$ 12,920	\$ 0.74	\$ 0.62
Discontinued Operations				
As reported	\$ (381)	\$ 1,975	\$ (0.01)	\$ 0.09
Impairments and disposal (gain) loss, net	173	(5,115)		(0.24)
Adjusted	\$ (208)	\$ (3,140)	\$ (0.01)	\$ (0.15)
Consolidated Operations				
As reported	\$ 9,340	\$ 10,705	\$ 0.36	\$ 0.51

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Adjusted	\$ 19,015	\$ 9,780	\$ 0.73	\$ 0.47
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Table of Contents*New Vehicle Revenues*

(Dollars in thousands)	Three Months Ended September 30,		Increase (Decrease)	% Increase (Decrease)
	2010	2009		
Revenue	\$ 293,237	\$ 266,769	\$ 26,468	9.9%
Retail units sold	9,232	9,278	(46)	(0.5)
Average selling price per retail unit	\$ 31,763	\$ 28,753	\$ 3,010	10.5

(Dollars in thousands)	Nine Months Ended September 30,		Increase	% Increase
	2010	2009		
Revenue	\$ 777,575	\$ 670,835	\$ 106,740	15.9%
Retail units sold	24,794	22,779	2,015	8.8
Average selling price per retail unit	\$ 31,361	\$ 29,450	\$ 1,911	6.5

New vehicle sales have been at historic lows over the past two years, driven by weak consumer confidence and a lack of available credit. The third quarter of 2010 continued to indicate a transition to a slow recovery. The three months ended September 30, 2010 recovered slower than the first and second quarters of 2010, primarily due to the difficult comparison to the prior year as a result of the Cash for Clunkers program, which provided government sponsored rebates for consumers who elected to purchase a new vehicle with improved fuel economy. We believe that the new vehicle market has stabilized and will continue a slow recovery through the end of 2010.

Used Vehicle Revenues

(Dollars in thousands)	Three Months Ended September 30,		Increase (Decrease)	% Increase (Decrease)
	2010	2009		
Retail revenue	\$ 158,798	\$ 129,857	\$ 28,941	22.3%
Retail units sold	9,705	8,000	1,705	21.3
Average selling price per retail unit	\$ 16,362	\$ 16,232	\$ 130	0.8
Wholesale revenue	\$ 30,869	\$ 20,223	\$ 10,646	52.6
Wholesale units sold	4,066	4,178	(112)	(2.7)
Average selling price per wholesale unit	\$ 7,592	\$ 4,840	\$ 2,752	56.9

(Dollars in thousands)	Nine Months Ended September 30,		Increase	% Increase
	2010	2009		
Retail revenue	\$ 441,533	\$ 365,202	\$ 76,331	20.9%
Retail units sold	26,583	22,879	3,704	16.2
Average selling price per retail unit	\$ 16,610	\$ 15,962	\$ 648	4.1
Wholesale revenue	\$ 79,904	\$ 54,487	\$ 25,417	46.6
Wholesale units sold	10,657	10,457	200	1.9
Average selling price per wholesale unit	\$ 7,498	\$ 5,211	\$ 2,287	43.9

Used vehicle retail unit sales have increased as consumers opt to purchase used vehicles instead of new vehicles, and as we increase the number of lower-price, higher-margin older used vehicles we sell. Average selling prices per retail unit have increased due to fewer late model used Cash for Clunkers on the market, reducing supply and increasing the price of these vehicles, which more than offset the additional lower-price vehicles we sold. We have focused our store personnel on maximizing retail used vehicle sales and reducing the number of used vehicles we wholesale after acquiring via trade-in. We have also increased the number of late-model, higher-cost vehicles we wholesale when we believe the likelihood of a quick retail sale is low. We achieved a used retail to new vehicle unit sales ratio at 1.1:1 for the first nine months of 2010.

Table of Contents*Finance and Insurance*

(Dollars in thousands)	Three Months Ended			% Increase
	September 30,		Increase	
	2010	2009		
Revenue	\$ 18,928	\$ 15,704	\$ 3,224	20.5%
Revenue per retail unit	\$ 1,000	\$ 909	\$ 91	10.0

(Dollars in thousands)	Nine Months Ended			% Increase
	September 30,		Increase	
	2010	2009		
Revenue	\$ 49,840	\$ 44,098	\$ 5,742	13.0%
Revenue per retail unit	\$ 970	\$ 966	\$ 4	0.4

The increases in finance and insurance sales were primarily due to more vehicles sold in the first nine months of 2010 compared to the first nine months of 2009. Additionally, stronger penetration rates for certain products increased revenues. These increases were offset by our focus on selling more lower-priced, older used cars. These vehicles have less incremental finance and insurance opportunity due to the price of the vehicle and fewer available warranty coverage options.

During the first quarter of 2009, we discontinued the transfer of the obligation related to most of our lifetime lube, oil and filter insurance contracts to a third party. As a result, beginning March 1, 2009, we no longer recognize revenue related to earned commissions at the inception of the contract but, instead, defer the full sale price of the contract and recognize the revenue over the expected life of the contract as services are provided. This change improves our cash position as we retain 100% of the contract sales price, but defers the recognition of the revenues to later periods. Assuming we did not self-insure these contracts, our revenue per retail unit would have been higher by approximately \$76 per vehicle and \$82 per vehicle for the three months ended September 30, 2010 and 2009, respectively, and by \$72 per vehicle and \$64 per vehicle for the nine months ended September 30, 2010 and 2009, respectively.

Penetration rates for certain products were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Finance and insurance	72%	67%	71%	69%
Service contracts	40	40	41	41
Lifetime oil change and filter	34	37	34	35

Service, Body and Parts Revenue

(Dollars in thousands)	Three Months Ended			% Increase
	September 30,		Increase	
	2010	2009		
Revenue	\$ 77,733	\$ 74,538	\$ 3,195	4.3%

(Dollars in thousands)	Nine Months Ended			% Decrease
	September 30,		Decrease	
	2010	2009		
Revenue	\$ 218,526	\$ 219,807	\$ (1,281)	(0.6)%

The declines in new vehicle sales in 2008 and 2009 reduced the number of units-in-operation, particularly for the domestic automotive manufacturers. This lack of late-model vehicles in operation has put downward pressure on warranty work. To offset these trends, we have focused on increasing customer pay service and parts business.

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The customer pay service and parts business, which represented 82.8% and 82.3%, respectively of the total service, body and parts business in the three- and nine-month periods ended September 30, 2010, was up 4.7% and 0.9%, respectively, on a same-store basis compared to the same periods in 2009.

Table of Contents

Warranty work accounted for approximately 17.2% and 17.7%, respectively, of our same-store service, body and parts sales in the three- and nine-month periods ended September 30, 2010 compared to 18.9% and 19.4%, respectively, in the three- and nine-month periods ended September 30, 2009. Same-store warranty sales were down 6.7% and 10.1%, respectively, in the three- and nine-month periods ended September 30, 2010 compared to the same periods of 2009. Domestic brand warranty work decreased by 15.1% and 20.2%, respectively, while import/luxury warranty work increased by 5.4% and 4.4%, respectively, mainly related to Toyota, during the three- and nine-month periods ended September 30, 2010 compared to the same periods in 2009.

Gross Profit

Gross profit increased \$9.5 million and \$25.5 million, respectively, in the three- and nine-month periods ended September 30, 2010 compared to the same periods of 2009 due to increases in total revenues, offset by decreases in our overall gross profit margin. Our gross profit margin by business line was as follows:

	Three Months Ended September 30,		Basis
	2010	2009	Point Change*
New vehicle	8.3%	8.9%	(60) bp
Retail used vehicle	14.7	15.2	(50)
Wholesale used vehicle	0.1	0.1	
Finance and insurance	100.0	100.0	
Service, body and parts	49.0	48.2	80
Overall	18.0	18.8	(80)

	Nine Months		Basis
	2010	2009	Point Change*
New vehicle	8.3%	8.6%	(30) bp
Retail used vehicle	14.3	14.2	10
Wholesale used vehicle	0.9	0.8	10
Finance and insurance	100.0	100.0	
Service, body and parts	49.0	48.2	80
Overall	18.2	19.2	(100)

* A basis point is equal to 1/100th of one percent.

During 2010, we continue to focus on maximizing retail profit opportunities on each transaction. Our new and retail used vehicle sales have shifted towards higher-priced vehicles, including trucks, which have lower gross profit margins. We are also adjusting our used vehicle inventories to respond to shifts in consumer demand. We continue to increase sales to customers seeking lower-priced used vehicles, offsetting the trend experienced in retail used vehicle gross profit margins. We had a greater proportion of higher-margin service work in the service, body and parts business, leading to increases in gross profit margin compared to the prior year periods. Overall, as retail new and used vehicle sales increased, gross profit margin declined due to service, body and parts comprising a smaller percentage of total sales.

Asset Impairment Charges

Long-lived assets classified as held and used and definite-lived intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. An estimate of future undiscounted net cash flows associated with the long-lived assets is used to determine if the carrying value of the assets is recoverable. An impairment charge is recorded for the amount the carrying value of the asset exceeds its fair value.

Our portfolio of real estate includes properties held for future development, comprised of undeveloped land and vacant facilities. The undeveloped land was purchased in connection with our planned development of stand-alone used vehicle stores or to relocate existing new

vehicle stores in certain markets. In 2008, our plans to develop the land were placed on hold until economic conditions

Table of Contents

improved. The vacant facilities are a result of the bankruptcy reorganization of Chrysler and GM, which terminated certain stores we operated, or through our election to close certain underperforming locations. We believe many of these locations are best utilized for retail automotive purposes reflective of our intended use and construction specifications.

In the fourth quarter of 2009, we completed an equity offering. One of the intended uses of the proceeds was, and remains, to fund potential acquisitions. Following the equity offering, we considered various strategies to convert our properties held for future development into operational assets. We ultimately concluded the best alternative was to seek new vehicle franchises that could be acquired and located in our properties. We began an exhaustive search to identify and ultimately acquire franchises in these markets.

By the end of the second quarter of 2010, we evaluated the results of our comprehensive search and we determined that we would be unable to acquire franchises at reasonable prices to mitigate the continued holding costs of the facilities. We also determined that development opportunities for our undeveloped land would not be realizable within a short to medium-term time period. In addition, through the first half of 2010, we experienced various macroeconomic and industry specific factors which influenced our decision to modify our disposition strategy.

At the end of 2009, the projected rate of annualized United States new vehicle sales was forecasted to recover from the extremely low levels experienced in 2009 to a more robust level in 2010, with some analysts projecting as many as 13 million new vehicles sold in the year. However, as 2010 has progressed, the current annualized new vehicle sales levels have been revised down to approximately an 11.5 million unit range, and projections for the year 2011 and beyond have become more uncertain with respect to the pace at which a return to the higher sales levels experienced until 2007 will occur, if at all.

The closure of a number of automotive retail locations, due both to the economic downturn and as a result of the termination of franchises by major domestic manufacturers in connection with their bankruptcy proceedings, has created an oversupply of vacant dealership properties across the United States. At current sales levels, the existing automotive dealership network retains a significant idle capacity, which reduces the need for additional retail space provided by vacant dealership sites or by developing new sites. It has become apparent in 2010 that this oversupply of dealer capacity may take a significantly longer period to be absorbed than previously thought.

Additionally, much of the improvement in demand for properties held for future development is tied to a broader economic recovery. Retailers and other commercial users who are willing and able to make the often significant capital investment these properties require must feel more optimistic about the outlook for the future. While the economy has improved from the unprecedented depressed levels experienced in 2009, the longer-term outlook remains cautious. Anemic growth of economic activity out of the recession, a reduction in outlook for GDP growth by economists, persistently high unemployment rates, and the European credit crisis are impacting consumer confidence and delaying the expected rebound of the U.S. economy. The prospects for a quick recovery are low, with many predicting a long, slow recovery that may not reach levels experienced in the past decade for the foreseeable future.

Also, the relative financial condition of regional banks, many of which carry significant quantities of non-performing assets or other owned real estate, remains tenuous. As a result, their inability or unwillingness to finance the purchase of commercial properties for potential buyers significantly reduces the demand and opportunities for us to sell our holdings at reasonable prices. Overall, availability of credit for prospective buyers remains tight compared to historical levels, reducing the potential pool of buyers to only the most creditworthy market participants.

Table of Contents

In the markets where our properties are located, we have experienced a large supply of vacant dealership sites, commercial real estate in general and available land for commercial and retail

development, which allows prospective buyers a number of choices and increases price pressure. In evaluating broader commercial real estate trends, the supply of commercial real estate failed to decrease in the first half of the year and continues to significantly outstrip current demand. Sales activity remains limited given diverging price expectations by buyers and sellers. When sales do take place, the realized prices are often lower than in prior periods, reflecting the financially distressed nature of the seller and/or the leveraged negotiating position of the buyer.

As a result of these various considerations, we changed our strategy regarding our real estate held for development. Previously, we contemplated disposition in the normal course of business under a highest and best use scenario allowing for a market reasonable marketing period. In the second quarter of 2010, we adopted a strategy focused on a more immediate disposition to potential buyers meeting broader needs and characteristics, including a different commercial retail use, allowing for the redeployment of the invested capital to higher-growth potential opportunities within our business.

In the second quarter of 2010, we experienced an increase in sales interest by prospective buyers; although offers were made at prices significantly lower than we anticipated. In certain cases, these offers were made at amounts that we consider to be significantly lower than the value of these properties from a long-term income approach at their highest and best use. Also in some cases, the offers represented amounts less than current replacement cost. However, given the prospect of accepting these offers and effecting a quick sale, or alternatively continuing the capital investment in these non-operational properties for a longer period until we or other market participants can find a suitable operational use for these properties, we decided to accept certain offers and redeploy the capital elsewhere.

As a result of the above factors, we believe events and circumstances indicated the carrying amount of our non-operational assets may no longer be recoverable at June 30, 2010, triggering an interim impairment test on the totality of our portfolio of such assets.

In the third quarter of 2010, we closed on the sale of three non-operating properties at or above the current carrying value. In addition, we are in advanced negotiations on the sale of several additional non-operating properties at prices at or above the current carrying value. As a result of these developments, we concluded that a triggering event had not occurred as of September 30, 2010. No additional impairment charges were recorded in the three-month period ended September 30, 2010.

Asset impairments recorded as a component of continuing operations consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Intangible assets	\$	\$	\$	\$ 250
Long-lived assets		1,930	14,751	6,676
Costs to sell		37		238
Total asset impairments	\$	\$ 1,967	\$ 14,751	\$ 7,164

In addition, we recorded impairment charges on certain land and buildings of \$1.0 million for the nine months ended September 30, 2009, as a component of selling, general and administrative expense.

As additional market information becomes available and negotiations with prospective buyers continue, estimated fair market values of our properties may change. These changes may result in the recognition of additional asset impairment charges in future periods.

Impairment charges recorded in the three and nine-months ended September 30, 2009, were associated with assets previously classified as held for sale. As a result of their reclassification in the fourth quarter of 2009 and first quarter of 2010, the associated impairment charges were reclassified from discontinued operations to continuing operations as a component of asset impairment charges.

Table of Contents***Selling, General and Administrative Expense***

Selling, general and administrative expense (SG&A) includes salaries and related personnel expenses, facility lease expense, advertising (net of manufacturer cooperative advertising credits), legal, accounting, professional services and general corporate expenses.

SG&A increased \$5.9 million and \$13.9 million in the three- and nine-month periods ended September 30, 2010 compared to same periods of 2009. Most of these increases were due to higher variable costs as sales volumes increased, and due to an increase in advertising spending to increase market share. Part of the increase in the nine-month period was a result of approximately \$1.3 million in reserve adjustments recorded in the first and second quarters of 2010 related to a severance package and certain vacant leased facilities.

We believe SG&A as a percentage of revenue and gross profit is a key metric in evaluating our performance. Given the associated non-core charges related to the reserve adjustments discussed above, we have included an adjusted SG&A percentage calculation assuming the reserve adjustments are excluded. We believe that this non-GAAP financial measure improves the transparency of our disclosure, by providing period-to-period comparability of our results from core business operations. For a reconciliation of this non-GAAP financial measure, please see the Non-GAAP Financial Measures section above.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
SG&A as a % of revenue	13.3%	14.1%	14.2%	15.4%
SG&A as a % of gross profit	73.8	74.9	77.9	80.2
Adjusted SG&A as a % of revenue	13.3%	14.0%	14.1%	15.4%
Adjusted SG&A as a % of gross profit	73.8	74.5	77.6	79.9

The increases (decreases) in dollars spent were primarily due to the following:

	Three months ended September 30, 2010 vs. three months ended September 30, 2009
Increase related to salaries, bonuses and benefits	\$ 2.2 million
Increase related to advertising expenses	2.1 million
Decrease related to rent expense	(0.2) million
Increase in other general expenses	1.8 million
	\$ 5.9 million
	Nine months ended September 30, 2010 vs. nine months ended September 30, 2009
Increase related to salaries, bonuses and benefits	\$ 7.5 million
Increase related to advertising expenses	5.6 million
Decrease related to facility costs	(0.2) million
Increase in other general expenses	1.0 million
	\$ 13.9 million

Depreciation and Amortization

Depreciation Buildings is comprised of depreciation expense related to buildings and significant remodels or betterments. Depreciation and Amortization Other, is comprised of depreciation expense related to furniture, tools and equipment and signage and amortization of certain intangible assets, including customer lists and non-compete agreements.

Table of Contents

Depreciation and amortization increased \$0.4 million and \$1.4 million in the three- and nine-month periods ended September 30, 2010 compared to the same periods of 2009 due primarily to facilities previously classified as held for sale that, accordingly, were not being depreciated in 2009. The facilities were reclassified from held for sale to held and used in the fourth quarter of 2009 and, accordingly, are being depreciated in the current periods.

Operating Income

Operating income in the three- and nine-month periods ended September 30, 2010 was 4.0% and 2.2%, respectively, of revenue compared to 3.6% and 2.4%, respectively, in the comparable periods of 2009.

Adjusting for asset impairments, offset by gains on disposal of assets, and expenses related to reserves, operating income in the three- and nine-month periods ended September 30, 2010, was 4.0% and 3.2%, respectively, of revenue compared to 4.0% and 3.0%, respectively, in the comparable periods of 2009. For a reconciliation of this non-GAAP financial measure, please see the Non-GAAP Financial Measures section above.

Floorplan Interest Expense

Floorplan interest expense was flat and decreased \$0.2 million in the three- and nine-month periods ended September 30, 2010 compared to the same periods of 2009. A decrease of \$0.1 million and \$1.2 million, respectively, resulted from changes in the average outstanding balances of our floorplan facilities. Additionally, changes in the average interest rates on our floorplan facilities decreased the expense \$0.3 million and increased the expense \$0.1 million, respectively, compared to the same periods of 2009. Changes from interest rate swaps resulted in increases of \$0.4 million and \$0.9 million, respectively, in the three- and nine-month periods ended September 30, 2010 compared to the same periods of 2009.

Other Interest Expense

Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages and our working capital, acquisition and used vehicle lines of credit. It also included interest on our senior subordinated convertible notes in the first three quarters of 2009.

With the repurchase of our convertible notes in 2009 and the reduction of outstanding amounts on our credit facility, other interest expense mainly related to mortgages in 2010. Mortgage interest expense for the three- and nine-month periods ended September 30, 2010 was \$3.4 million and \$10.2 million, respectively, compared to \$2.9 million and \$8.3 million, respectively, for the same periods in 2009.

Other interest expense also increased due to a reduction in capitalized interest recorded on construction projects. For the three- and nine-month periods ended September 30, 2010, we recorded no capitalized interest compared to \$0.3 million and \$0.9 million, respectively, for the same periods in 2009.

Income Tax Expense

Our effective income tax rate was 40.7% and 40.2% for the three- and nine-month periods ended September 30, 2010, respectively, compared to 40.7% and 40.5%, respectively, in the comparable periods of 2009. For the full year 2010, we anticipate our income tax rate to be approximately 40.9%.

Liquidity and Capital Resources

Principal Needs

Our principal needs for liquidity and capital resources are for capital expenditures, working capital, dividend payments, acquisitions, stock repurchases and debt repayment.

We have relied primarily upon internally generated cash flows from operations, borrowings under our credit agreements, financing of real estate and the proceeds from public equity and private debt offerings to finance operations and expansion. In addition, during the first nine months of 2010, we generated \$24.1 million through the sale of assets and stores and the issuance of long-term debt, net of unscheduled long-term debt

repayments.

Table of Contents

We have a \$75 million Credit Facility with U.S. Bank National Association, which expires June 30, 2013. As of September 30, 2010, we had \$40 million outstanding on this facility.

At September 30, 2010, we had approximately \$15.3 million in cash and cash equivalents and \$65.2 million in unfinanced new vehicles that could be financed immediately for cash. These amounts of available liquidity, combined with projections for future cash flows, are expected to be more than sufficient to fund our operations and capital needs through the next twelve months.

Summary of Outstanding Balances on Credit Facilities

Interest rates on all of our credit facilities, excluding the effects of our interest rate swaps, ranged from 1.8% to 5.0% at September 30, 2010. Amounts outstanding on the lines at September 30, 2010, together with amounts remaining available under such lines were as follows (in thousands):

	Outstanding at September 30, 2010	Remaining Availability at September 30, 2010
New and program vehicle lines	\$ 223,949	\$ (1)
Working capital, acquisition and used vehicle credit facility	40,000	30,443 ⁽²⁾⁽³⁾
	\$ 263,949	\$ 30,443

(1) There are no formal limits on the new and program vehicle lines with certain lenders, and we had approximately \$65.2 million in unfinanced new vehicles at September 30, 2010.

(2) Reduced by \$1.4 million for outstanding letters of credit.

(3) The amount available on the line is limited based on a borrowing base calculation and fluctuates monthly.

Working Capital, Acquisition and Used Vehicle Credit Facility

We have a \$75 million Credit Facility with U.S. Bank National Association, which expires June 30, 2013. We believe the Credit Facility continues to be an attractive source of financing given the current cost and availability of credit alternatives. The interest rate on the Credit Facility is the 1-month LIBOR plus 2.35%.

Loans are guaranteed by all of our subsidiaries and are secured by new vehicle inventory, used vehicle and parts inventory, equipment other than fixtures, deposit accounts, accounts receivable, investment property and other intangible personal property. Real estate, capital stock and other equity interests of our subsidiary stores and certain other subsidiaries are excluded. The lender's security interest in new vehicle inventory is subordinated to the interests of floorplan financing lenders, including Ally Bank, Daimler Financial, Toyota Financial Services, Ford Motor Credit Company, VW Credit, Inc., American Honda Finance Corporation, Nissan Motor Acceptance Corporation and BMW Financial Services NA, LLC.

The Credit Facility agreement provides for events of default that include nonpayment, breach of covenants, a change of control and certain cross-defaults with other indebtedness. In the event of a default, the agreement provides that the lenders may declare the entire principal balance immediately due, foreclose on collateral and increase the applicable interest rate to the revolving loan rate plus 3%, among other remedies.

Debt Covenants

We are subject to certain financial and restrictive covenants for all of our debt agreements. The covenants restrict us from incurring additional indebtedness, making investments, selling or acquiring assets and granting security interests in our assets.

Table of Contents

The Credit Facility stipulates the following financial covenants:

Debt Covenant Ratios	Requirement	As of September 30, 2010
Minimum tangible net worth	Not less than \$200 million	\$266.2 million
Vehicle equity	Not less than \$65 million	\$195.6 million
Fixed charge coverage ratio	Not less than 1.20 to 1	1.60 to 1
Liabilities to tangible net worth ratio	Not more than 4.00 to 1	2.41 to 1

Accordingly, we were in compliance with the Credit Facility financial covenants as of September 30, 2010.

While we expect to remain in compliance with the financial and restrictive covenants in our Credit Facility and other debt agreements, no assurances can be provided that we will continue to remain in compliance with the financial and restrictive covenants.

In the event that we are unable to meet the financial and restrictive covenants, we would enter into a discussion with the lenders to remediate the condition. If we were unable to remediate or cure the condition, a breach would give rise to certain remedies under the agreement, the most severe of which is the termination of the agreement and acceleration of the amounts owed, including the triggering of cross-default provisions to other debt agreements.

New Vehicle Flooring

Ally Bank (previously GMAC LLC), Daimler Financial, Toyota Financial Services, Ford Motor Credit Company, VW Credit, Inc., American Honda Finance Corporation, Nissan Motor Acceptance Corporation and BMW Financial Services NA, LLC provide new vehicle floorplan financing for their respective brands. Ally Bank serves as the primary lenders for all other brands. The new vehicle lines are secured by new vehicle inventory of the stores financed by that lender.

Vehicles financed by lenders not directly associated with the manufacturer are classified as floorplan notes payable: non-trade and are included as a financing activity in our statements of cash flows. Vehicles financed by lenders directly associated with the manufacturer are classified as floorplan notes payable and are included as an operating activity.

To improve the visibility of cash flows related to vehicle financing, which is a core part of our business, the non-GAAP financial measures below demonstrate cash flows assuming all floorplan notes payable are included as an operating activity. We believe that this non-GAAP financial measure improves the transparency of our disclosure, by providing period-to-period comparability of our results from core business operations.

(In thousands)	Nine Months Ended	
	September 30, 2010	2009
As Reported		
Cash flow from (used in) operations	\$ (16,760)	\$ 73,483
Change in floorplan notes payable: non-trade	13,807	7,384
Adjusted	\$ (2,953)	\$ 80,867
As Reported		
Cash flow from (used in) financing	\$ 35,783	\$ (96,194)
Change in floorplan notes payable: non-trade	(13,807)	(7,384)
Adjusted	\$ 21,976	\$ (103,578)

Table of Contents***Inventories and Floorplan Notes Payable***

Our days supply of new vehicles at September 30, 2010 was seven days above our five year historical September 30 balance and six days above our December 31, 2009 level. Prior year inventory levels were unusually low due to the impact of the Cash for Clunkers program and limited supply from domestic manufacturers. Our new vehicle floorplan notes payable increased to \$223.9 million at September 30, 2010 from \$210.5 million at December 31, 2009. New vehicles are financed at approximately 100% of invoice cost. As of September 30, 2010, we had \$65.2 million in unfinanced new vehicles.

Floorplan assistance is provided by manufacturers to specifically support store financing of new vehicle inventory. Under U.S. generally accepted accounting principles, floorplan assistance is recorded as a component of new vehicle gross profit when the specific vehicle is sold. However, as manufacturers provide this assistance to offset inventory carrying costs, we believe a comparison of floorplan interest expense to floorplan assistance can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels.

The following table details the carrying costs for new vehicles and includes new and program vehicle floorplan interest net of floorplan assistance earned (dollars in thousands):

	Three Months Ended			%
	September 30,		Increase	Increase
	2010	2009	(Decrease)	(Decrease)
Floorplan interest expense (new vehicles)	\$ 3,085	\$ 3,053	\$ 32	1.0%
Floorplan assistance (included in cost of sales)	(2,592)	(2,700)	(108)	(4.0)
Net new vehicle carrying costs	\$ 493	\$ 353	\$ 140	39.7

	Nine Months Ended			%
	September 30,		Increase	Increase
	2010	2009	(Decrease)	(Decrease)
Floorplan interest expense (new vehicles)	\$ 8,403	\$ 8,628	\$ (225)	(2.6)%
Floorplan assistance (included in cost of sales)	(7,151)	(7,175)	(24)	(0.3)
Net new vehicle carrying costs	\$ 1,252	\$ 1,453	\$ (201)	(13.8)

Our days supply of used vehicles at September 30, 2010 was five days below our five year historical September 30 balance and six days above our December 31, 2009 balance. We continue to focus on stocking more higher-mileage, lower-cost vehicles to match consumer preference and to provide opportunities for incremental sales. We believe our current used vehicle inventory levels are appropriate given our projected sales volumes and the shift in consumer demand away from new vehicles.

Dividends and Share Repurchases

Our Board of Directors declared dividends of \$0.05 per share on our Class A and Class B common stock for each of the first, second and third quarters of 2010. The third quarter dividend was declared on October 27, 2010, and will be paid on November 26, 2010. The dividend totaled approximately \$1.3 million per quarter, for a total of \$3.9 million in 2010. Our Management evaluates performance and makes a recommendation on dividend payments on a quarterly basis.

In June 2000, our Board of Directors authorized the repurchase of up to 1,000,000 shares of our Class A common stock. Through September 30, 2010, we have purchased a total of 580,624 shares under this program, 100,893 of which were purchased in 2010 for an average price of \$7.88 per share. As of September 30, 2010, 419,376 shares remained available for purchase pursuant to this program. We may continue to repurchase shares from time to time in the future as conditions warrant.

Table of Contents

Capital Commitments

We had capital commitments totaling \$4.3 million at September 30, 2010. In addition, we have approximately \$22.1 million in capital expenditures we are considering for various remodeling projects and equipment upgrades over the next one to three years. These projects are still in the planning stage or are awaiting approval from manufacturers. We will continue to evaluate the advisability of the expenditures given the current economic environment and anticipate a prudent approach to future capital commitments.

In the event we undertake a significant capital commitment in the future, we expect to pay for the construction out of existing cash balances, construction financing and borrowings on our Credit Facility. Upon completion of major projects, we would anticipate securing longer-term financing and general borrowings from third party lenders for 70% to 90% of the amounts expended, although no assurances can be provided that these financings will be available to us in sufficient amounts or on terms acceptable to us.

We anticipate approximately \$2.5 million in non-financeable capital expenditures in the next one to three years for various facilities and other construction projects currently under consideration. Non-financeable capital expenditures are defined as minor upgrades to existing facilities, minor leasehold improvements, the percentage of major construction typically not financed by commercial mortgage debt, and purchases of furniture and equipment. We will continue to evaluate the advisability of the expenditures given the current weak economic environment, and anticipate a prudent approach to future capital commitments.

Critical Accounting Policies and Use of Estimates

In the first quarter of 2010, we modified our employee medical insurance plan coverage. Effective with the plan year starting January 1, 2010, we changed employee coverage from a fully insured plan to a self-insured plan, except for a population of employees in select California dealerships that remains on a fully insured plan. We carry specific stop-loss coverage insurance in the event a large claim is made under the plan. We estimate the cost to provide medical benefits for existing claims, including claims incurred but not reported, based primarily on an analysis of our historical claims experience, the design of the plan and expectations of medical cost growth factors. We monitor actual claims activity and related costs on a regular basis and evaluate their impact on our assumptions. Actual claims experience may deviate from historical experience, which could cause our estimated liability to either be over or under accrued. Any changes to assumptions, including actual claims experience and medical cost factors, could result in the recognition of additional charges, which could have a material adverse impact on our financial position and results of operations.

At September 30, 2010 the self-insured medical plan reserve, net of payments made in the period, totaled \$1.1 million, and was included in accrued liabilities on our Consolidated Balance Sheets. A 10% increase in claims experience would result in additional self-insured medical reserves of \$0.1 million at September 30, 2010.

With the addition of the above, we reaffirm our critical accounting policies and use of estimates as described in our 2009 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 3, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our reported market risks or risk management policies since the filing of our 2009 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 3, 2010.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are party to numerous legal proceedings arising in the normal course of our business. While we cannot predict with certainty the outcomes of these matters, we do not anticipate that the resolution of matters arising in the normal course of business or the proceeding described below will have a material adverse effect on our business, results of operations, financial condition or cash flows.

Alaska Service and Parts Advisors and Managers Overtime Suit

On March 22, 2006, seven former employees in Alaska brought suit against Lithia (Dunham, et al. v. Lithia Support Services, et al., 3AN-06-6338 Civil, Superior Court for the State of Alaska) seeking overtime wages, additional liquidated damages and attorney's fees. The complaint was later amended to include a total of 11 named plaintiffs. The court ordered the dispute to arbitration. In February 2008, the arbitrator granted the plaintiffs' request to establish a class of plaintiffs consisting of all present and former service and parts department employees totaling approximately 150 individuals who were paid on a commission basis. We have filed a motion requesting reconsideration of this class certification, but the arbitrator died before issuing his opinion. The reconsideration sought a ruling whether these employees or some of these employees are exempt from the applicable state law that provides for the payment of overtime under certain circumstances. The replacement arbitrator has now been appointed and ruled to remove approximately 30 service and parts managers from the case. A class action opt-out notice was mailed to the service and parts employees in October 2009. Lithia and the plaintiffs have agreed to conduct the arbitration in two parts. The first arbitration will determine if liability exists for Lithia. This arbitration was conducted on September 27, 2010, and we are currently awaiting a decision. If the outcome of this arbitration determines that valid claims exist, a second arbitration will be conducted to determine the amount of damages, if any.

We intend to vigorously defend the matter noted above, and to assert available defenses. We cannot make an estimate of the likelihood of negative judgment in the case at this time and estimate our range of exposure to be between \$0 and \$1.5 million. The ultimate resolution of the above noted case is not expected to result in any significant settlement amounts. However, the resolution of the matter cannot be predicted with certainty, and an unfavorable resolution of the matter could have a material adverse effect on our results of operations, financial condition or cash flows.

Table of Contents**Item 1A. Risk Factors**

Our Annual Report on Form 10-K for the year ended December 31, 2009 includes a detailed discussion of our risk factors. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K. Accordingly, the information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the Securities and Exchange Commission on March 3, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We repurchased the following shares of our Class A common stock during the third quarter of 2010:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum number of shares that may yet be purchased under the plan
July 1 to July 31		\$		520,269
August 1 to August 31	96,393	7.87	96,393	423,876
September 1 to September 30	4,500	7.98	4,500	419,376
Total	100,893	7.88	100,893	419,376

The plan to repurchase up to a total of 1.0 million shares of our Class A common stock was approved by our Board of Directors in June 2000 and renewed in August 2005 and does not have an expiration date.

Item 6. Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

- 3.1 Restated Articles of Incorporation of Lithia Motors, Inc., as amended May 13, 1999 (filed as Exhibit 3.1 to Form 10-K filed March 30, 2000 and incorporated herein by reference).
- 3.2 Amended and Restated Bylaws of Lithia Motors, Inc. - Corrected (filed as Exhibit 3.2 to Form 10-K filed March 16, 2009 and incorporated herein by reference).
- 10.1 Lithia Motors, Inc. Amended and Restated 2003 Stock Incentive Plan (filed as Exhibit 10.1 to Form 10-Q filed April 30, 2010 and incorporated herein by reference).
- 10.2 10th Amendment to Loan Agreement with U.S. Bank National Association (filed as Exhibit 10.1 to Form 8-K filed June 30, 2010 and incorporated herein by reference).
- 10.3 Separation, Consulting and Release Agreement with Jeffrey B. DeBoer (filed as Exhibit 99.1 to Form 8-K filed June 14, 2010 and incorporated herein by reference).

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10.4 11th Amendment to Loan Agreement with U.S. Bank National Association (filed as Exhibit 10.4 to Form 10-Q filed August 5, 2010 and incorporated herein by reference).

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 29, 2010

LITHIA MOTORS, INC.

By: /s/Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

By: /s/Jeffrey B. DeBoer
Jeffrey B. DeBoer
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)