



DriveTime[®]

DriveTime Automotive Group, Inc.

4020 East Indian School Road
Phoenix, Arizona 85018

(602) 852-6600

ANNUAL REPORT
For the year ended December 31, 2010

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES

**ANNUAL REPORT
FOR YEAR ENDED DECEMBER 31, 2010
TABLE OF CONTENTS**

	Page
Part I	
Item 1. Business	3
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	20
Item 2. Properties	21
Item 3. Legal Proceedings	23
Item 4. Reserved	23
Part II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities	24
Item 6. Selected Financial Data	25
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	52
Item 8. Financial Statements and Supplementary Data	53
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	101
Item 9A. Controls and Procedures	101
Item 9B. Other Information	102
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	103
Item 11. Executive Compensation	105
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	112
Item 13. Certain Relationships and Related Transactions, and Director Independence	113
Item 14. Principal Accounting Fees and Services	117
Part IV	
Item 15. Exhibits, Financial Statement Schedules	117
Signatures	118

Special Note Regarding Forward-looking Statements

This report contains “forward-looking statements,” which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation, and availability of resources. These forward-looking statements include, without limitation, statements concerning projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, and future economic performance; and statements of management’s goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as “may,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved.

Forward-looking statements are based on information available at the time those statements are made or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- we require substantial capital to finance our business;
- our focus on customers with subprime credit;
- we may not be able to generate sufficient cash flow to meet our debt service obligations;
- changes to our business plan that are currently being implemented, and those that may be implemented in the future, may not be successful and may cause unintended consequences;
- interest rates affect our profitability and cash flows and an increase in interest rates will increase our interest expense and lower our profitability and liquidity;
- general and economic conditions and their effect on automobile sales;
- extensive governmental regulations applicable to us, the violation of which could cause our business to suffer;
- changes in laws, regulations, or policies;
- the need to reduce the scope of our operations;
- seasonal and other fluctuations in our results of operations;
- our failure to effectively manage our growth, access the additional required financing to fund our growth, and increased exposure to legal and regulatory risks as a result of our plans to expand;
- we operate in a highly competitive environment, and if we are unable to compete with our competitors, our results of operations and financial condition could be materially adversely affected; and
- other factors discussed in “Item 1—Business,” “Item 1A—Risk Factors,” and “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Industry Data

We use industry and market data throughout this annual report, which we have obtained from market research, independent industry publications or other publicly available information. Our statement that we are the leading used vehicle retailer in the United States with a sole focus on the sale and financing of quality vehicles in the subprime market is based on our review of the other top companies’ financial statements, industry publications and research data with respect to such other companies. Although we believe that each such source is reliable as of its respective date, the information contained in such sources has not been independently verified. While we are not aware of any misstatements regarding any industry and market data presented herein, such data is subject to change based on various factors, including those discussed in “Item 1A—Risk Factors.”

Part I

Item 1. Business

Unless otherwise indicated, the terms “DriveTime,” the “Company,” “we,” “our” and “us” refer to DriveTime Automotive Group, Inc. and its consolidated subsidiaries.

General

We are the leading used vehicle retailer in the United States with a sole focus on the sale and financing of quality vehicles to the subprime market. Through our branded dealerships, we provide our customers with a comprehensive end-to-end solution for their automotive needs, including the sale, financing, and maintenance of their vehicle. As of December 31, 2010, we owned and operated 85 dealerships and 14 reconditioning facilities in 28 geographic regions in 14 states. For the year ended December 31, 2010, we sold 52,498 vehicles, generated \$1.0 billion of total revenue (which consisted of vehicle sales and interest income), and generated \$198 million of Adjusted EBITDA. We provide our customers with financing for substantially all of the vehicles we sell. As of December 31, 2010, our loan portfolio had a total outstanding principal balance of \$1.4 billion. In contrast to other leading used vehicle retailers, we maintain our loan portfolio and related financings on our balance sheet.

Over the past 19 years, we have developed an integrated business model that consists of vehicle acquisition, reconditioning, sales, underwriting and finance, loan servicing, and after sale support. We believe that our model enables us to operate successfully in the underserved subprime market segment. In addition, we believe that our model allows us to systematically open new dealerships in existing and new markets throughout the United States.

We operate in the large and highly fragmented used vehicle sales and financing markets. According to CNW, for 2010, industry sales of used vehicles totaled \$324.4 billion, which consisted of sales from approximately 52,500 franchise and independent dealers and private transactions.

Integrated Business Model

Our integrated business model is focused on giving our customers the ability to acquire quality used vehicles through six key activities:

- *Vehicle acquisition.* We acquire inventory primarily from used vehicle auctions. Our centralized vehicle selection strategy takes into account many factors, including the retail value, age, and costs of buying, reconditioning, and delivering the vehicle for resale, along with buyer affordability and desirability. At December 31, 2010, we employed 32 buyers who average six years of experience with us. For the year ended December 31, 2010, we purchased 61,832 vehicles from over 150 auctions nationwide.
- *Vehicle reconditioning and distribution.* Subsequent to acquisition, vehicles are transported to one of our 14 regional reconditioning facilities, where we recondition the vehicles and perform a rigorous multi-point inspection for safety and operability. On average, we spend approximately \$1,000 in reconditioning costs per vehicle sold, including parts and labor. Upon passing our quality assurance testing, we determine the distribution of vehicles to our dealerships based on current inventory mix and levels, along with sales patterns at each dealership.
- *Vehicle sales.* We focus on selling quality used vehicles with affordable payments through our extensive network of company-owned dealerships. We utilize targeted television, radio, and online advertising programs to promote our brand and encourage customers to complete an online credit application and visit our dealerships. Approximately 53% of our customers completed an online credit application before visiting one of our dealerships in the year ended December 31, 2010. Our dealerships are generally located in high traffic commercial districts and showcase our DriveTime logos and color schemes.
- *Underwriting and finance.* Using information provided as part of the credit application process, our centralized proprietary credit scoring system determines a customer’s credit grade and the corresponding minimum down payment and maximum installment payment. We monitor the performance of our portfolio and close rates on a real-time basis, allowing us to centrally adjust pricing and financing terms to balance sales volumes and loan performance.
- *Loan servicing.* We perform all servicing functions for our loan portfolio, from collections through the resale of repossessed vehicles. We allow customers to make payments in cash at over 3,700 Wal-Mart stores and more than 12,000 other locations nationwide, as well as through traditional payment methods. Our experienced collection staff utilizes our proprietary collection software, which we developed specifically for subprime auto loans. We use behavioral models

designed to predict payment habits, as well as automated dialer and messaging systems to enhance collection efficiency. We utilize our vehicle acquisition and sales expertise in representing our vehicles at auction in order to maximize the recovery value of repossessed vehicles.

- *After sale support.* As part of our no-haggle vehicle sale price, we provide our DriveCare® limited warranty; a 36 month / 36,000 mile warranty, including oil changes at Sears Automotive locations nationwide and 24/7 roadside assistance, on each vehicle we sell. The warranty is included in the sales price of each vehicle, and not sold as separate product. We self-administer our warranty program through our in-house team of customer service representatives, including warranty claim specialists who are certified mechanics, and our pre-approved vendor network of independent third-party repair facilities.

We believe that our business model has several advantages over our competition and that we provide our customers with a unique buying experience featuring:

1. branded, attractive dealership facilities, each of which maintains a large inventory of quality, reconditioned used vehicles;
2. professional and courteous service with “no haggle” pricing and a three day “no questions asked” return policy;
3. vehicle financing with affordable down payments and installment payments;
4. our DriveCare® limited warranty program;
5. numerous payment options, which include cash payments at alternative retail and other locations nationwide, as well as online, by phone, and through other traditional payment methods.

To provide financing to our customers, we have traditionally relied upon portfolio warehouse facilities and securitization transactions.

Industry

Used vehicle sales. The market for used vehicles is among the largest retail markets in the United States. According to CNW, in 2010 there were 37.2 million used vehicle sale transactions, representing 76% and 51% of the overall vehicle market by unit sales and dollar volume, respectively. Sales typically occur through one of three channels: (i) the used vehicle retail operations of the approximately 15,000 manufacturers’ franchised new car dealerships, which represented 34.4% of industry sales in 2010, (ii) approximately 37,500 independent used vehicle dealerships, which represented 35.0% of industry sales in 2010, and (iii) individuals who sell used vehicles in private transactions, which represented 30.6% of industry sales in 2010.

Vehicle financing. The industry is generally segmented by credit characteristics of the borrower (prime versus subprime). Originations for customers within the subprime market averaged \$62.1 billion per annum (including originations for new and used vehicles) over the last five years ending December 31, 2010. However, subprime automobile originations dropped to \$33.5 billion in 2010.

The used vehicle financing segment is highly fragmented and is served by a variety of financing sources that include independent finance companies, “buy-here, pay-here dealers” and select traditional lending sources such as banks, savings and loans, credit unions, and captive finance subsidiaries of vehicle manufacturers. Many traditional lending sources have historically avoided the subprime market due to its relatively high credit risk and the associated collection efforts and costs. In addition, over the past one and one-half years, numerous subprime lenders significantly curtailed their originations or exited the market.

Our market. Within the subprime market, we cater to customers who have the income necessary to purchase a used vehicle, but because of their impaired credit histories, cannot qualify for financing from traditional third-party sources. Our average customer is 25 to 55 years of age, has an annual income of \$24,000 to \$56,000, and has a FICO score between 450 and 570. FICO scores range from 350 to 850, and a customer with a FICO score below 620 is typically considered to have subprime credit.

Dealership Operations

Each of our dealerships features a wide selection of makes and models to satisfy the preferences and budgets of our potential customers. Our dealerships generally maintain an inventory in excess of 60 vehicles. Our transparent sales process includes “no haggle” pricing, with prices displayed on each vehicle. Vehicle prices averaged \$14,491 for the year ended December 31, 2010.

Each dealership is run by a general manager, who has responsibility for the operations of the dealership facility and is compensated in part based on overall dealership profitability and other operating metrics. Our dealerships also typically employ between one to three sales managers, several sales personnel, and administrative support personnel.

We have implemented enhancements to our business model that seek to further distinguish our dealership operations and improve our customer experience. In this regard, we converted our stores to “sales only” operations, and removed all loan servicing activities from our stores. At the same time, we have provided new and convenient ways for customers to make installment payments, including cash payments at alternative retail and other locations nationwide. We have also modified our sales compensation structure, which now is comprised of a base salary plus team and individual based bonus rather than a commissioned based compensation structure. Beginning with vehicle sales in December 2009, we are providing our customers with a three-day, no questions asked return policy and a 36 month/36,000 mile extended warranty including oil changes at Sears Automotive locations nationwide and 24/7 roadside assistance. Together with our newly renovated and spacious branded dealership facilities and “no haggle” pricing, we believe these changes will result in an industry leading customer sales experience.

Inventory

Our centralized inventory management allows us to monitor inventory mix and maintain adequate levels of inventory at each dealership. It also enables us to quickly adjust vehicle acquisition and pricing in light of market conditions and to ensure affordability at all of our stores.

Using our proprietary models and real-time data, we deliver weekly buy targets to our 32 buyers based on current inventory levels, projected sales volumes, inventory turn times, and targeted vehicle pricing. We acquire inventory from used vehicle auctions, daily rental agencies, and commercial fleets. Approximately 90% of our inventory is acquired at auction.

After purchase, vehicles are transported to one of our 14 regional reconditioning facilities, where we perform a rigorous multi-point inspection for safety and operability, and assess the cost of reconditioning. Vehicles that fail inspection due to significant structural or mechanical defects are returned or resold at auction. We utilize our proprietary inventory management system to determine and monitor labor, parts, and other costs associated with reconditioning each vehicle. Reconditioned vehicles are distributed to our dealerships based on real-time projected inventory turn times and levels at each dealership. For the year ended December 31, 2010, the average cost per vehicle, including auction fees, reconditioning costs, parts and labor, transportation costs, and other incremental costs such as warranty costs, was \$9,166, the average vehicle age was 4.3 years, and the average mileage was approximately 71,000 miles.

Marketing, Sales, and Branding

Our marketing message which is primarily delivered via direct response television and online advertising is focused on our ability to provide financing to the credit challenged. Centered around the theme “Approved, Approved, Approved®,” we believe the campaigns resonate with our customer base and encourages them to complete an online application to obtain pre-approval of their financing needs. The message is delivered by a fun and friendly team of helpful people who treat all customers with respect. Throughout the commercial there is a strong call to action driving the customer to goforapproval.com.

DrivetTime branding includes “We turn No to Go®” green stop sign trademark, “Al the Approval Guy®” and “The Go-to-Guys for Cars and Credit®.” The brand is also fostered in our dealerships with consistent merchandising including logos, LED boards, graphic vehicle hoods, furniture, signage and color schemes. The in store emphasis on our over arching message of customer service and availability of financing allows our credit-challenged customers to feel comfortable and confident while completing the DriveTime experience with a purchase.

A vital component of our lead and sales generation is web-based marketing and online assets. Approximately 53% of our sales during 2010 were generated by customers who completed an online application prior to visiting one of our dealerships, compared to 46% in 2009. Credit applications are submitted via www.drivetime.com and other marketing websites such as www.goforapproval.com (for television campaigns) and www.go4approval.com (for yellow page campaigns). In addition to our

websites, we generate leads and sales through search engine optimization, pay per click marketing, targeted e-mail, third-party and affiliate marketing.

Underwriting and Credit Scoring Models

We have dedicated, and will continue to dedicate substantial resources to developing, maintaining, and updating our proprietary credit scoring models that are focused on predicting the credit risk of our customers. Many companies use FICO scores as a standard metric to assess the credit risk of customers. In contrast, we have over eight years of experience in developing credit scoring models that are more finely tuned to the nuances within the subprime auto segment. Our scoring models provide a substantial improvement over traditional FICO scores in rank-ordering the likelihood of credit risk default within the subprime auto segment. Our scoring models also include the use of alternative data sources along with traditional credit bureau data which enhance the ability to separate the credit risk levels of the subprime auto segment into different categories. Our centralized proprietary credit scoring models are currently used to classify customers into various risk grades that are linked to financing parameters. We believe our ability to quantify a customer's risk profile based upon historical data, breadth of data, and sophisticated modeling techniques, allows us to better predict loan performance, manage the blended quality of our portfolio of loans, and obtain appropriate risk adjusted returns than generic scores, such as the commonly used scores from FICO and VantageScore.

The scoring models are periodically updated to account for changes in loan performance, data sources, economic cycles, and business processes. The first credit scoring model was deployed in July 2001. Since then, six subsequent generations of credit scoring models have been implemented, with the most recent scoring models being implemented in January 2011. The credit scoring models have evolved over time and better leverage data collected from additional data sources than in prior models, resulting in improvements in identifying differences in the credit risk of our customers.

Prior to each sale, we require our customers to complete a credit application. Upon entering the customer information into our origination system, our proprietary credit scoring system determines the customer's credit grade, which is used by the dealership manager to help select vehicles that fit the required deal terms and the customer's needs. The customer's credit grade and type of vehicle determine the term, maximum installment payment, and minimum payment amounts. The annual percentage rate (APR) charged is a function of the customer's credit grade, down payment, and model year of the vehicle. Our centralized risk management and pricing departments set these terms.

Our centralized risk management group manages the credit mix of our portfolio of finance receivables on a company-wide basis. This group is also responsible for monitoring the origination and underwriting processes, providing underwriting training to the dealerships, monitoring loan servicing, and static-pool tracking of portfolio loss performance and profitability. The static-pool tracking of portfolio loss performance is also monitored by credit grade. Over the past seven years, the unit loss rate results by credit grade have been relatively consistent through economic cycles and across different generations of scoring models.

We provide financing for substantially all of the used vehicles we sell at our dealerships through retail installment sales contracts. The foundation for underwriting these loans is our proprietary credit scoring models described above.

Loan Portfolio

We actively monitor our portfolio performance and the credit grade mix of originations. Our proprietary credit grading system segments our customers into eight distinct credit grades. We control the grade mix of originations through the deal terms provided to our customers, which are established centrally by our risk management team, and applied consistently throughout our dealership network. We have higher minimum down payments and lower maximum installment payments for our lower credit grade customers, resulting in lower close rates for our lower credit grade customers. Our loans have an average original term of approximately 54 months and an average life of only 34 months, due to charge-offs and pay-offs. Due to the fact that our loans have a relatively short average life, we are able to closely monitor credit trends and make appropriate adjustments to both the grade mix and pricing of our originations.

Due to the deteriorating economic environment, combined with reduced access to funding, we decided to tighten our credit standards starting in the second quarter of 2008. Our goal was to both reduce overall origination volume to match our access to funding and originate loans in higher credit grades to improve overall portfolio loan performance. The improved loan performance is primarily a function of our decision to originate better overall grade mix, combined with lower losses within the various credit grades due to improvements in deal structure, changes in underwriting policies, and implementation of new scoring models. Due to the fact that our loans have a relatively short average duration, our portfolio turns over rapidly. As shown in the following table, loans

originated since we tightened our underwriting standards in the second quarter of 2008 comprise a majority of our portfolio as of December 31, 2010.

Percentage of Portfolio Originated since March 31, 2008:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2008.....	0.0%	12.6%	24.4%	33.8%
2009.....	45.9%	54.1%	61.8%	67.6%
2010.....	74.9%	79.8%	84.4%	87.8%

The impact of the tightening of our underwriting standards on our loan portfolio is shown in the following trended net charge-off table, as originations after tightening increasingly became a larger percentage of our outstanding loan portfolio. This table represents the performance of our entire loan portfolio outstanding for each period shown, and does not represent static pools based on origination year. As is evident from the table below, the seasonality in our business results in net charge-offs typically being the highest in the third and fourth quarter of each year and the lowest in the first and second quarter of each year.

Net Charge-Offs as a Percent of Average Portfolio Principal Balance:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
2006 ⁽¹⁾	3.8%	2.9%	4.8%	4.9%	16.4%
2007.....	3.8%	3.2%	5.5%	5.4%	18.2%
2008.....	4.9%	4.4%	5.7%	6.5%	21.4%
2009.....	4.9%	3.9%	4.8%	4.6%	18.2%
2010 ⁽¹⁾	3.3%	2.5%	3.7%	3.7%	13.1%

- (1) Net charge-offs in 2006 and 2010 are adjusted to remove a positive benefit and negative impact, respectively, of a non recurring adjustment related to recoveries. The unadjusted total net charge-offs were 15.8% for 2006 and 13.5% for 2010.

Monitoring and Collections

We seek to minimize credit losses by carefully monitoring our portfolio of finance receivables. After completing a sale, each loan is automatically added to our comprehensive loan servicing and collection system. Our proprietary collection system was developed specifically for subprime auto loans and provides us the transparency and tools necessary to effectively and efficiently service our loan portfolio. We set daily queues of delinquent accounts for each collector to manage based on the customer’s delinquency status and an internally generated behavioral score for the customer. In addition to behavioral models designed to predict payment habits, we utilize an automated dialer and messaging system to enhance collection efficiency.

Accounts greater than 36 days past due (i.e., “back-end” collections) are assigned to a central loan servicing facility located in Mesa, Arizona. Recovery, bankruptcy, insurance, payment processing, cash balancing, customer service, re-marketing, quality assurance, contract verification, as well as our call center, and warranty administration functions are also performed at our Mesa, Arizona facility. We utilize our vehicle acquisition and sales expertise in representing our vehicles at auction in order to maximize the recovery value of repossessed vehicles. We have recently completed consolidating collections for accounts that are 1 to 36 days past due, which has resulted in the removal of all collection activities from our dealerships, and the consolidation of such activities at our four central collection facilities.

Integrated Information Systems

We manage the operations of our reconditioning facilities, dealerships, loan servicing centers, and our accounting and reporting functions with a single, integrated information system. When we purchase a used vehicle, our staff records the purchase in our system, and the system adds the vehicle to inventory and makes the appropriate accounting entries. Reconditioning costs are also tracked for each vehicle. When a sale occurs and a loan is generated, the system adds the loan to our loan servicing and collection systems. We use both local and wide-area data and voice communication networks that allow us to account for all purchase and sale activity centrally and to service large volumes of contracts from our centralized collections facilities. We also have internally developed comprehensive databases and management tools, including credit scoring models, static pool analyses, behavioral scoring, and predictive modeling to set inventory acquisition and underwriting guidelines, structure contract terms, establish collection strategies, and monitor underwriting effectiveness.

Our systems and databases are maintained in secured data centers. Our data centers are configured with redundant power, cooling, and network access. Fire protection systems, including passive and active design elements, are installed. We utilize multiple backup systems in an effort to ensure uninterrupted power. Our network features multiple wide area network connections using a redundant routing architecture and multiple access points to public networks.

Systems and databases are configured for high availability and disaster recovery. High availability is achieved through the use of server and database clustering and redundancy at multiple hardware layers. We back-up all of our databases and systems on a regular basis. We leverage a blended data duplication disk backup and traditional tape backup strategy that supports rapid data recovery. Tape backups are stored in a secure offsite location. Critical systems are attached to a storage area network and data replication is in place across data centers. Server virtualization technology is utilized to improve the efficiency and availability of resources and applications. We have a comprehensive disaster recovery plan in place to cover intermittent or extended periods of interruption in one or more of our critical systems. We periodically test our disaster recovery procedures.

Intellectual Property

We have an ongoing program under which we evaluate our intellectual property and consider appropriate federal and state intellectual property related filings. We believe that there is significant value in our trademarks, but that our business as a whole is not materially dependent on our trademarks. We believe we have taken appropriate measures to protect our proprietary rights.

Employees

At December 31, 2010 we employed 2,243 people, consisting of 1,403 people in our retail operations, 620 people in our portfolio operations, and 220 people in our corporate operations. None of our employees are covered by a collective bargaining agreement and we generally believe that relations with our employees are good.

Competition

Our primary competitors are the numerous small “buy-here, pay-here” dealerships, independent used vehicle dealers, and used vehicle departments of franchise dealers that operate in the subprime segment of the used vehicle sales industry, and the banks and finance companies that purchase their loans. We continually strive to successfully distinguish ourselves from our competitors and compete in this industry in a cost-effective manner. In addition, periodically larger companies with significant financial and other resources have entered or announced plans to enter the used vehicle sales and/or finance industry, or relax their credit standards and compete with us, at least at the upper end of our customer segment. These dealerships also compete with us in areas such as the purchase of inventory, which can result in increased wholesale costs for used vehicles and lower margins, and the dealerships and finance companies could also enter into direct competition with us at any time at the lower end of the subprime market.

The used vehicle financing segment is highly fragmented and is served by a variety of traditional financial institutions, including banks, savings and loans, credit unions, and captive finance subsidiaries of vehicle manufacturers, as well as by independent finance companies and “buy-here, pay-here” dealerships. While traditional financial institutions have not consistently serviced subprime borrowers, the high interest rates and margins of companies involved in subprime financing have at times encouraged certain of these traditional institutions to enter, or contemplate entering, this market. Due to the economic downturn, many finance companies reduced or eliminated subprime auto financing. According to CNW, the subprime loan approval rates have dropped from approximately 69.0% in the first half of 2007 to approximately 13% at the end of 2010. More recently, traditional lenders have begun to increase their subprime auto finance originations.

Regulation

Our sales, finance, and collections operations are subject to ongoing regulation, supervision, and licensing under various federal, state, and local statutes, ordinances, and regulations. Among other things, these laws require that we obtain and maintain certain licenses and qualifications, limit or prescribe terms of the contracts that we originate, provide specified disclosures to customers, limit our right to repossess and sell collateral, and prohibit us from discriminating against certain customers.

Our financing activities with customers are subject to federal truth-in-lending, fair credit reporting, and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, usury laws, and other installment sales laws. Our debt collection activities with customers are subject to federal fair debt collection practices and fair credit reporting laws and regulations. We are also subject to federal and state consumer protection, privacy, and related laws and regulations. We charge fixed interest rates in excess of traditional prime and non-prime finance companies on the contracts originated at our dealerships. Some states regulate finance fees and charges that may be paid as a result of vehicle sales.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, established a new regulator, the Consumer Financial Protection Bureau, to oversee consumer financial products and services, including mortgage, credit card, payday lending and auto finance. The Bureau's authority includes rulemaking, enforcement and an array of enforcement tools ranging from fines to legal action. The Bureau is also establishing cooperation agreements with various agencies including the Federal Trade Commission and State Attorneys General. The FTC retains certain of its rulemaking and enforcement authority, including enforcement authority over the Federal Debt Collections Practices Act and for warranty issues, and under the new law it is required to prescribe rules addressing unfair and deceptive practices by auto dealers.

We believe that we are currently in substantial compliance with all material federal, state, and local laws and regulations applicable to our business. We may not, however, be able to remain in compliance with such laws.

Environmental

We are subject to a complex variety of federal, state, and local laws, regulations, and permits relating to the environment and human health and safety. These requirements change frequently and tend to become more stringent over time, and are a significant consideration for us as our operations involve the use of storage tanks, the disposal of wastewater, and the emission of hazardous substances to the air, as well as the use, storage, recycling, and disposal of hazardous materials, such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires, and fuel. If we violate or fail to comply with these laws, regulations, or permits, we could be fined or otherwise sanctioned by regulators. Pursuant to such requirements, we also have made and will continue to make capital and other expenditures.

We can also be responsible for costs relating to any contamination at our current or former owned or operated properties or third party waste disposal sites. This liability may be imposed even if we were not at fault. In addition to potentially significant expenses to investigate and remediate contamination, such matters can give rise to claims from governmental authorities and other third parties for fines or penalties, natural resource damages, or personal injury or property damage.

Item 1A. Risk Factors

You should carefully consider the following risks and the other information contained in this report, including our consolidated financial statements and related notes and “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The risks described below are those that we believe are the material risks we face. Any of the risks described below, and others that we may not anticipate, could significantly and adversely affect our business, prospects, financial condition, results of operations, and liquidity. As a result, the trading price of our Senior Secured Notes could decline and you may lose all or part of your investment.

We require substantial capital to finance our business.

We have borrowed, and will continue to borrow, substantial amounts of capital to fund our operations and we periodically refinance such debt. If we cannot obtain the financing we need, or cannot do so on a timely basis and on favorable terms, our liquidity could be materially adversely affected.

At December 31, 2010, we had approximately \$1.1 billion in aggregate principal amount of indebtedness outstanding, which included \$40.0 million under our \$50.0 million inventory facility that matures in October 2011 and \$403.0 million under portfolio warehouse facilities that are due to expire in March, May, July and December 2011. The portfolio warehouse facilities contain term-out features resulting in a final maturity 12 months from their expiration dates.

We historically have restored capacity under our portfolio warehouse facilities from time to time by securitizing portfolios of finance receivables. However, the securitization market experienced significant disruptions in recent periods, and our ability to successfully and efficiently complete securitizations was and may in the future be affected by several factors, including the:

- condition of financial markets generally;
- conditions in the asset-backed securities markets specifically;
- the performance of our portfolio.

Due to the disruption in the securitization market, we launched our pooled auto loan program (“PALP”) to serve as the primary source of fixed-rate financing for our finance receivable portfolio during 2009. Under PALP, we pool loans originated at our dealerships and sold them either (i) to a special purpose entity that transferred the loans to a separate trust that, in turn, issued a note collateralized by the loans; or (ii) directly to a third-party financial institution to yield a specified return. If we are unable to continue financing our portfolio through securitizing our receivables or selling our finance receivables in secured financing arrangements, this would have a material adverse effect on our results of operations and financial condition.

Our funding strategy and liquidity position were significantly adversely affected by the ongoing stress in the credit markets that began in the middle of 2007. These adverse conditions reached unprecedented levels during 2008 and continued through third quarter 2009. Beginning in 2007, we secured alternative sources of financing, albeit at a substantially higher cost of funds. In particular, we sold \$75.0 million in subordinated debt and \$24.0 million in junior secured debt to Verde, an affiliate of Ernest C. Garcia II, our principal shareholder. Although we have recently secured substantial additional sources of financing, we may not be able to secure similar additional financing, and we may in the future face difficulties in renewing loans and facilities if lenders and counterparties are also facing liquidity and capital challenges.

We have and will generally maintain substantial amounts of indebtedness outstanding that are short-term in nature, which is \$534.0 million as of December 31, 2010, and includes revolving inventory facility and portfolio warehouse facilities that are due to expire within 12 months from December 31, 2010. The portfolio warehouse facilities contain term-out features resulting in a final maturity 12 months from their expiration dates. See “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations” for our significant commitments with definitive payment terms and see Note 8—Debt Obligations to our consolidated financial statements included herein for more information regarding detail terms of the debts.

There is a high degree of risk associated with borrowers with subprime credit. The allowance for credit losses that we have established to cover losses inherent in our loan portfolio may not be sufficient or may need to be substantially increased, which could have a material adverse effect on our results of operations and the value of your collateral.

Substantially all of the sales financing we extend and the loans that we service are with borrowers with subprime credit. Loans to borrowers with subprime credit have lower collection rates and are subject to higher loss rates than loans to borrowers with prime credit. Although we began tightening our loan underwriting standards in the second quarter of 2008, there can be no assurance that we

will continue to apply such tightened loan underwriting standards in the future in light of changing economic or market conditions or any other factors.

We maintain an allowance for credit losses to cover losses on an aggregate basis at a level we consider sufficient to cover estimated losses inherent in our portfolio of receivables. On a quarterly basis we review and may make upward or downward adjustments to the allowance. However, our allowance may not be sufficient to cover losses inherent in our portfolio, and we may need to increase our allowance for reasons related to, among other things, the continued weak economic environment and deterioration of the housing market, or significant increases in delinquencies or charge-offs. A significant variation in the timing of or increase in credit losses in our portfolio or a substantial increase in our allowance or provision for credit losses would have a material adverse effect on our results of operations.

In addition, because a portion of the collateral securing the notes consists of receivables, the remaining residual property rights in receivables securing other financings (and the value of which are therefore determined by the value of receivables sold or otherwise pledged) or the remaining residual value of special purpose entities that have themselves put in place financings secured by receivables (and the value of which are therefore determined by the value of receivables owned), the value of the collateral securing the notes will be sensitive to the performance of the underlying receivables.

Our focus on customers with subprime credit may raise concerns on the part of future business partners, lenders, counterparties, and regulators and may adversely affect our business.

We focus on the subprime segment of the used vehicle sales and financing market and provide loans to borrowers with subprime credit who, as a class, have lower collection rates and are subject to higher loss rates than prime and near prime borrowers. In addition, the subprime industry has been the subject of extensive media attention, enhanced regulatory scrutiny, and Congressional hearings as a result of what has been characterized as inappropriate consumer practices by subprime lenders in the mortgage industry.

These issues may raise concerns on the part of future business partners, lenders, counterparties, and regulators. As a result, we are unable to assess whether, and to what extent, they may have an adverse effect on our business in the future, including on our reputation, revenues and profitability. In particular, we cannot predict whether these issues may negatively affect our ability to obtain new financing to support our operations or any necessary regulatory approvals in connection with our plans to expand our business, either of which could have a material adverse effect on our business.

We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive, and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments, or seeking to raise additional capital. The terms of the agreements that govern our indebtedness contain limitations on our ability to incur additional indebtedness. We cannot assure you that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms, if at all, or would be permitted under the terms of the agreements governing our indebtedness then outstanding. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms or at all, would have a material adverse effect on our business, financial condition, and results of operations, as well as on our ability to satisfy our debt obligations.

Our substantial debt could have adverse effects on our business and we may incur additional indebtedness in the future.

As of December 31, 2010, we had approximately \$1.1 billion in aggregate principal amount of indebtedness outstanding, and for the year ended December 31, 2010 we incurred \$98.1 million in interest expense. See “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.” In addition, we may incur additional debt in the future, subject to certain limitations contained in the agreements that govern our indebtedness. The degree to which we are leveraged could have adverse effects on our business, including:

- our ability to obtain additional financing in the future may be impaired;
- a significant portion of our cash flow from operations must be dedicated to the payment of interest and principal on our debt, and related expenses, which reduces the funds available to us for our operations;
- some of our debt is and will continue to be at variable rates of interest, which may result in higher interest expense in the event of increases in market interest rates;

- the agreements that govern our indebtedness contain, and any agreements to refinance our indebtedness likely will contain, financial and restrictive covenants, and our failure to comply with such covenants may result in an event of default which, if not cured or waived, could result in the acceleration of that indebtedness and trigger an event of default under other indebtedness;
- our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions;
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our industry; and
- our substantial leverage could place us at a competitive disadvantage vis-à-vis our competitors who have less leverage relative to their overall capital structures.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default or limits on our ability to borrow funds to finance our business.

The agreements that govern our indebtedness (including the indenture governing the notes) contain, and any agreements that govern future indebtedness may contain, covenants that impose significant operating and financial restrictions on, among other things, our ability to:

- incur additional debt;
- incur liens;
- sell or otherwise dispose of assets;
- make investments, loans, or advances;
- engage in merger and acquisition activity;
- pay dividends, redeem capital stock, or make certain other restricted payments or investments;
- engage in certain sale and leaseback transactions;
- enter into new lines of business; and
- enter into transactions with our affiliates.

The agreements that govern our indebtedness also contain certain covenants relating to the performance of our portfolio, which ultimately impacts the manner in which we operate our business. For example, the advance rate on our portfolio warehouse facilities may be reduced if our portfolio does not perform as expected. The agreements governing any future indebtedness could contain financial and other covenants more restrictive than those that are currently applicable to us.

Failure to comply with the agreements governing our indebtedness could result in an event of default under one or more such agreements, could cause cross-defaults on other agreements governing our indebtedness, including the notes, and could prevent us from securing alternate sources of funds necessary to operate our business. Any of these events would have a material adverse effect on our results of operations and financial condition. From time to time, we have breached technical or other covenants under the agreements governing our indebtedness, and we have obtained waivers from the applicable lenders. In a future event of default, there can be no assurance we will be able to receive waivers, and our inability to obtain these waivers may have a material adverse impact on our business.

Our ability to obtain certain financings in the future is restricted by the Fixed Charge Coverage Ratio of the debt incurrence test under the indenture relating to the notes. We do not currently meet these requirements nor do we anticipate meeting these requirements for the foreseeable future, which will limit our ability to obtain certain financings, especially the incurrence of senior unsecured debt.

We have recently made, and we continue to make, changes to our business plan, and there can be no assurance that these changes will be successful. These changes could have an adverse effect on our results of operations or financial condition.

We have recently made, and we continue to make, changes to our business plan, including, among others, the following:

- we have recently completed consolidating collections for accounts that are 1 to 36 days past due, which has resulted in the removal of all collection activities from our dealerships and the consolidation of such activities at our four central collection facilities;

- we have recently expanded our warranty program by offering a new 36 month / 36,000 mile warranty, including oil changes at any Sears Automotive location and 24/7 roadside assistance; and
- we have expanded our customer payment programs to enable our customers to make cash payments at alternative retail and other locations nationwide and effective September 1, 2010, we completed the removal of payment windows from all of our dealership locations.

There can be no assurance that any of these or other changes will be successful, and these and other changes could have unintended consequences and could have an adverse effect on our results of operations or financial condition. These changes also involve numerous other risks, including the diversion of management's attention from other business concerns.

Interest rates affect our profitability and cash flows and an increase in interest rates will increase our interest expense and lower our profitability and liquidity.

Much of our financing income results from the difference between the rate of interest that we pay on the funds we borrow and the rate of interest that we earn on the finance receivables in our portfolio. While we earn interest on our finance receivables at a fixed rate, we pay interest on certain of our borrowings at floating rates. When interest rates increase, our interest expense increases. Increases in our interest expense that we cannot offset by increases in interest income could have a material adverse impact on our profitability and liquidity. Correspondingly, a significant reduction in our average APR could have a material adverse impact on our profitability, if not offset by a corresponding reduction in our loan losses or borrowing costs.

Changes in accounting policies could adversely affect our reported results of operations.

We have identified several accounting policies as being "critical" to the fair presentation of our financial condition and results of operations because they involve major aspects of our business and require management to make judgments about matters that are inherently uncertain. Materially different amounts could be recorded under different conditions or using different assumptions.

Additionally, the Financial Accounting Standards Board is currently considering various proposed rule changes including, but not limited to, potential changes in accounting for leases. In addition, the Securities and Exchange Commission (the "SEC") is currently considering adopting rules that would require U.S. issuers to prepare their financial statements contained in SEC filings in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Specifically, IFRS proposed changes would impact fair value of financial instruments and revenue recognition. The implementation of these or other new accounting requirements or changes to U.S. generally accepted accounting principles could adversely affect our reported results of operations and financial condition.

Our proprietary credit scoring system may not perform as expected and fail to properly quantify the credit risks associated with our customers, which could have a material adverse effect on our financial condition and results of operations.

We have developed, and revise from time to time, complex proprietary credit scoring models that use traditional and non-traditional variables to classify our customers into various risk grades that are tied to loan parameters. There is no guarantee that our credit scoring models will perform as intended or that they will perform in future market conditions. Failure of our credit scoring models to properly quantify the credit risks associated with our customers could have a material adverse effect on our results of operations and financial condition.

We depend on the accuracy and completeness of information furnished to us by or on behalf of our customers. If we and our systems are unable to detect any misrepresentations in this information, this could have a material adverse effect on our results of operations and financial condition.

Our typical customers have limited or no credit histories. In deciding whether to extend credit to customers, we rely heavily on information furnished to us by or on behalf of our customers, including employment and personal financial information. If a significant percentage of our customers intentionally or negligently misrepresented any of this information, and we and our systems did not detect such misrepresentations, this could have a material adverse effect on our ability to effectively manage our credit risk, which could have a material adverse effect on our results of operations and financial condition.

General economic conditions and their effect on automobile sales may adversely affect our business.

Although vehicle sales in the United States are seeing upward trend in 2010, they have declined significantly in recent periods. Many factors affect the industry, including general economic conditions, consumer confidence, the level of personal discretionary

income, interest rates, and credit availability. The deteriorating economic and market conditions that have driven the decline in vehicle sales may not improve for the foreseeable future, and if such conditions improve, we cannot assure you that the industry will not experience sustained periods of decline in vehicle sales in the future. Any further or future decline could have a material adverse effect on our business.

We are subject to extensive governmental regulation, and if we are found to be in violation of any of the federal, state, or local laws or regulations applicable to us, our business could suffer. We are also subject to numerous legal and administrative proceedings which, if the outcomes are adverse to us, could adversely affect our business, operating results, and prospects.

The automotive retailing and finance industries are subject to a wide range of federal, state, and local laws and regulations, such as local licensing requirements, and retail financing, debt collection, consumer protection, environmental, health and safety, creditor, wage-hour, anti-discrimination, and other employment practices laws and regulations. The violation of these or future requirements or laws and regulations can result in administrative, civil, or criminal sanctions against us, which may include a cease and desist order against the subject operations or even revocation or suspension of our license to operate the subject business. As a result, we have incurred and will continue to incur capital and operating expenditures and other costs to comply with these requirements and laws and regulations. Further, over the past several years, private plaintiffs and federal, state, and local regulatory and law enforcement authorities have increased their scrutiny of advertising, sales, financing, and insurance activities in the sale and leasing of motor vehicles. In addition, many state attorneys general have been increasingly active in the area of consumer protection. We are also subject, and may be subject in the future, to inquiries and audits from state and federal regulators. There can be no assurance that such activities will not continue in the future or have a material adverse effect on our business.

From time to time to time, we may be involved in various legal and administrative proceedings. We are also currently the subject of investigative inquiries from the Consumer Protection Division of the Office of Texas Attorney General. See “Item 3—Legal Proceedings.” It is not feasible to predict the outcome of these proceedings or any claims made against us, and the outcome of any such proceedings or claims could adversely affect our reputation, results of operations, or financial condition.

Changes in laws, regulations, or policies may adversely affect our business.

The laws and regulations governing our lending, servicing, debt collection, and insurance activities or the regulatory or enforcement environment at the federal level or in any of the states in which we operate may change at any time and may have an adverse effect on our business. New legislation, including proposals to substantially reform the financial institution regulatory system, is being considered by the current Congress and new legislative proposals will from time to time continue to be introduced in Congress in the future. It is possible that, in response to the recent economic conditions and the financial crisis, laws and regulations will be changed in ways that will require us to modify our business models or objectives.

For instance, Congress passed legislation creating a federal Consumer Financial Protection Agency as the centerpiece of the Obama administration’s financial regulatory reform initiatives. We believe the legislation will apply to us and may increase our cost of doing business, impose new restrictions on the way in which we conduct our business, or add significant operational constraints that might impair our profitability.

Furthermore, Congress has previously considered and may in the future adopt various forms of legislation designed to spur automobile sales. Depending on the legislation that is adopted, if any, these incentives may only be available to consumers who purchase new vehicles or vehicles achieving high fuel-efficiency standards. If these incentives are limited solely to purchasers of new vehicles, or if we are unable to maintain an inventory of vehicles achieving the mandated fuel-efficiency standards, this legislation could have a material adverse effect on our results of operations and financial condition.

We are unable to predict how these or any other future legislative proposals or programs will be administered or implemented or in what form, or whether any additional or similar changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our results of operations and financial condition.

Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently or that new laws and regulations will not be adopted, either of which could materially adversely affect our business, financial condition, or results of operations.

We could be required to reduce the scope of our operations again in the future, which could have a material adverse effect on our results of operations and financial condition.

During 2008 and early 2009, we contracted our operations in response to the economic crisis. While we have recently begun to open new dealerships, if economic uncertainty or continued economic deterioration requires us to again reduce the scope of our operations, we face certain additional risks, including risks related to:

- an inability to obtain anticipated cost reductions;
- increased portfolio losses related to closed stores;
- legal and regulatory risks related to closed stores and lay-offs, including the risk of lawsuits;
- vandalism, theft, or other damages to vacant stores;
- diversion of management's attention from normal business operations; and
- failure to generate sufficient cash flows to help fund our operations.

If we were to lose the right to service our portfolio of receivables, this could result in decreased collections, which could have a material adverse effect on our results of operations and financial condition.

We retain the right to service all receivables that we finance, including those pledged as collateral to our portfolio warehouse facility and those sold to a securitization trust or in connection with our PALP transactions. We are entitled to a fee for our servicing activities, typically equal to 4% of the value of receivables being serviced. As of December 31, 2010, our serviced loan portfolio consisted of approximately 134,200 active accounts, with a total outstanding principal balance of \$1.4 billion. Subject to certain conditions, if we experience an event of default under the agreements governing our financing arrangements, we may lose the right to service our receivables. Loss of this right could have a material adverse effect on our revenues. In addition, if we lose our servicing rights, transitioning servicing activities to a third party could result in interruptions in collections, which could decrease the likelihood that the receivables will be repaid. Moreover, a replacement servicer might lack the requisite experience in servicing such receivables. As a result, we may experience decreased collections, which could have a material adverse effect on our results of operations and financial condition and on the value of the collateral securing the notes.

Our operations and the finance receivables we generate are concentrated geographically, and a downturn in the economies or markets in which we operate could adversely affect vehicle sales and collections.

As of December 31, 2010, we operated our dealerships in 14 states. Adverse economic conditions, natural disasters, or other factors affecting any state or region where high concentrations of our customers reside could adversely affect vehicle sales and collections. If adverse economic conditions, natural disasters, or other factors occur that affect the regions in which we do business, or if borrowers in these regions experience financial difficulties, a significant number of borrowers may not be able to make timely loan payments, if at all, or may be more prone to filing for bankruptcy protection, which could have a material adverse effect on our results of operations and financial condition.

We may experience seasonal and other fluctuations in our results of operations.

Sales of motor vehicles historically have been subject to substantial cyclical variation characterized by periods of oversupply and weak demand. We believe that many factors affect the industry, including consumer confidence in the economy, the level of personal discretionary spending, interest rates, fuel prices, credit availability, and unemployment rates. A recession or an industry or general economic slowdown could materially adversely impact our business.

Historically, we have experienced higher revenues in the first quarter of the calendar year than in the last three quarters of the calendar year. We believe these results are due to seasonal buying patterns resulting in part because many of our customers receive income tax refunds during the first quarter of the year, which are a primary source of down payments on used vehicle purchases. Our loan performance also has historically followed a seasonal pattern with delinquencies and charge-offs being the highest in the second half of the year. Accordingly, our results in any quarter may not indicate the results we may achieve in any subsequent quarter or for the full year. A significant portion of our general and administrative expenses do not vary proportionately with fluctuations in revenues. We expect quarterly fluctuations in operating results to continue as a result of seasonal patterns. Such patterns may change, however, due to factors affecting the automotive industry or otherwise.

Our failure to effectively manage our growth could harm our business, we may not be able to access the additional financing required to fund our growth, and our plans to expand our operations will expose us to increased legal and regulatory risks that may adversely affect our business.

We intend to grow our operations by opening new dealerships, many of which are expected to be located in markets in which we do not currently operate. This growth may result in the incurrence of additional debt and amortization of expenses, all of which could adversely affect our profitability and liquidity. Moreover, growth and expansion of our operations may place a significant strain on our resources and increase demands on our executive management team, management information and reporting systems, financial management controls and personnel, and regulatory compliance systems and personnel. Although we grew from 74 dealerships at the start of 2004 to 103 dealerships at the end of 2007, we experienced a contraction in our dealership base due to reduced access to funding, and operated 78 dealerships at December 31, 2009 and 85 dealerships at December 31, 2010. We may not be able to expand our operations or effectively manage or integrate our expanding operations, or achieve planned growth on a timely or profitable basis. If we are unable to achieve our planned growth or manage our growth effectively, we may experience operating inefficiencies and our results of operations may be materially adversely affected.

In addition, expansion into new states will increase our legal and regulatory risk. Our failure or alleged failure to comply with applicable laws and regulations in any new jurisdiction, and ensuing inquiries or investigations by regulatory and enforcement authorities, may result in regulatory action, including suspension or revocation of one or more of our licenses, civil or criminal penalties, or other disciplinary actions, and restrictions on or suspension of some or all of our business operations. As a result, our business could suffer, our reputation could be harmed, and we could be subject to additional legal risk. This could, in turn, increase the size and number of claims and damages asserted against us, subject us to regulatory investigations, enforcement actions, or other proceedings, or lead to increased regulatory or supervisory concerns. We may also be required to spend additional time and resources on any remedial measures, which could have an adverse effect on our business. We cannot predict the timing or form of any current or future regulatory or law enforcement initiatives, and any such initiatives could have a material adverse effect on our results of operations and financial condition.

We operate in a highly competitive environment, and if we are unable to compete with our competitors, our results of operations and financial condition could be materially adversely affected.

Our primary competitors are the numerous small “buy-here, pay-here” dealerships, independent used vehicle dealers, and used vehicle departments of franchise dealers that operate in the subprime segment of the used vehicle sales industry, and the banks and finance companies that purchase their loans. There is no assurance that we can successfully distinguish ourselves from our competitors or compete in this industry in a cost-effective manner or at all. Moreover, if our competitors grow and strengthen through consolidation in the industry while we are unable to identify attractive consolidation opportunities, we could end up at a competitive disadvantage and experience declining market share and revenue. In addition, larger companies with significant financial and other resources have periodically entered or announced plans to enter the used vehicle sales and/or finance industry, or relax their credit standards and compete with us, at least at the upper end of our customer segment. These dealerships also compete with us in areas such as the purchase of inventory, which can result in increased wholesale costs for used vehicles and lower margins, and the dealerships and finance companies could also enter into direct competition with us at any time at the lower end of the subprime market.

Increased competition may cause downward pressure on the interest rates that we charge on finance receivables originated by our dealerships, or lower margins, or may cause an increase in our operating costs, all of which could have a material adverse effect on our results of operations and financial condition.

If we are unable to obtain sufficient numbers of used vehicles for our inventory in a cost-effective manner, our operations and financial results will be adversely impacted.

We require a large number of quality used vehicles for our dealerships. We acquire most of our used-vehicle inventory through auctions, and primarily through two auction companies. During the year ended December 31, 2010, we acquired approximately 90% of our vehicles at auction, and approximately 80% of our vehicles from these two auction companies. To a lesser extent, we also acquire used vehicles from wholesalers, franchised and independent dealers, and fleet owners, such as leasing companies and rental companies. The sources from which we can purchase vehicles of a quality and in a quantity acceptable to us are limited, and there is substantial competition to acquire the vehicles we purchase. We may not be able to obtain sufficient inventory in a cost-effective manner or at all. In this regard, recent declines in new vehicle sales and a reduced number of vehicles that are eligible for daily rental will adversely impact the availability and quality of future inventory. Any decline in the number of or increased competition for quality vehicles could diminish our ability to obtain sufficient inventory at a price that we can reflect in retail market prices and would adversely affect our business.

If our inventory or other costs of operations increase and we are unable to pass along these costs to our customers, we may be unable to maintain or grow margins.

Our inventory and other costs are variable and dependent upon various factors, many of which are outside of our control. If we incur cost increases, we may seek to pass those increases along to our customers. However, the income of our average customer limits the maximum monthly payment such customer can afford, and we may be unable to pass these costs along to our customers in the form of higher sales prices, which would adversely affect our ability to maintain or increase margins.

Our business is exposed to various operational risks. A failure of or interruption in our communications and information systems could adversely affect our revenues and profitability.

Our business is highly dependent on communications and information systems and is exposed to many types of operational risk, including the risk of fraud by employees or other parties, record-keeping error, errors resulting from faulty computer or telecommunication systems, computer failures or interruption, and damage to computer and telecommunication systems caused by internal or external events. We periodically update or change the integrated computer systems and other components of our operating systems. Any significant failure of such systems, whether as a result of third-party actions or in connection with planned upgrades and conversions, could disrupt our operations and adversely affect our ability to collect on contracts and comply with legal and regulatory requirements. Additionally, our systems are vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and network and telecommunications failures. Our systems may also be vulnerable to unauthorized access, computer hackers, computer viruses, and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions to or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these incidents. We have a backup system and we periodically test disaster recovery scenarios; however, this may not prevent a systems failure or allow us to timely resolve any systems failures. Any interruption to our systems could have a material adverse effect on our results of operations and financial condition.

The personal information that we collect may be vulnerable to breach, theft, or loss, the occurrence of any of which could adversely affect our reputation and operations.

Possession and use of personal information in our operations subjects us to risks and costs that could harm our business. We collect, use, and retain large amounts of personal information regarding our customers, employees, and their families, including social security numbers, tax return information, personal and family financial data, and credit card numbers. Our computer networks and the networks of certain of our vendors that hold and manage confidential information on our behalf may be vulnerable to unauthorized access, employee theft or misuse, computer hackers, computer viruses, and other security threats. Confidential information may also inadvertently become available to third parties when we integrate systems or migrate data to our servers following an acquisition or in connection with periodic hardware or software upgrades.

Due to the sensitive nature of the personal information stored on our servers, our networks may be targeted by hackers seeking to access this data. A user who circumvents security measures could misappropriate sensitive information or cause interruptions or malfunctions in our operations. Although we use security and business controls to limit access and use of personal information, a third party may be able to circumvent those security and business controls, which could result in a breach of privacy. In addition, errors in the storage, use, or transmission of personal information could result in a breach of privacy. Possession and use of personal information in our operations also subjects us to legislative and regulatory burdens that could require us to implement certain policies and procedures, such as the procedures we adopted to comply with the Red Flags Rule that was promulgated by the Federal Trade Commission under the federal Fair Credit Reporting Act and that requires the establishment of guidelines and policies regarding identity theft, and could require us to make certain notifications of data breaches and restrict our use of personal information. A violation of any laws or regulations relating to the collection or use of personal information could result in the imposition of fines against us. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches. A major breach, theft, or loss of personal information that is held by us or our vendors, or a violation of laws or regulations relating to the same, could have a material adverse effect on our reputation and result in further regulation and oversight by federal and state authorities and increased costs of compliance.

We are dependent on the services of certain key personnel and the loss of their services could harm our business.

We believe that our success depends on the continued employment of our senior executive management team, including our Chief Executive Officer and President, Raymond C. Fidel, our Chief Financial Officer, Mark G. Sauder, our Executive Vice President of Credit Risk, Alan J. Appelman, and our Executive Vice President and General Counsel, Jon D. Ehlinger. The unexpected loss of the services of any of our key executive management personnel or our inability to attract new management when necessary could have a material adverse effect on our operations. We do not currently maintain key person life insurance on any member of our executive management team other than Mr. Fidel.

Additionally, our success depends on the key management personnel at our corporate offices and the dealerships in our local markets. The market for qualified employees in the automotive and finance industries and in the markets in which we operate, particularly for qualified general managers, loan managers, and collections personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. We also believe that our competitors pursue many of our managerial and collections and sales and service personnel from time to time. The loss of a group of key employees in any of our markets could have a material adverse effect on our business and results of operations in that market or across many or all markets in which we operate.

If all or some portion of our employees elect to collectively bargain or join a union, these actions could adversely affect our operations.

As of December 31, 2010, none of our employees was represented by a labor union. The automotive industry is historically an industry in which there is a high degree of labor union participation. If all or some portion of our employees elect to join a labor union, we could experience increased operational costs, work stoppages or strikes, and/or barriers to communication between management and employees. These factors could lead to inefficiencies in the operation of the affected facilities or groups and could cause us to experience a material adverse effect.

We are subject to environmental laws, regulations, and permits that could impose significant liabilities, costs, and obligations.

We are subject to a complex variety of federal, state, and local laws, regulations, and permits relating to the environment and human health and safety. If we violate or fail to comply with these laws, regulations, or permits, we could be fined or otherwise sanctioned by regulators. These environmental requirements, and the enforcement thereof, change frequently, have tended to become more stringent over time, and may necessitate substantial capital expenditures or operating costs. Under certain environmental laws, we could be responsible for the costs relating to any contamination at our or our predecessors' current or former owned or operated properties or third-party waste disposal sites. We cannot assure you that our costs and liabilities relating to environmental matters will not adversely affect our results of operations, business, financial condition, reputation, or liquidity.

States impose limits on the interest rates we can charge on the installment sales contracts we provide to our customers, and new or lower limits may harm our ability to offset increased interest expenses and can adversely affect our profitability and liquidity.

We operate in states that impose limits on the contract interest rate that a lender may charge, and laws or regulations that limit the interest rates that we can charge can adversely affect our profitability and liquidity. When a state limits the amount of interest that we can charge on our installment sales contracts, we may not be able to offset an increase in interest expense caused by rising interest rates or greater levels of borrowings under our credit facilities. In addition, no assurance can be given that we will not be prohibited by new state laws from charging the interest rates we are currently able to charge on our installment sales contracts or from raising interest rates above certain desired levels. Therefore, these interest rate limitations can adversely affect our profitability and liquidity.

A change in state laws, or the application thereof, relating to the extent to which we can obtain a refund of sales tax for customer defaults could have a material adverse effect on our business.

In general, we are required to pay state sales tax on each vehicle we sell. Subject to certain requirements, certain states allow us to collect a refund of prior sales taxes paid to the extent that the receivable becomes uncollectible. For the years ended December 31, 2008, 2009, and 2010, we claimed \$14.7 million, \$12.3 million and \$8.9 million, respectively, in sales tax credits, deductions and refunds relating to receivables that have become uncollectible. If state laws change with respect to the extent to which we can claim a refund for sales tax in such situations, or state taxing authorities change their position with respect thereto, we could experience a material adverse effect. In this regard, on February 24, 2011, we received an unfavorable ruling from the Nevada Supreme Court with respect to the efficacy of certain sales tax refunds we requested for the 2002 and 2003 tax years. While only applicable to 2002 and 2003, this ruling could affect subsequent tax years as well. See "Item 3—Legal Proceedings."

We may be adversely affected by product liability exposure claims.

DriveTime, and the automotive industry generally, is exposed to product liability claims in the event that the failure of our products to perform to specifications results, or is alleged to result, in property damage, bodily injury, and/or death. In connection with such product liability claims, we may incur significant costs to defend such claims and we may experience material product liability losses in the future. We cannot assure you that we will have sufficient resources, including insurance to the extent it is available, to cover such product liability claims, and the outcome of various legal actions and claims could have a material adverse effect on our results of operations and financial condition.

We have programs for our customers to provide insurance covering our collateral in the event of theft or an accident. If our customers do not maintain insurance, it could negatively impact our operations and/or profitability.

Certain of our customers have difficulty obtaining and maintaining affordable insurance for their vehicles. We have introduced in all of the states in which we operate a collateral protection insurance program. Under this program, we offer customers dual interest collateral protection insurance administered through a third party with whom we have a contractual relationship.

This initiative will result in an additional payment the customers may not be making today, thereby increasing the risk of higher loan delinquencies and earlier loan defaults, either of which could adversely affect our loan losses and profitability. These transactions also involve numerous other risks, including the diversion of management attention from other business concerns, and entry into a new and highly regulated business in which we have had no or only limited experience. Occurrence of any of these risks or other risks that we have not anticipated could have a material adverse effect on us.

Failure to register our dealership sales business subsidiary in the relevant jurisdictions would cause a severe disruption in our operations.

In connection with our applications for renewal of the relevant license or registration, a state licensing authority could decide to withhold or delay approval of the relevant license or registration and prohibit DriveTime Car Sales from operating one or more of our dealerships until certain requirements are met. We cannot anticipate what these requirements might entail or whether we will be able to comply with any such requirements in a timely manner. If the relevant license or registration is not granted for DriveTime Car Sales to operate in any state, it would cause a severe disruption in our operations in that state, which could have a material adverse effect on our business, financial condition and results of operations. In 2010, we converted the majority of our subsidiaries from corporations to limited liability companies, including the entity through which we conduct our dealership sales business, DriveTime Car Sales Company, LLC (“DriveTime Car Sales”). As part of the conversion, we are required to apply for new licenses or registrations, as applicable, in all of the states in which DriveTime Car Sales operates. We have fully completed the licensing and registration procedure in 13 of the 14 states in which DriveTime Car Sales operates and are actively pursuing registration in the remaining states.

We could suffer a material adverse effect if the IRS challenged our position on intercompany sales of receivables.

We generally recognize losses for U.S. federal income tax purposes on the intercompany sales of receivables from DTAG to DTAC. This practice is standard within our industry and our interpretation is not meaningfully different from other companies in our industry. However, the IRS may challenge our position and seek to defer our recognition of such losses. If the IRS were able to successfully challenge our position, there could be a material adverse effect on our results of operations and financial condition.

Our Chairman and principal shareholder can direct our management and policies through his right to elect our board of directors and to control substantially all matters requiring a stockholder vote.

Ernest C. Garcia II, our Chairman and principal shareholder, beneficially owns the majority of our outstanding common stock. Mr. Garcia is not actively involved in the day-to-day management of our operations, and, in addition, certain agreements to which we are a party, including the indenture governing the notes, the agreements governing our other indebtedness, and our origination agreement with DTAC pursuant to which DTAC purchases all of the auto loan receivables we originate, limit the control Mr. Garcia otherwise could exercise over our business and operations. In practice, Mr. Garcia has limited or no involvement in business or operational decisions, which are reserved for the executive management team and the board of directors. Nevertheless, subject to the limitations provided in such agreements, Mr. Garcia has the power to elect our entire board of directors and determine the terms and outcome of any corporate transaction or other matters required to be submitted to shareholders for approval, including the amendment of our certificate of incorporation, mergers, consolidations and the sale of all or substantially all of our assets. Because his interests as an equity holder may conflict with the interests of holders of the notes, he may cause us to take actions that, in his judgment, could enhance his equity but may be prejudicial to the holders of the notes.

Conflicts of interest may arise as a result of affiliations that our directors or executive officers have with Verde Investments, Inc. or other companies with which we have material relationships.

Ernest C. Garcia II, our Chairman and controlling stockholder, is also the owner of Verde Investments, Inc., a company with which we have historically had material leasing and financing relationships. See “Item 13—Certain Relationships and Related Transactions, and Director Independence.” In addition, there may occur future transactions between us and Verde which could give rise to a conflict of interest on the part of Mr. Garcia. While transactions that we enter into in which a director or officer has a conflict of interest are generally permissible so long as the material facts relating to the director’s or officer’s relationship or interest as to the transaction are disclosed to our Board of Directors and a majority of our disinterested directors, or a committee consisting solely of

disinterested directors, approves the transaction, any such conflict of interest could have a material adverse effect on our business, results of operations or financial condition.

We will incur increased costs as a result of becoming subject to the reporting requirements of the Exchange Act, and such reporting requirements may divert management attention from our business.

Upon registration of the notes to be exchanged for our existing Senior Secured Notes due 2017, we will become subject to a number of additional requirements, including certain requirements of the Exchange Act and certain related requirements of the Sarbanes-Oxley Act. These requirements will cause us to incur increased costs and might place a strain on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain internal control over financial reporting, and also requires that our internal controls be assessed by management beginning with our fiscal year ending December 31, 2010. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. As a result, our management's attention might be diverted from other business concerns, which could have a material adverse effect on our business, prospects, financial condition, and results of operations. Furthermore, we might not be able to retain our independent directors or attract new independent directors for our committees.

Item 1B. Unresolved Staff Comments.

The Company is neither an accelerated filer nor a large accelerated filer, nor is it a well-known seasoned issuer, and, therefore, this Item is not applicable to the Company. However, we are in the process of registering our \$200.0 million of 12.625% Senior Secured Notes due 2017 under the Securities Act of 1933, as amended, and responding to the SEC's comments in connection therewith.

Item 2. Properties

Dealerships and Facilities

As of December 31, 2010, we operated 85 dealerships and 14 reconditioning facilities in 28 geographic regions in 14 states. Select information regarding these dealerships is as follows:

Regions	Year Ended		As of December 31, 2010				
	December 31, 2010		Number of Stores	Number of Reconditioning Facilities	# of Active Loans	Loan Principal	
# of Units Sold	Percent of Unit Sales Volume	(\$ in thousands)					
Dallas	6,452	12.3%	9	2	17,726	\$ 188,834	13.7%
San Antonio	3,651	7.0%	6	1	11,218	112,801	8.2%
Atlanta	4,140	7.9%	6	1	10,960	110,303	8.0%
Orlando	3,766	7.2%	7	1	9,823	100,065	7.2%
Tampa	3,588	6.8%	6	1	9,890	98,815	7.1%
Phoenix	3,434	6.5%	5	1	8,934	85,937	6.2%
Austin	2,684	5.1%	3	1	7,339	77,761	5.6%
Los Angeles	2,724	5.2%	4	0	8,279	77,403	5.6%
Charlotte	2,702	5.1%	5	1	6,885	73,179	5.3%
Greensboro	2,937	5.6%	4	0	5,786	67,294	4.9%
Las Vegas	2,616	5.0%	2	1	6,247	64,302	4.7%
Richmond	2,117	4.0%	4	1	6,624	62,494	4.5%
Albuquerque	2,229	4.2%	3	1	5,894	58,029	4.2%
Jacksonville	2,003	3.8%	3	0	4,833	50,633	3.7%
Norfolk	1,962	3.7%	3	0	4,748	47,324	3.4%
Denver	1,482	2.8%	3	1	3,520	40,571	2.9%
Tucson	801	1.5%	1	0	2,426	23,171	1.7%
Nashville ⁽¹⁾	668	1.3%	1	0	647	8,231	0.6%
Oklahoma City ⁽²⁾	606	1.2%	1	0	569	7,745	0.6%
Greenville ⁽³⁾	528	1.0%	1	0	518	6,867	0.5%
Columbia ⁽⁴⁾	499	1.0%	1	0	495	6,686	0.5%
Fayetteville ⁽⁵⁾	401	0.8%	1	0	397	5,614	0.4%
Tulsa ⁽⁵⁾	176	0.3%	1	0	174	2,426	0.2%
Birmingham ⁽⁶⁾	132	0.3%	1	0	132	1,814	0.1%
Chattanooga ⁽⁶⁾	97	0.2%	1	0	97	1,346	0.1%
Memphis ⁽⁷⁾	55	0.1%	1	0	55	775	0.1%
Mobile ⁽⁸⁾	38	0.1%	1	1	38	532	0.0%
Knoxville ⁽⁸⁾	10	0.0%	1	0	10	140	0.0%
	52,498	100.0%	85	14	134,264	\$ 1,381,092	100.0%

⁽¹⁾ Opened December 2009

⁽²⁾ Opened January 2010

⁽³⁾ Opened May 2010

⁽⁴⁾ Opened June 2010

⁽⁵⁾ Opened July 2010

⁽⁶⁾ Opened October 2010

⁽⁷⁾ Opened November 2010

⁽⁸⁾ Opened December 2010

In general, our dealerships are located in high visibility, high traffic commercial areas, and we believe they are generally newer and cleaner in appearance than competing “buy-here, pay-here” dealerships. All of our dealerships are branded with consistent signage, flooring, furniture, paint, wallpaper, and awnings. We believe our branded dealership facilities are key to customer acquisition and help promote our image as a courteous, transparent and respectful professional business.

At December 31, 2010, we owned ten properties and all other facilities were leased. The owned properties include seven dealerships, a reconditioning facility, a shared dealership and reconditioning facility, and an operations/collections call center located in Mesa, Arizona.

Item 3. Legal Proceedings

We are involved in various claims and actions arising in the ordinary course of business. In the opinion of management, based on consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on us. We believe appropriate accruals have been made for the disposition of these matters. In accordance with ASC 450, *Contingencies*, we establish an accrual for a liability when it is both probable that the liability has been incurred and the amount of the loss can be reasonably estimated. These accruals are reviewed monthly and adjusted to reflect the impact of negotiations, settlements and payments, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Legal expenses related to defense, negotiations, settlements, rulings, and advice of outside legal counsel are expensed as incurred.

In August 2008, we received a Civil Investigative Demand from the Texas Office of Attorney General, Consumer Protection Division, asking for the production of certain materials. The demand indicates it is the subject of an investigation of possible violations of the Deceptive Trade Practices Act, Sections 17.46(a) and (b) in the marketing, advertising, financing, and selling of used vehicles. We provided the Texas Office of Attorney General with all requested information in August 2008. At that time, we met with the state's Attorney General's Office to provide them with an overview of the Company and discuss the requested materials. In addition, the Attorney General's Office indicated that they would review the materials we provided to them and if there were any concerns they would contact us to meet, discuss and resolve the concerns. The Texas Attorney General has requested additional information and documentation from time to time, most recently in February 2010 when it requested clarifying information limited to vehicle inspections, after sale repairs, warranty, loan servicing, and consumer concerns. We believe the request is routine in nature and we have responded accordingly. We believe we are in compliance with all applicable state laws and regulations and we intend to continue to cooperate with state officials, and we will continue to fully cooperate with the state's Attorney General's Office in responding to the demand and any follow up discussions with them. We believe we do not have loss contingencies related to this matter.

On February 24, 2011, the Nevada Supreme Court denied our appeal regarding an adverse administrative ruling related to the efficacy of certain sales tax refunds we had requested for the 2002 and 2003 tax years. Prior to this adverse ruling, the Department of Taxation of the State of Nevada had, in an audit for tax years 1998-2001, allowed such refunds. The Department is now taking the position that we do not qualify to claim such refunds under the State's statute. While only applicable to the claims submitted for 2002 and 2003, this denial could impact our ability to claim sales tax refunds in years subsequent to 2003. We also file for and receive sales tax refunds in states other than Nevada related to sales taxes paid on retail installment sales of the amount related to that portion of the sales price ultimately not collected from our customers. To our knowledge, this decision by the State of Nevada should not affect our position regarding sales tax refunds in states other than Nevada. On March 14, 2011, we filed a motion for reconsideration with the Nevada Supreme Court as we maintain our belief that we are entitled to these sales tax refunds. Despite this motion for reconsideration, we have accrued a total liability of \$5.5 million related to this matter.

Additionally, in the ordinary course of business, we are a defendant in various other types of legal proceedings. Although we cannot determine at this time the amount of the ultimate exposure from these lawsuits, if any, based on the advice of counsel management does not expect the final outcome to have a material adverse effect on us.

Item 4. Reserved.

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

There is no established public trading market for our common equity. Approximately 98.3% of our common equity is beneficially owned by our Chairman and principal shareholder, Ernest C. Garcia, II. The remaining 1.7% is held by our Chief Executive Officer, Raymond C. Fidel, subject to vesting as described more fully under "Item 11—Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Restricted Stock Grant."

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial and operating data as of the dates and for the periods indicated. The consolidated statements of operations for the years ended December 31, 2010, 2009, and 2008, and the consolidated balance sheet data as of December 31, 2010 and 2009, have been derived from our audited financial statements, which are included elsewhere in this report. The consolidated statements of operations for the years ended December 31, 2007 and 2006, and the consolidated balance sheet data as of December 31, 2008, 2007 and 2006, have been derived from our audited financial statements, which are not included in this report. Our historical results are not necessarily indicative of our results for any future period.

You should read the following selected financial and other data in conjunction with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this report.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(\$ in thousands)				
Consolidated Statements of Operations:					
Revenue:					
Sales of used vehicles.....	\$ 760,767	\$ 694,460	\$ 796,750	\$ 963,621	\$ 808,131
Interest income.....	264,974	251,822	261,875	250,628	220,683
Total revenue.....	<u>1,025,741</u>	<u>946,282</u>	<u>1,058,625</u>	<u>1,214,249</u>	<u>1,028,814</u>
Costs and expenses:					
Cost of used vehicles sold.....	481,210	394,362	477,255	575,234	498,365
Provision for credit losses.....	175,900	223,686	300,884	283,407	192,010
Portfolio debt interest expense.....	68,314	75,293	64,323	57,930	44,695
Non-portfolio debt interest expense.....	14,757	35,373	32,759	18,771	13,129
Senior secured notes interest expense.....	15,031	—	—	—	—
Selling and marketing.....	31,900	31,491	28,644	36,210	35,330
General and administrative.....	150,374	150,600	159,561	154,018	151,999
Depreciation expense.....	13,751	13,061	14,088	15,784	8,606
Loss (Gain) on extinguishment of debt, net ⁽¹⁾	3,418	(30,311)	(19,699)	—	—
Total costs and expenses.....	<u>954,655</u>	<u>893,555</u>	<u>1,057,815</u>	<u>1,141,354</u>	<u>944,134</u>
Income before income taxes.....	71,086	52,727	810	72,895	84,680
Income tax expense (benefit) ⁽²⁾	404	730	1,090	1,000	(1,426)
Net income (loss).....	<u>\$ 70,682</u>	<u>\$ 51,997</u>	<u>\$ (280)</u>	<u>\$ 71,895</u>	<u>\$ 86,106</u>

As of and for the Years Ended December 31,

	2010	2009	2008	2007	2006
(Unaudited)					
(\$ in thousands, except per vehicle sold data)					
Dealerships:					
Dealerships in operation at end of period.....	85	78	86	103	97
Average number of vehicles sold per dealership per month	54	52	49	55	54
Retail Sales:					
Number of used vehicles sold	52,498	49,500	55,415	66,922	60,324
Average age of vehicles sold (in years).....	4.3	4.1	4.1	3.9	4.1
Average mileage of vehicles sold.....	71,300	68,076	67,428	64,898	66,236
Per vehicle sold data:					
Average sales price.....	\$ 14,491	\$ 14,029	\$ 14,378	\$ 14,399	\$ 13,397
Average cost of used vehicle sold.....	\$ 9,166	\$ 7,967	\$ 8,612	\$ 8,596	\$ 8,261
Average gross margin.....	\$ 5,325	\$ 6,062	\$ 5,766	\$ 5,803	\$ 5,136
Gross margin percentage	36.7%	43.2%	40.1%	40.3%	38.3%
Loan Portfolio:					
Principal balances originated	\$ 747,329	\$ 686,214	\$ 789,360	\$ 959,517	\$ 799,363
Average amount financed per origination	\$ 14,244	\$ 13,867	\$ 14,250	\$ 14,341	\$ 13,254
Number of loans outstanding – end of period.....	134,264	127,737	125,070	124,228	112,040
Principal outstanding – end of period.....	\$ 1,381,092	\$ 1,312,216	\$ 1,342,855	\$ 1,343,085	\$ 1,104,325
Average principal outstanding during the period.....	\$ 1,378,486	\$ 1,364,782	\$ 1,410,292	\$ 1,271,678	\$ 1,032,408
Average effective yield on portfolio ⁽³⁾	19.9%	19.3%	19.3%	20.0%	21.5%
Allowance for credit losses as a percentage of portfolio principal.....	15.0%	16.6%	18.1%	18.2%	17.4%
Portfolio performance data:					
Portfolio delinquencies over 30 days ⁽⁴⁾	9.1%	7.4%	9.4%	8.6%	7.2%
Principal charged-off as a percentage of average principal outstanding...	22.0%	26.6%	30.3%	27.2%	25.9%
Recoveries as a percentage of principal charged-off.....	38.5%	31.7%	29.4%	32.9%	39.2%
Net charge-offs as a percentage of average principal outstanding.....	13.5%	18.2%	21.4%	18.2%	15.8%
Financing and Liquidity:					
Unrestricted cash and availability ⁽⁵⁾	\$ 145,837	\$ 40,407	\$ 50,232	\$ 126,309	\$ 121,664
Ratio of net debt to shareholders' equity ⁽⁶⁾	2.4x	3.4x	3.9x	3.8x	3.2x
Total average debt	\$ 1,141,428	\$ 1,047,522	\$ 1,153,122	\$ 1,063,806	\$ 878,417
Weighted average effective borrowing rate on total debt ⁽⁷⁾	9.2%	10.6%	8.4%	7.2%	6.6%

As of December 31,

	2010	2009	2008	2007	2006
(\$ in thousands)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents.....	\$ 23,677	\$ 21,526	\$ 25,533	\$ 42,241	\$ 41,483
Restricted cash and investments held in trust ⁽⁸⁾	81,891	84,064	71,223	107,271	131,221
Finance receivables ⁽⁹⁾	1,408,741	1,340,591	1,375,019	1,375,961	1,129,509
Allowance for credit losses	(208,000)	(218,259)	(242,600)	(244,034)	(192,150)
Inventory.....	145,961	115,257	100,211	136,642	122,460
Total assets	1,568,704	1,432,080	1,430,738	1,515,646	1,333,235
Portfolio debt	817,040	873,363	732,621	923,477	823,233
Non-portfolio debt	55,338	213,852	374,446	246,537	160,705
Senior secured debt	197,829	—	—	—	—
Total debt ⁽¹⁰⁾	1,070,207	1,087,215	1,107,067	1,170,014	989,938
Shareholders' equity	418,767	293,145	266,008	276,771	256,070

- (1) During the years ended December 31, 2008, 2009, and 2010, we repurchased outstanding indebtedness, resulting in net gains and losses on extinguishment of debt.
- (2) We elect to be treated as an S-corporation for federal and state income tax purposes. There is no provision for income taxes, except for a reduced amount of entity level state tax in certain jurisdictions, and for one of our subsidiaries which is a C-corporation. Income and losses flow through to our shareholders, who report such income and losses on individual income tax returns.
- (3) Average effective yield represents the interest income earned at the contractual rate (stated APR) less the write-off of accrued interest on charged-off loans and amortization of loan origination costs (which includes the write-off of unamortized loan origination costs on charged-off loans), plus interest earned on investments held in trust and late fees earned.
- (4) Delinquencies are presented on a Sunday-to-Sunday basis, which reflects delinquencies as of the nearest Sunday to period end. Sunday is used to eliminate any impact of the day of the week on delinquencies since delinquencies tend to be higher mid-week.
- (5) Unrestricted cash and availability consists of cash and cash equivalents plus available borrowings under the portfolio warehouse, residual, and inventory facilities, based on assets pledged or available to be pledged to the facilities.
- (6) Net debt is calculated as total debt less restricted cash and investments held in trust securing various debt facilities. Ratio of net debt to shareholders' equity is calculated as net debt divided by total shareholders' equity.
- (7) Includes the effect of amortization of discounts, debt issuance costs, and unused line fees.
- (8) Restricted cash and investments held in trust consist of cash and cash equivalents pledged as collateral under securitization transactions, portfolio warehouse facilities, and term financing facilities.
- (9) Finance receivables include principal balances, accrued interest, and capitalized loan origination costs.
- (10) Total debt excludes accounts payable, accrued expenses, and other liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations and our liquidity and capital resources should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in "Item 1A—Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Overview

We are the leading used vehicle retailer in the United States with a sole focus on the sale and financing of quality vehicles to the subprime market. Through our branded dealerships, we provide our customers with a comprehensive end-to-end solution for their automotive needs, including the sale, financing, and maintenance of their vehicles. As of December 31, 2010, we owned and operated 85 dealerships and 14 reconditioning facilities in 28 geographic regions in 14 states. For the year ended December 31, 2010, we sold 52,498 vehicles, generated \$1.0 billion of total revenue (which consists of vehicle sales and interest income), and generated \$198 million of Adjusted EBITDA. We provide our customers with financing for substantially all of the vehicles we sell. As of December 31, 2010, our loan portfolio had a total outstanding principal balance of \$1.4 billion. In contrast to other leading used vehicle retailers, we maintain our loan portfolio and related financings on our balance sheet.

Fiscal 2010 Highlights

Total revenue increased 8.4% from \$946.3 million for the year ended December 31, 2009 to \$1.0 billion for the year ended December 31, 2010.

Unit sales increased 6.1% from 49,500 for the year ended December 31, 2009 to 52,498 for the year ended December 31, 2010.

Net charge-offs as a percent of average portfolio principal outstanding decreased from 18.2% for the year ended December 31, 2009 to 13.5% for the year ended December 31, 2010.

In 2010, we opened ten stores in new geographic regions including Oklahoma City, Oklahoma; Tulsa, Oklahoma; Greenville, South Carolina; Columbia, South Carolina; Fayetteville, South Carolina; Chattanooga, Tennessee; Birmingham, Alabama; Memphis, Tennessee; Mobile, Alabama; Knoxville, Tennessee.

We completed the removal of payment processing (accepting customer payments) at our dealership locations. In lieu of accepting payments at dealerships, we now allow customers to make payments in cash at over 3,700 Wal-Mart stores and more than 12,000 other locations nationwide. Customers can also make payments via traditional payment methods.

We completed consolidation of collections for early delinquencies at our collection facilities in Dallas, Texas; Richmond, Virginia; Orlando, Florida; and Mesa, Arizona, which resulted in the removal of all collection activities from our dealerships.

We expanded our limited warranty program by offering a new 36 month / 36,000 mile warranty, including oil changes at any Sears Automotive location and 24/7 roadside assistance.

We are in the process of rebranding our existing dealerships to be consistent with our new dealerships, including replacement of signage, flooring, furniture, paint, wallpaper, and awnings. We have also converted from a 100% sales commission based sales associates to "sales advisors" with salary and bonus based compensation.

In June, we issued \$200.0 million of 12.625% Senior Secured Notes due June 15, 2017.

We expanded our warehouse credit facility relationships to four institutional lenders with aggregate facility capacity totaling \$575.0 million as of December 31, 2010, as well as a \$100.0 million term residual facility.

In September, we issued \$228.0 million of asset-backed securities collateralized by approximately \$300.0 million of finance receivables.

Statement of Operations—Line Item Descriptions

Revenue

Sales of used vehicles

We derive a significant portion of our revenue from the sale of used vehicles. Sales of used vehicles includes revenue from the sale of vehicles, net of a reserve for returns. Factors affecting revenue from sales of used vehicles include the number of used vehicles we sell and the price at which we sell our vehicles.

The number of used vehicles we sell depends on the volume of customer applications received and the conversion rate from customer application to sale. Application volume is a function of the number of dealerships, advertising, customer referrals, repeat customer volume, other marketing efforts, competition from other used car dealerships, availability of credit from other subprime finance companies, and general economic conditions. The conversion rate from customer application to sale is a function of our underwriting standards, customer sales experience, customer affordability, vehicle inventory, and warranty provided. The price at which we sell our vehicles is dependent on our pricing strategy, which balances margins, sales volume, and loan performance.

Interest income

Interest income consists of interest earned on installment sales contracts net of amortization of loan origination costs, plus late payment fees and interest earned on investments held in trust. We write-off accrued interest on charged-off loans as a reduction to interest income. Interest income is affected by (i) the principal balance of our loan portfolio, (ii) the average APR of our loan portfolio, and (iii) the payment performance by our borrowers on their loans.

Costs and expenses

Cost of used vehicles sold

Cost of used vehicles sold includes the cost to acquire vehicles, reconditioning and transportation costs associated with preparing the vehicles for resale, vehicle warranty, and other related costs. The cost to acquire vehicles includes the vehicle purchase price, auction fees, wages, and other buyer costs. A liability for the estimated cost of vehicle repairs under our DriveCare® limited vehicle warranty program is established at the time a used vehicle is sold by charging cost of used vehicles sold.

The cost of used vehicles sold is affected by a variety of factors including: (i) the cost of vehicles purchased at auction, (ii) the supply and demand of vehicles purchased at auction, (iii) the quality, make, model, and age of vehicles acquired, (iv) transportation costs, (v) labor costs and costs to operate our reconditioning facilities, and (vi) warranty costs.

Provision for credit losses

Provision for credit losses is the charge recorded to operations to maintain an allowance adequate to cover losses inherent in the portfolio. We charge-off the entire principal balance of receivables that are contractually 91 or more days past due at the end of a month, net of estimated recoveries. The allowance for credit losses varies based on size of the loan portfolio and the expected performance of the loans. Loan performance is a function of the underlying credit quality of the portfolio, the effectiveness of collection activities, auction values for repossessed vehicles, other ancillary collections, and overall economic conditions.

We anticipate the allowance for credit losses to grow as we increase origination volume and grow our portfolio. However, the allowance as a percentage of portfolio principal may increase or decrease based on the underlying performance of loans originated, value of collateral, and the change in credit grade mix of loans originated. Since we tightened our loan underwriting standards beginning in the second quarter of 2008 our allowance as a percent of principal has decreased as a result of a decrease in net charge-offs.

Portfolio debt interest expense and non-portfolio debt interest expense

Portfolio debt interest expense consists of interest and related amortization of debt issuance costs on our portfolio warehouse facilities, securitizations, PALP financings, and term residual financing.

Non-portfolio debt interest expense consists of interest expense and related amortization of discounts and debt issuance costs on our senior unsecured notes payable, inventory facility, real estate mortgage financing, and an equipment note payable. Non-portfolio debt interest expense is dependent on the amount of indebtedness and the interest expense associated therewith, both of which are dependent on the financial markets and economy as a whole.

Selling and marketing

Selling and marketing expenses include salaries and commissions of sales personnel, as well as advertising and marketing-related costs. Our selling and marketing expenses are generally affected by the salaries and commissions we pay to our sales

personnel, which are dependent in part on the volume of vehicles sold. We anticipate that commission related expenses will decrease while general and administrative expenses related to salaries of sales personnel will increase as we have recently changed from a 100% commission structure to a base salary plus team and individual-based bonus compensation structure for sales personnel. Selling and marketing expenses are also generally affected by the cost of advertising media and our marketing strategy.

General and administrative

General and administrative expenses include compensation and benefits, property-related expenses, collection expenses on our portfolio, store closing costs, and other ancillary expenses, such as professional fees and services.

We anticipate that general and administrative expenses will increase related to costs associated with being an SEC Registrant, and costs associated with expansion of our dealership base. We anticipate that collection related expenses will decrease as a result of the centralization of our collections for early delinquencies at our collection facilities in Dallas, Texas; Richmond, Virginia; Orlando, Florida; and Mesa, Arizona.

Gain (Loss) on extinguishment of debt, net

Gain (Loss) on extinguishment of debt, net represents the difference between the carrying value of the debt we repurchased and the purchase price at which we repurchased the debt, net of the write-off of unamortized debt issuance costs and discounts.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. Management considers these accounting policies to be critical accounting policies. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are described below.

Revenue recognition

Revenue from the sale of used vehicles is recognized upon delivery, when the sales contract is signed, and the agreed-upon down payment or purchase price has been received. Sales of used vehicles include revenue from the sale of used vehicles, net of a reserve for returns. The reserve for returns is estimated using historical experience and trends and could be affected if future vehicle returns differ from historical averages. A 10.0% increase in our rate of returns would result in a \$0.2 million and \$0.6 million increase in our sales return allowance (and corresponding decrease in revenue) at December 31, 2010 and 2009, respectively. Revenue is recognized at time of sale since persuasive evidence of an arrangement in the form of an installment sales contract exists, we have delivered the vehicle to the customer, transferred title, the sale has a fixed and determinable price, and collectability is reasonably assured.

Allowance for credit losses

We maintain an allowance for credit losses on an aggregate basis at a level we consider sufficient to cover probable credit losses inherent in our portfolio of receivables as of each reporting date utilizing a loss emergence period to cover 12 months of estimated losses. The allowance takes into account historical credit loss experience, including timing, frequency and severity of losses. This estimate of existing probable credit losses inherent in the portfolio is primarily based on static pool analyses by month of origination based on origination principal, credit grade mix and deal structure, including down payment and term. The evaluation of the adequacy of the allowance also considers factors and assumptions regarding the overall portfolio quality, delinquency status, the value of the underlying collateral, current economic conditions that may affect the borrowers' ability to pay, and the overall effectiveness of collection efforts.

The static pool loss curves by grade are adjusted for actual performance to date, and historical seasonality patterns. The forecasted periodic loss rates, which drive the forecast for estimated gross losses (before recoveries) are calculated by factoring

amortization speed, and origination terms. Charge-offs have a natural seasonality pattern such that they are typically lower during the first and second quarters of each calendar year because customers tend to have additional money from tax refunds to apply to their loans, compared to the third and fourth quarters when charge-offs tend to increase. Recoveries are estimated using historical unit and dollar static pool recovery activity to forecast recoveries for estimated charge-offs at the balance sheet date. The forecasted recovery rates (on a per unit basis) are based on the historical unit recovery trend by recovery type as adjusted for estimated impact of economic and market conditions.

The allowance model is sensitive to changes in assumptions such that an increase or decrease in our forecasted net charge-offs would increase or decrease the allowance as a percentage of principal outstanding required to be maintained. The amount of our allowance is sensitive to losses within credit grade, recovery values, deal structure, the loss emergence period and overall credit grade mix of the portfolio. In the event loss assumptions used in the calculation of the allowance for credit losses were to increase, there would be a corresponding increase in the amount of the allowance for credit losses, which would decrease the net carrying value of finance receivables and increase the amount of provision for credit losses, thereby decreasing net income. A 5% increase in our frequency loss assumption would increase the allowance for credit losses and our provision for credit losses by \$8.4 million and \$9.2 million as of December 31, 2010 and 2009, respectively. Also, a 5% decrease in our assumed recoveries per loan charged-off, would result in an increase to the allowance for credit losses and provision for credit losses by \$4.2 million and \$3.9 million as of December 31, 2010 and 2009, respectively. Our ability to forecast net charge-offs and track static pool net losses by month of origination are a critical aspect of this analysis.

Although it is reasonably possible that events or circumstances could occur in the future that are not presently foreseen, which could cause actual credit losses to be materially different from the recorded allowance for credit losses, we believe that we have given appropriate consideration to the relevant factors and have made reasonable assumptions in determining the level of the allowance. Our credit and underwriting policies and adherence to such policies and the execution of collections processes have a significant impact on collection results, as well as the economy as a whole. Changes to the economy, unemployment, auction prices for repossessed vehicles, and collections and recovery processes could materially affect our reported results.

Recovery receivables

All loans over 90 days past due at month end are charged-off. Recovery receivables consist of estimated recoveries to be received on charged-off receivables, including proceeds from selling repossessed vehicles at auction, along with insurance, bankruptcy and deficiency collections. The recovery amount from selling repossessed vehicles at auction is a forecast of vehicles to be recovered from loans previously charged-off and vehicles currently in our possession. Based on our extensive experience and historical database of auction recoveries, we estimate the number of units we will recover and the value that we will receive for these vehicles at auction. Our forecast utilizes historical data with respect to recovery rates, values, and time from charge-off to repossession. In order to estimate auction recoveries we utilize historical static pool unit recovery rates as adjusted for recent market trends to arrive at the forecasted recovery dollars by static pool month of charge-offs. Insurance, bankruptcy and deficiency collections are estimated using historical trends adjusted for changes to recovery practices.

Valuation of inventory

Inventory consists of used vehicles held-for-sale or currently undergoing reconditioning and is stated at the lower of cost or market value. Vehicle inventory cost is determined by specific identification. Direct and indirect vehicle reconditioning costs including parts and labor, costs to transport the vehicles to our dealership locations, buyer costs, and other incremental costs are capitalized as a component of inventory cost. Determination of the market value of inventory involves assumptions regarding wholesale loss rates derived from historical trends and could be affected by changes in supply and demand at our retail locations and at the auctions. A 1.0% decrease in the valuation of our inventory at December 31, 2010 would result in a decrease in net income of approximately \$1.5 million.

Secured financings

Securitizations

We sell loans originated at our dealerships to our bankruptcy-remote securitization subsidiaries, which, in turn, transfer the loans to separate trusts that issue notes and certificates collateralized by these loans. The senior class notes are sold to investors, and we retain the subordinate classes. We continue to service all securitized loans. Due to certain restrictions placed on the trusts (i.e., the trusts do not have the right to pledge the assets), securitization transactions have been accounted for as secured financings, in accordance with ASC 860, *Transfers and Servicing*. Loans included in the securitization transactions are recorded as finance receivables and the asset-backed securities that are issued by the trusts are recorded as a component of portfolio term financings in the accompanying consolidated balance sheets.

Pooled auto loan program transactions

Under PALP transactions, we pool contracts originated at our dealerships and sell them to either (i) a special purpose entity which transfers the loans to a separate trust which, in turn, issues a note collateralized by the loans; or (ii) we sell the pooled loans, in a secured financing transaction, directly to a third-party financial institution. We retain all servicing. Both types of PALP transactions are accounted for as secured financings either due to our right to repurchase the loans sold at a specified date or due to restrictions placed on the trust. Therefore, the loan contracts included in the transactions remain in finance receivables and the debt is reflected as portfolio term financings on the consolidated balance sheets.

Limited warranty

Our DriveCare® limited warranty provides major mechanical and air-conditioning coverage, on every used vehicle we sell. The limited warranty covers vehicles for 36 months or 36,000 miles, whichever comes first, and includes oil changes at Sears Automotive locations nationwide and 24/7 roadside assistance. The warranty is included in the sales price of the vehicle and is not sold as a separate product. A liability for the estimated cost of vehicle repairs under our warranty program is established at the time a used vehicle is sold by charging costs of used vehicles sold. We currently offer no warranty outside of our DriveCare® limited warranty. The liability is evaluated for adequacy through an analysis based on the program's historical performance of cost incurred per unit sold, management's estimate of frequency of vehicles to be repaired and severity of claims based on vehicles currently under warranty, the estimate cost of oil changes, and the estimate cost of roadside assistance, both of which are based on the program's historical performance and our expectation of future usage. These assumptions are further affected by mix and age of vehicles sold and our ability to recondition vehicles prior to sale. A 10.0% increase in our warranty accrual at December 31, 2010, would result in a reduction in net income of approximately \$1.8 million for the year ended December 31, 2010.

Factors Affecting Comparability

We have set forth below selected factors that we believe have had, or can be expected to have, a significant effect on the comparability of recent or future results of operations:

Reporting company expenses

Our 12.625% Senior Secured Notes due 2017 require us to file a registration statement on Form S-4 with the SEC and to make an offer to exchange the notes for registered publicly tradable notes that have substantially identical terms. On October 1, 2010, we filed a registration statement on Form S-4 and have subsequently filed four amendments to such registration statement and are in the process of responding to comments received from the SEC with respect to certain matters. Upon effectiveness of the registration statement we will become subject to a number of additional requirements, including the reporting requirements of the Exchange Act and certain related requirements of the Sarbanes-Oxley Act. As a result, we expect that our general and administrative expenses will increase as we pay our employees, legal counsel, and accountants to assist us in, among other things, establishing and maintaining internal control over financial reporting, and preparing and distributing periodic public reports under the federal securities laws. We estimate that incremental costs associated with being an SEC registrant will be between \$1.0 million and \$2.0 million annually.

Limited warranty

Beginning with sales in December 2009, we extended our DriveCare® limited warranty plan from six months/6,000 miles to 36 months/36,000 miles, and it now includes oil changes at Sears Automotive locations nationwide and 24/7 roadside assistance. As a result, we expect that our warranty costs will be higher in future periods, however, we believe that the warranty will have a positive impact on vehicle sales and loan performance.

Interest expense

As a result of the issuance of our 12.625% Senior Secured Notes due 2017 and the use of proceeds therefrom to repay certain of our indebtedness, and the contribution of an aggregate of \$100.1 million of subordinated notes and junior secured notes into equity in connection with the offering of our such notes, as well as the reduction in rates on our warehouse facilities, execution of securitization transactions which have a lower cost of funds compared to previously outstanding debt instruments, we expect that our weighted average cost of funds will be lower in future periods. To the extent our average amount borrowed is also less in future periods, we would expect a decrease in our interest expense in future periods.

Sales tax refunds

On February 24, 2011, we received an unfavorable ruling from the Nevada Supreme Court with respect to the efficacy of certain sales tax refunds we requested for the 2002 and 2003 tax years. While only applicable to 2002 and 2003, this ruling could

affect subsequent tax years as well. On March 14, 2011, we filed a motion for reconsideration with the Nevada Supreme Court as we maintain our belief that we are entitled to these sales tax refunds. Despite this motion for reconsideration, in the fourth quarter of 2010, we accrued a liability of \$5.5 million related to this matter. As a result of this ruling and starting on February 1, 2011, we will refrain from claiming the sales tax refunds relating to receivables that have become uncollectible in the state of Nevada. Going forward, we expect the annual decrease in sales tax recoveries related to this matter to be approximately \$0.7 million, depending on the size of our loan portfolio in the state of Nevada. See “Item 3—Legal Proceedings” for further detail.

Results of Operations

Comparison of years ended December 31, 2010 and 2009

The following table sets forth our results of operations for the periods indicated:

	Year Ended December 31,		% Change
	2010	2009	
	(\$ in thousands)		
Revenue:			
Sales of used vehicles.....	\$ 760,767	\$ 694,460	9.5%
Interest income	264,974	251,822	5.2%
Total revenue	<u>1,025,741</u>	<u>946,282</u>	<u>8.4%</u>
Costs and expenses:			
Cost of used vehicles sold	481,210	394,362	22.0%
Provision for credit losses	175,900	223,686	(21.4)%
Portfolio debt interest expense	68,314	75,293	(9.3)%
Non-portfolio debt interest expense	14,757	35,373	(58.3)%
Senior secured debt interest expense	15,031	—	100.0%
Selling and marketing.....	31,900	31,491	1.3%
General and administrative.....	150,374	150,600	(0.2)%
Depreciation expense	13,751	13,061	5.3%
Loss (Gain) on extinguishment of debt, net	3,418	(30,311)	(111.3)%
Total costs and expenses.....	<u>954,655</u>	<u>893,555</u>	<u>6.8%</u>
Income before income taxes	71,086	52,727	34.8%
Income tax expense.....	404	730	(44.7)%
Net income	<u>\$ 70,682</u>	<u>\$ 51,997</u>	<u>35.9%</u>

Sales of used vehicles

Revenue from sales of used vehicles increased \$66.3 million or 9.5% for the year ended December 31, 2010 compared to 2009. The increase in revenue was primarily due to a 6.1% increase in sales volume, coupled with a 3.3% increase in the average sales price per vehicle sold for the year ended December 31, 2010 compared to 2009. The increase in sales volume is attributable to an increase in close rates and an increase in the average number of stores in operation year over year. The increase in close rates is a function of our overall strategy to maintain a certain credit grade mix of our portfolio based on our credit risk management initiatives, in conjunction with our vehicle pricing strategy and loan terms offered to our customers. The increase in average sales price per vehicle sold is attributable to an overall increase in the average cost of used vehicles sold, primarily as a result of an increase in acquisition costs from appreciation in wholesale industry used vehicle values. See also “—Cost of used vehicles sold”.

The increase in sales volume is in part attributed to an increase in our internet-related sales revenue (a component of sales of used vehicles). Internet sales revenue increased \$85.8 million, or 27.1% for the year ended December 31, 2010 compared to 2009. As a percent of total sales revenue, internet-related sales comprised 52.9% of our total sales revenue for the year ended December 31, 2010, as compared to 45.6% for 2009. Our internet applications increased 31.8% during the year ended December 31, 2010 compared to 2009 as a result of our increased marketing and advertising efforts, which are directed at driving more customers to our websites to complete an application to obtain pre-approval for financing to purchase one of our vehicles.

Also contributing to our increase in revenue was an increase in same store sales revenue. On a same store basis, same store vehicle revenue increased 4.4%, and same store unit sales increased 1.3% for the year ended December 31, 2010 as compared to 2009. The increases in revenue were the result of increases in same store close rates for the year ended December 31, 2010 compared to 2009, and an increase in the average sales price per unit sold for the same period.

Interest income

Interest income increased \$13.2 million or 5.2% for the year ended December 31, 2010 compared to 2009. The increase in 2010 compared to 2009 was primarily due to an increase in the average effective yield on our receivables portfolio to 19.9% from 19.3% and to a lesser extent, an increase of \$13.7 million in average portfolio principal outstanding during the year ended December 31, 2010 compared to 2009.

Cost of used vehicles sold

Total cost of used vehicles sold increased \$86.8 million or 22.0% for the year ended December 31, 2010 compared to 2009. The increase was due to an increase in the number of vehicles sold and an increase in the average cost of vehicles sold. Our cost of vehicles sold per unit increased primarily as a result of higher acquisition costs at auction as a result of an appreciation in wholesale industry used vehicle values, increased reconditioning costs, and increased costs associated with our limited warranty as a result of expanded coverage of our DriveCare® warranty program. Wholesale used vehicle prices increased in 2010 compared to 2009 as a result of increased demand for used vehicles, coupled with a decrease in supply of used vehicles nationwide. Acquisition costs are a function of the vehicle make, model, and year mix that we acquire, along with vehicle wholesale auction price trends for the segment of vehicles that we target for acquisition.

Gross margin

Gross margin decreased \$20.5 million for the year ended December, 2010, compared to 2009. Gross margin as a percentage of sales revenue decreased to 36.7% for the year ended December 31, 2010 from 43.2% for 2009. The decrease in gross margin for the year ended December 31, 2010 is primarily attributable to an increase in our “Cost of used vehicles sold” as described above, while only a portion of these costs were passed on to our customers through an increase in sales price.

Provision for credit losses

Provision for credit losses decreased \$47.8 million or 21.4% for the year ended December 31, 2010 compared to 2009. The decrease was primarily attributable to a decrease in net charge-offs due to tightening our loan underwriting standards on loan originations beginning in the second quarter of 2008, coupled with an increase in recoveries as a percent of principal charged-off, and a decrease in the allowance as a percentage of outstanding principal due to the improved quality of our finance receivable portfolio.

Net charge-offs as a percent of average outstanding principal decreased to 13.5% for the year ended December 31, 2010 compared to 18.2% for 2009. This improvement is primarily the result of the tightening of our loan underwriting standards beginning in the second quarter of 2008. As a result, gross principal charged-off decreased to 22.0% for the year ended December 31, 2010 from 26.6% for 2009. In addition, recoveries as a percentage of principal charged-off increased to 38.5% for the year ended December 31, 2010 compared to 31.7% for 2009. The improvement in recoveries is due primarily to higher auction values stemming from appreciation in the wholesale used vehicle market, improved effectiveness of our repossession efforts, and the increase in seasoning of our loan portfolio. The adjusted net charge-offs in 2010 to remove the negative impact of the Nevada sales tax recovery adjustment of \$5.5 million is 13.1%, and the adjusted recoveries as a percentage of principal charged-off is 40.3%. See “Item 3—Legal Proceedings” for detail.

The allowance for credit losses decreased \$10.3 million from December 31, 2009 to December 31, 2010, which, as a percentage of principal outstanding balance, represented a decrease from 16.6% at December 31, 2009 to 15.0% at December 31, 2010. The decrease in the allowance as a percent of outstanding principal balance is due primarily to the improved performance and credit quality of our portfolio due to the tightening of our loan underwriting standards beginning in the second quarter of 2008, which has translated to a decrease in gross charge-offs, as discussed above. At December 31, 2010, approximately 87.8% of our portfolio represents loans that were originated post-credit tightening.

Portfolio debt interest expense

Total portfolio debt interest expense decreased \$7.0 million or 9.3% for the year ended December 31, 2010 compared to 2009. The decrease is in-part attributable the termination of our PALP agreement with Santander, which bore a higher cost of funds than our other portfolio debt. The original duration weighted average coupon of our two most recent securitizations was 3.66% for 2010-1 and 5.40% for 2009-1. In addition, our warehouse facility renewals and additions in 2010 were at lower interest rates than 2009. These changes in our portfolio debt interest expense structure caused an overall decrease in our portfolio debt interest cost of funds from 9.6% to 8.2% for the year ended December 31, 2009 compared to 2010.

Non-portfolio debt interest expense

Total non-portfolio debt interest expense decreased \$20.6 million or 58.3% for the year ended December 31, 2010 compared to 2009. The decrease was primarily due to the exchange of \$60.1 million junior secured notes and \$40.0 million of subordinated debt for equity, and the exchange of \$2.0 million junior secured notes and \$35.0 million in subordinated debt for an equal principal amount of Senior Secured Notes due 2017, which occurred in conjunction with the offering of our 12.625% Senior Secured Notes in June 2010. As a result, the decrease in interest expense for the year ended December 31, 2010 is attributable to a decrease in the average balance of junior secured debt and subordinated debt, which contained effective rates of 22.4% and 12.2%, respectively, thereby decreasing our overall cost of funds for non-portfolio debt from 13.0% for the year ended December 31, 2009 to 11.6% for 2010.

Senior secured debt interest expense

Senior secured debt interest expense increased \$15.0 million or 100.0% for the year ended December 31, 2010 compared to 2009. The increase is a result of the issuance in June 2010 of our 12.625% Senior Secured Notes due 2017. The weighted average effective rate on these notes is 12.9%, which includes amortization of discount and deferred financing costs.

Selling and marketing expense

Selling and marketing expenses increased \$0.4 million or 1.3% for the year ended December 31, 2010, compared to 2009. The increase was due to an increase in our advertising expenses of \$2.8 million, primarily related to our television and internet marketing strategy, in conjunction with advertising in seven new geographic locations as a result of expansion of our dealership base. This was offset by a decrease of \$2.3 million in sales commissions as we changed from a 100% commission structure to a base salary plus team and individual bonus compensation structure for sales personnel.

General and administrative expense

General and administrative expenses decreased \$0.2 million or 0.2% for the year ended December 31, 2010 compared to 2009, primarily due to store closing costs of \$5.8 million during the year ended 2009 as a result of the closure of nine stores and two reconditioning facilities, whereas we only incurred \$2.1 million of such expense in 2010. In addition, there was a decrease of \$7.6 million in legal expenses relating to a legal settlement in the first quarter of 2009, whereas we did not incur such expense in 2010. The decrease was partially offset by an increase of \$9.0 million in salaries and wages expenses during the year ended December 31, 2010 compared to 2009, primarily due to the new salaries and wages structure of sales personnel. See “—Selling and marketing expense” as described above.

Gain on extinguishment of debt, net

During the year ended December 31, 2010, we repurchased outstanding indebtedness in the form of PALP debt from Santander in an aggregate principal amount of \$227.9 million, for which we paid a fee of \$3.4 million. The fee was recorded as loss on the extinguishment of debt.

During the year ended December 31, 2009, we repurchased outstanding indebtedness in aggregate principal amount \$135.2 million, resulting in net gains on the extinguishment of debt of \$30.3 million.

Net income

Net income for the year ended December 31, 2010 increased to \$70.7 million from \$52.0 million for the year ended December 31, 2009. Excluding loss on extinguishment of debt of \$3.4 million in 2010 and gain on extinguishment of debt of \$30.3 million in 2009, net income would have increased \$52.4 million for the year ended December 31, 2010. This increase is primarily attributable to an increase in revenue from sales of used vehicles and interest income, a lower provision for credit losses, a decrease in total interest expense, and a decrease in general and administrative expenses, partially offset by a decrease in gross margin from the sale of used vehicles.

Originations

The following table sets forth information regarding our originations for the periods indicated:

	Years Ended December 31,		Change
	2010	2009	
	(\$ in thousands, except per loan data)		
Amount originated	\$ 747,329	\$ 686,214	8.9%
Number of loans originated	52,468	49,487	6.0%
Average amount financed per origination.....	\$ 14,244	\$ 13,867	\$ 377
Average APR originated	21.8%	21.1%	3.3%
Average term (in months)	53.9	51.5	2.4
Average down payment per origination.....	\$ 1,213	\$ 1,109	\$ 104
Down payment as a percent of amount financed	8.5%	8.0%	6.3%
Percentage of sales revenue financed ⁽¹⁾	98.2%	98.8%	(0.6)%

⁽¹⁾ Represents the dollar amount originated divided by the dollar amount of revenue from sales of used vehicles.

We originate loans when a customer finances the purchase of one of our vehicles, and the balance on these loans, together with accrued interest and unamortized loan origination costs, comprises our portfolio of finance receivables. Receivables are financed to generate liquidity for our business. See “—Liquidity and Capital Resources.”

The principal amount of loans we originated increased \$61.1 million for the year ended December 31, 2010, and we originated 6.0% more loans for the year ended December 31, 2010 compared to 2009. The increase was due to an increase in the number of used vehicles sold, and an increase in the average amount financed per loan originated as a direct result of an increase in the average sales price per vehicle sold, partially offset by an increase in the average down payment per loan originated. Average APR for loans originated increased from 21.1% to 21.8% for the year ended December 31, 2009 to 2010 due to changes in our overall interest rate pricing strategy.

Receivables portfolio

The following table shows the characteristics of our finance receivables portfolio for the periods indicated:

	As of and for the Years Ended December 31,		Change
	2010	2009	
	(\$ in thousands, except per loan data)		
Principal balance receivables, end of period.....	\$ 1,381,092	\$ 1,312,216	\$ 68,876
Average principal balance.....	\$ 1,378,486	\$ 1,364,782	\$ 13,704
Number of loans outstanding, end of period.....	134,264	127,737	6,527
Average remaining principal per loan, end of period.....	\$ 10,286	\$ 10,273	\$ 13
Weighted average APR of contracts outstanding.....	21.0%	20.6%	1.9%
Average age per loan (in months)	15.3	14.5	5.5%

Finance receivables principal balance increased \$68.9 million from December 31, 2009 to December 31, 2010 due to origination volume exceeding portfolio run-off (regular principal payments, payoffs, and charge-offs). The average age per loan (in months) increased 5.5% for the year ended December 31, 2010 compared to 2009, due to lower gross charge-offs and an increase in loan term.

Delinquencies

As a percentage of total outstanding loan principal balances, delinquencies over 30 days were 9.1% and 7.4% at December 31, 2010 and 2009, respectively. The increase in delinquencies is the result of a more seasoned loan portfolio as well as a change in our collection strategy for early delinquencies. In conjunction with our centralization of collections, we are utilizing messaging and dialer technologies for early delinquencies in order to achieve a more cost effective collections process. As a result, we anticipate delinquencies to be relatively higher than our historical rates, but expect this increase to level off once our efficiencies are achieved. We do not expect this increase in delinquencies to have a significant impact on charge-offs.

Comparison of years ended December 31, 2009 and 2008

The following table sets forth our results of operations for the periods indicated:

	Year Ended December 31,		% Change
	2009	2008	
	(\$ in thousands)		
Revenue:			
Sales of used vehicles	\$ 694,460	\$ 796,750	(12.8)%
Interest income	251,822	261,875	(3.8)%
Total revenue	<u>946,282</u>	<u>1,058,625</u>	<u>(10.6)%</u>
Costs and expenses:			
Cost of used vehicles sold	394,362	477,255	(17.4)%
Provision for credit losses	223,686	300,884	(25.7)%
Portfolio debt interest expense	75,293	64,323	17.1%
Non-portfolio debt interest expense	35,373	32,759	8.0%
Selling and marketing	31,491	28,644	9.9%
General and administrative	150,600	159,561	(5.6)%
Depreciation expense	13,061	14,088	(7.3)%
Gain on extinguishment of debt, net	(30,311)	(19,699)	53.9%
Total costs and expenses	<u>893,555</u>	<u>1,057,815</u>	<u>(15.5)%</u>
Income before income taxes	52,727	810	n.m.
Income tax expense	730	1,090	(33.0)%
Net income / (loss)	<u>\$ 51,997</u>	<u>\$ (280)</u>	<u>n.m.</u>

Sales of used vehicles

Revenue from sales of used vehicles decreased \$102.3 million, or 12.8%, from 2008 to 2009. The decrease in revenue was driven by a 10.7% decrease in sales volume, coupled with a decrease in average sales price per vehicle sold of \$349 per unit from 2008 to 2009. The decrease in sales volume is attributable to a decrease in the average number of stores open, and a decrease in our close rates as a result of our efforts to further tighten our loan underwriting standards beginning in the second quarter of 2008. We tightened our loan underwriting standards to improve credit quality of new originations and closed stores in order to reduce origination volume to address reduced liquidity as a result of turmoil in the credit markets, as well as the effects of the recession on our customers. The decrease in average sales price per vehicle is attributable to a decrease in the average cost of used vehicles sold and our overall pricing strategy. Same store unit sales increased 0.3% and same store vehicle revenues decreased 2.3% for 2009 compared to 2008.

Internet-related sales increased from \$227.1 million for the year ended December 31, 2008 to \$316.5 million for the year ended December 31, 2009. As a percent of total sales revenue, internet-related sales comprised 45.6% and 28.5% of our total sales revenue for the years ended December 31, 2009 and 2008, respectively. This increase in internet-related sales is a result of our increased marketing and advertising effort, which is directed at driving more customers to our websites to complete an application to obtain pre-approval for financing to purchase one of our vehicles.

Interest income

Interest income for the year ended December 31, 2009 was \$251.8 million, a decrease of 3.8% from 2008 to 2009. This decrease is attributable to a \$45.5 million decrease in the average principal balance on our receivable portfolio from December 31, 2008 to 2009 which was a direct result of a lower level of originations due to the factors described above.

Cost of used vehicles sold

Total cost of used vehicles sold decreased \$82.9 million, or 17.4%, from 2008 to 2009, due to decreases in the number of vehicles sold and the average cost of vehicles sold. Our cost of vehicles sold per unit decreased as a result of lower acquisition costs, as well as lower reconditioning costs, buying efficiencies, and reduced costs associated with our warranty as a result of bringing

certain administrative functions in-house. Acquisition costs are a function of the vehicle make, model, and year mix that we acquire, along with vehicle wholesale auction price trends for the segment of vehicles that we target for acquisition. We lowered our reconditioning costs with the implementation of an inventory management system and were able to improve our buying efficiencies by renegotiating contracts with national transport companies.

Gross margin

Gross margin as a percentage of sales revenue increased to 43.2% for the year ended December 31, 2009 from 40.1% for the year ended December 31, 2008. Average gross margin per vehicle sold increased 5.1% for the year ended December 31, 2009 compared to 2008. Although our price per vehicle sold has decreased, we were able to increase our margin over cost of vehicles sold as described above. Our gross margins were also lower in 2008 due, in part, to overstocked vehicle inventory associated with dealership closings that occurred in the second quarter 2008.

Provision for credit losses

Provision for credit losses decreased \$77.2 million for the year ended December 31, 2009 compared to 2008. This decrease was primarily attributed to a decrease in net charge-offs due to tightening our loan underwriting standards, starting with originations in the second quarter of 2008. Provision for credit losses also decreased due to reduced loan origination volume compared to the prior year, coupled with a decrease in the allowance as a percentage of outstanding principal due to the improved quality of the loan portfolio.

Net charge-offs as a percent of average outstanding principal decreased to 18.2% for the year ended December 31, 2009 compared to 21.4% in 2008. This improvement is the result of tightening of our loan underwriting standards beginning in the second quarter of 2008, which reduced gross principal charged-off to 26.6% for the year ended December 31, 2009 from 30.3% for the year ended December 31, 2008, coupled with increased recoveries as a percentage of principal charged-off. Recoveries as a percentage of principal charged-off increased from 29.4% for the year ended December 31, 2008 to 31.7% for 2009. The improvement in recoveries is due in part to improved effectiveness of our repossession efforts, and the increased seasoning of our loan portfolio.

The allowance for credit losses decreased \$24.3 million from December 31, 2008 to December 31, 2009, which, as a percentage of principal outstanding balance, represented a decrease from 18.1% at December 31, 2008 to 16.6% at December 31, 2009. The decrease in the allowance as a percent of outstanding principal balance is based primarily on the improved credit quality of our portfolio due to the tightening of our loan underwriting standards. At December 31, 2009, approximately 67.6% of our portfolio represents loans that were originated since March 31, 2008, under our tightened loan underwriting standards.

Portfolio debt interest expense

Portfolio debt interest expense increased \$11.0 million, or 27.1%, from 2008 to 2009. Our weighted average effective borrowing rate on portfolio debt for the year ended December 31, 2009 was 9.7%, as compared to 7.5% for the year ended December 31, 2008. This increase is attributable to higher effective interest rates on our current and former portfolio warehouse facilities, an increase in amortization of loan fees due to facility renewals, an increase in the average amount borrowed pursuant to portfolio term financings, and an increase in the effective rate on our portfolio term financings.

Non-portfolio debt interest expense

Non-portfolio debt interest expense increased \$2.6 million, or 8.0%, from 2008 to 2009. The increase is primarily related to an increase in the effective rate on our inventory facility, the issuance of our junior secured notes to related parties and others in December 2008, and an increase in interest expense on subordinated notes payable, which were issued in April and May 2008. The increase is offset, in part, by i) the elimination of interest expense associated with our residual facility, which was terminated in December 2008, ii) a decrease in interest expense on our senior unsecured notes, as a result of the repurchase of \$122.0 million in aggregate principal amount of these notes throughout the year ended December 31, 2009.

Selling and marketing expense

Selling and marketing expenses increased \$2.8 million, or 9.9%, from 2008 to 2009. This increase was due to an increase in our advertising expenses, primarily related to our television and internet marketing strategy.

General and administrative expense

General and administrative expenses decreased \$9.0 million, or 5.6%, from 2008 to 2009. General and administrative expenses decreased due to fewer stores in operation during 2009 as a result of the closure of 19 stores and four reconditioning facilities during

the year ended December 31, 2008 as well as the closure of nine stores and two reconditioning facilities in the year ended December 31, 2009. These were partially offset by store closing costs of \$12.4 million and \$5.9 million expensed in the years ended December 31, 2008 and 2009, respectively, and a \$7.6 million expense incurred in the first quarter of 2009 relating to a legal settlement. The settlement related to a lawsuit by a competitor that essentially alleged that we unlawfully paid the competitor's employees for customer referrals, diverting business from the competitor to us. We disputed the allegations and believe that, in general, the prospects referred did not meet the typical customer profile of the competitor. Nonetheless, we discontinued the practice complained of, and settled the lawsuit without admitting any impropriety or illegality.

Gain on extinguishment of debt, net

During the years ended December 31, 2008 and 2009, we repurchased outstanding indebtedness in aggregate principal amounts of \$96.0 million and \$135.2 million, respectively, resulting in net gains on the extinguishment of debt of \$19.7 million and \$30.3 million in the same periods, respectively.

Net income

Net income increased \$52.3 million from 2008 to 2009, primarily due to a lower provision for credit losses due to improved loan portfolio performance, gains on the extinguishment of debt, increased gross margin per unit sold, and a decrease in general and administrative costs and operating expenses due to fewer stores in operation, offset by a reduction in the number of vehicles sold due to tightening of our loan underwriting standards, store closures and an increase in interest expense.

Originations

The following table sets forth information regarding our originations for the periods indicated:

	Years Ended December 31,		Change
	2009	2008	
	(\$ in thousands, except per loan data)		
Amount originated	\$ 686,214	\$ 789,360	(13.1)%
Number of loans originated	49,487	55,393	(10.7)%
Average amount financed	\$ 13,867	\$ 14,250	\$ (383)
Average APR originated	21.1%	21.1%	—%
Average term (in months)	51.5	53.0	(1.5)
Average down payment	\$ 1,109	\$ 1,090	\$ 19
Down payment as a percent of amount financed	8.0%	7.6%	0.4%
Percentage of sales revenue financed ⁽¹⁾	98.8%	99.1%	(0.3)%

⁽¹⁾ Represents the dollar amount originated divided by the dollar amount of revenue from sales of used vehicles.

We originate loans when a customer finances the purchase of one of our vehicles, and the balance on these loans, together with accrued interest and unamortized loan origination costs, comprises our portfolio of finance receivables. Receivables are financed to generate liquidity for our business. See “—Liquidity and Capital Resources” for further information.

The principal amount of loans we originated decreased by \$103.1 million and we originated 5,906 fewer loans for the year ended December 31, 2009 compared to 2008. These decreases were due to a decrease in the number of vehicles sold year over year as a result of tightening our loan underwriting standards and store closures, combined with a decrease in the average amount financed due to a decrease in the average sales price per vehicle and an increase in the average down payment. We tightened our loan underwriting standards and closed stores in order to reduce origination volume and improve credit quality of new originations to address reduced liquidity as a result of turmoil in the credit markets, and the effects of the recession on our customers.

Receivables portfolio

The following table shows the characteristics of our finance receivables portfolio for the periods indicated:

	As of and for the Years Ended December 31,		Change
	2009	2008	
	(\$ in thousands, except per loan data)		
Principal balance receivables, end of period.....	\$ 1,312,216	\$ 1,342,855	(2.3)%
Average principal balance.....	\$ 1,364,782	\$ 1,410,292	(3.2)%
Number of loans outstanding, end of period.....	127,737	125,070	2,667
Average remaining principal per loan, end of period.....	\$ 10,273	\$ 10,737	\$ (464)
Weighted average APR of contracts outstanding.....	20.6%	20.6%	—%
Average age per loan (in months)	14.5	12.5	2.0

Finance receivables principal balance decreased \$30.6 million from December 31, 2008 to December 31, 2009 due to an excess of portfolio run-off (regular principal payments, payoffs, and charge-offs) over origination volume. This decrease was due, in large part, to a decrease in sales volume and originations as a result of the tightening of our loan underwriting standards beginning in the second quarter of 2008 along with the closure of stores.

Delinquencies

As a percentage of total outstanding loan principal balances, delinquencies over 30 days were 9.4% and 7.4% at December 31, 2008 and 2009, respectively. The decrease was due to the tightening of our loan underwriting standards beginning in the second quarter of 2008. At December 31, 2009, approximately 67.6% of our portfolio represents loans that were originated since March 31, 2008 under our tightened loan underwriting standards.

Seasonality

Historically, we have experienced higher revenues in the first quarter of the calendar year than in the last three quarters of the calendar year. We believe these results are due to seasonal buying patterns resulting, in part, because many of our customers receive income tax refunds during the first quarter of the year, which are a primary source of down payments on used vehicle purchases. Our portfolio of finance receivables also has historically followed a seasonal pattern, with delinquencies and charge-offs being the highest in the second half of the year.

To illustrate the seasonality in total revenue, costs and expenses, and income before taxes, a summary of the quarterly financial data follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(\$ in thousands)				
2010:					
Total revenue	\$ 297,038	\$ 245,747	\$ 263,323	\$ 219,633	\$ 1,025,741
Costs and expenses ⁽¹⁾	\$ 263,405	\$ 225,975	\$ 244,838	\$ 220,437	\$ 954,655
Income / (loss) before income taxes	\$ 33,633	\$ 19,772	\$ 18,485	\$ (804)	\$ 71,086
Net income / (loss)	\$ 33,284	\$ 19,322	\$ 19,232	\$ (1,156)	\$ 70,682
2009:					
Total revenue	\$ 286,745	\$ 233,025	\$ 233,165	\$ 193,347	\$ 946,282
Costs and expenses ⁽¹⁾	\$ 275,238	\$ 195,199	\$ 224,238	\$ 198,880	\$ 893,555
Income / (loss) before income taxes	\$ 11,507	\$ 37,826	\$ 8,927	\$ (5,533)	\$ 52,727
Net income / (loss)	\$ 11,137	\$ 37,536	\$ 8,817	\$ (5,493)	\$ 51,997
2008:					
Total revenue	\$ 364,998	\$ 249,976	\$ 241,207	\$ 202,444	\$ 1,058,625
Costs and expenses ⁽¹⁾	\$ 342,926	\$ 256,508	\$ 236,336	\$ 222,045	\$ 1,057,815
Income / (loss) before income taxes	\$ 22,072	\$ (6,532)	\$ 4,871	\$ (19,601)	\$ 810
Net income / (loss)	\$ 21,652	\$ (6,982)	\$ 4,801	\$ (19,751)	\$ (280)

⁽¹⁾ Includes net gains / losses on extinguishment of debt.

Liquidity and Capital Resources

General

We require capital for the purchase of inventory, to provide financing to our customers, for working capital and for general corporate purposes, including the purchase of property and equipment, and to open new dealerships and reconditioning facilities.

We have historically funded our capital requirements primarily through operating cash flow, portfolio warehouse facilities, securitizations, PALP financings, term residual facilities, inventory and other revolving debt facilities, real estate mortgage financing, and other notes payable (including senior secured notes, junior secured notes, senior unsecured notes, and subordinated notes).

Financing sources

We currently fund our capital requirements through the following debt instruments:

- Portfolio term financings including asset backed securitizations, and a term residual facility, both of which offer fixed rate secured financing for our receivables portfolio.
- Portfolio warehouse facilities with four different institutional lenders.
- Senior Secured Notes due June 15, 2017.
- Other secured notes payable including a revolving inventory facility, a mortgage loan secured by our operations call center in Mesa, Arizona, and other notes and capital leases secured by property and equipment.

For additional details and terms regarding these debt instruments, see Note 8—Debt Obligations included in our consolidated financial statements as of December 31, 2010.

Our warehouse facilities include certain favorable terms and conditions, including (i) the inability of the lender to subjectively lower collateral values and effectively lower the advance rate; (ii) recourse that is limited to 10% of the facility size; and (iii) limited foreclosure rights upon a default.

We actively manage utilization of our various funding sources as we seek to minimize borrowing costs through drawing on our lower cost facilities and minimizing unused line fees, while at the same time balancing the effective advance rates and liquidity generated by each of the credit facilities in order to meet our funding needs. The effective advance rates on our portfolio warehouse and term financings are based on the outstanding principal balance of the loans we originate. However, our initial investment in the loans we originate is lower than the original principal balance of the loans.

Recent financing transactions

In February 2011, we completed a securitization transaction (2011-1) by issuing \$214.0 million of asset backed securities, which are collateralized by approximately \$280.0 million of finance receivables. The asset backed securities were rated by Standard and Poors (S&P) and DBRS and are structured in four tranches with credit ratings ranging from AAA to BBB, without external credit enhancement from a monoline insurer. The weighted average coupon of these four tranches was 3.03%.

In October 2010, we extended the term of our \$50.0 million revolving inventory facility and this facility now expires on October 19, 2011.

In September 2010, we completed a securitization transaction (2010-1) by issuing \$228.0 million of asset backed securities, which were collateralized by approximately \$300.0 million of finance receivables. The asset backed securities were rated by S&P and DBRS and are structured in four tranches with credit ratings ranging from AAA to BBB, without external credit enhancement from a monoline insurer. The weighted average coupon of these four tranches was 3.66%.

In July 2010, we entered into a portfolio warehouse facility agreement with RBS Securities, Inc. with a capacity of \$50.0 million, which expires in July 2011. This facility is secured primarily by finance receivables and carries an advance rate on the receivables pledged to the facility of 50%.

In July 2010, we amended our warehouse facility with Deutsche Bank, decreasing the total capacity from \$250.0 million to \$150.0 million, and extending the maturity from December 2010 to December 2011. This facility is secured by finance receivables and carries an advance rate on the receivables pledged to the facility of 58%.

In June 2010, we issued \$200.0 million of 12.625% Senior Secured Notes due June 15, 2017. The notes were issued with an original issuance price of 98.854%, resulting in an effective yield of 12.875%.

In June 2010, our Mr. Garcia exchanged \$100.1 million of debt in the form of junior secured notes and subordinated notes, to an equal amount of paid-in capital, thereby increasing our total equity accordingly.

In May 2010, we entered into a \$350.0 million combined warehouse and residual facility with an affiliate of Santander secured primarily by finance receivables and residual interests in our warehouse facilities. This facility allows for maximum borrowings under a term residual component of \$100.0 million with an advance rate of 75% and under a revolving component of \$250.0 million, with an advance rate of 70%.

In April 2010, we entered into a portfolio warehouse facility with an affiliate of UBS secured primarily by finance receivables, which allows for maximum borrowings of \$125.0 million with an advance rate of 50%.

Operating leases

Operating leases are also a significant component of our financing sources. At December 31, 2010, we lease the majority of our dealership and reconditioning center locations. We also lease our corporate office in Phoenix, Arizona, an operations collections facility in Dallas, Texas. As each lease matures, we evaluate the existing location to determine whether the dealership should be relocated to another site in the region closer in proximity to new car franchises and/or higher traffic areas. As of December 31, 2010, we had approximately \$91.8 million in aggregate operating lease obligations.

Shareholder distributions

Income from S-corporations flows through to the individual shareholders, who report income/losses on their individual income tax returns. We have made distributions to shareholders to fund the tax paid by the shareholders related to income of DTAG and DTAC, in addition to general distributions to the shareholders. The following table summarizes distributions to shareholders since January 1, 2003.

	January 1, 2003 to December 31,							
	2005	2006	2007	2008	2009	2010	Totals	
	(\$ in thousands)							
Distributions to shareholders.....	\$ 135,033	\$ 47,237	\$ 51,194	\$ 12,733	\$ 27,110	\$ 46,310	\$ 319,617	
Less: S-corporation shareholder tax liability based on highest tax rates.....	54,630	19,810	24,010	5,300	910	20,520	125,180	
Distributions in excess of amounts to pay taxes...	\$ 80,403	\$ 27,427	\$ 27,184	\$ 7,433	\$ 26,200	\$ 25,790	\$ 194,437	

We did not have any approved but unpaid dividends at December 31, 2010 or 2009, and we did not have any amount available to be distributed as of December 31, 2010 or 2009.

Liquidity

The following is a summary of total available liquidity, consisting of unrestricted cash and current availability under our portfolio warehouse and inventory facilities for the periods indicated:

	December 31,		
	2010	2009	2008
	(\$ in thousands)		
Unrestricted cash	\$ 23,677	\$ 21,526	\$ 25,533
Portfolio warehouse facilities	112,160	8,881	23,889
Inventory facility	10,000	10,000	810
Total liquidity	\$ 145,837	\$ 40,407	\$ 50,232

The following table presents a summary of our access to liquidity under our portfolio warehouse facilities and our inventory facility based on collateral pledged as of December 31, 2010 and 2009:

As of December 31, 2010	Facility Amount	Amount Drawn	Unused Facility Amount ⁽¹⁾	Borrowing Base ⁽²⁾	Amount Drawn	Total Availability
	(\$ in thousands)					
Warehouse facility I.....	\$ 150,000	\$ 141,715	\$ 8,285	\$ 148,069	\$ 141,715	\$ 6,354
Warehouse facility II.....	250,000	100,000	150,000	101,256	100,000	1,256
Warehouse facility III.....	125,000	117,392	7,608	132,860	117,392	15,468
Warehouse facility IV.....	50,000	43,900	6,100	45,433	43,900	1,533
DTAC receivables ⁽³⁾	N/A	N/A	N/A	87,549	N/A	87,549
Total portfolio warehouse facilities.....	\$ 575,000	\$ 403,007	\$ 171,993	\$ 515,167	\$ 403,007	\$ 112,160
Inventory facility.....	50,000	40,000	10,000	50,000	40,000	10,000
	\$ 625,000	\$ 443,007	\$ 181,993	\$ 565,167	\$ 443,007	\$ 122,160
Unrestricted cash.....						23,677
Total cash and availability.....						\$ 145,837

As of December 31, 2009	Facility Amount	Amount Drawn	Unused Facility Amount ⁽¹⁾	Borrowing Base ⁽²⁾	Amount Drawn	Total Availability
	(\$ in thousands)					
Warehouse facility I.....	\$ 250,000	\$ 77,506	\$ 172,494	\$ 79,175	\$ 77,506	\$ 1,669
DTAC receivables ⁽⁴⁾	N/A	N/A	N/A	7,212	N/A	7,212
Total portfolio warehouse facilities.....	\$ 250,000	\$ 77,506	\$ 172,494	\$ 86,387	\$ 77,506	\$ 8,881
Inventory facility.....	60,000	50,000	10,000	60,000	50,000	10,000
	\$ 310,000	\$ 127,506	\$ 182,494	\$ 146,387	\$ 127,506	\$ 18,881
Unrestricted cash.....						21,526
Total cash and availability.....						\$ 40,407

⁽¹⁾ Represents amounts that can be drawn upon as long as the amount drawn does not exceed the borrowing base for the credit facility.

⁽²⁾ Borrowing base is determined by the collateral currently pledged to the respective facilities. The borrowing base calculation for the portfolio warehouse facilities uses a blended 55% advance rate for December 31, 2010 and 58% for December 31, 2009.

⁽³⁾ Includes \$113.0 million of unpledged qualifying receivables that can be pledged immediately and bring total borrowing to our maximum capacity. The borrowing base is the lesser of total eligible collateral multiplied by the applicable advance rate and the facility amount.

- (4) Includes \$13.3 million of unpledged qualifying receivables that can be pledged immediately and bring total borrowing to our maximum capacity. The borrowing base is the lesser of total eligible collateral multiplied by the applicable advance rate and the facility amount.

Changes in liquidity

Changes in liquidity are affected by increases and decreases to our operating cash flow, changes in advance rates on our portfolio warehouse facilities, capacity of our portfolio warehouse and inventory facilities, portfolio term financings, and changes in other notes payable. The following is a summary of changes in liquidity for each period presented:

	December 31,		
	2010	2009	2008
	(\$ in thousands)		
Liquidity – beginning of period	\$ 40,407	\$ 50,232	\$ 126,309
Net increase (decrease) in cash and cash equivalents	2,151	(4,007)	(16,708)
Increase (decrease) in portfolio warehouse availability	103,279	(15,008)	(55,179)
Increase (decrease) in inventory facility availability	—	9,190	(4,190)
Liquidity – end of period	<u>\$ 145,837</u>	<u>\$ 40,407</u>	<u>\$ 50,232</u>

Change in liquidity during the year ended December 31, 2010. Our liquidity for the year ended December 31, 2010 increased \$105.4 million, from \$40.4 million at December 31, 2009 to \$145.8 million at December 31, 2010. This increase was primarily the result of the net proceeds from the sale of our 12.625% Senior Secured Notes in June 2010, which were used primarily to pay down amounts outstanding under our warehouse facilities, plus the addition of a residual term loan in May 2010.

Change in liquidity during the year ended December 31, 2009. Our liquidity for the year ended December 31, 2009 decreased \$9.8 million. The decrease in 2009 was primarily the result of the repurchase of \$122.0 million of senior unsecured notes, the repurchase of \$13.2 million in securitization debt, payment of \$27.1 million in dividends and an increase in vehicle inventory, partially offset by an increase in borrowings under PALP financings and securitizations which have higher advance rates than our portfolio warehouse facilities, and an increase in advance rate in our remaining portfolio warehouse facility.

Change in liquidity during the year ended December 31, 2008. Our liquidity for the year ended December 31, 2008 decreased \$76.1 million, primarily as a result of our inability to issue securitization debt during 2008 due to the demise of the subprime securitization market, lower advance rates on our portfolio warehouse facilities, the termination of our residual facility in December 2008, and the repurchase of \$83.0 million in securitization debt and \$13.0 million in senior unsecured debt and cash dividends to our shareholder. These decreases were partially offset by lower origination volume due to the tightening of our loan underwriting standards, maintaining lower inventory levels due to a decrease in the number of stores, an increase in borrowings under portfolio warehouse facilities, and funding from subordinated notes payable, PALP, and junior secured notes payable.

Cash flows

Operating activities

For the year ended December 31, 2010, net cash provided by operating activities was \$5.9 million, as compared to \$85.3 million for 2009. The decrease in cash provided by operating activities was primarily due to an increase in loan originations, a greater increase in inventory levels in 2010 compared to 2009, an increase in other assets in 2010 compared to a decrease in 2009. This decrease was partially offset by an increase in collections and recoveries on finance receivable principal, and an increase in accounts payable, accrued expenses and other liabilities in 2010 compared to a decrease in 2009.

For the year ended December 31, 2009, net cash provided by operating activities was \$85.3 million, as compared to \$60.0 million for 2008. The increase in cash provided by operating activities was primarily due to lower origination volume tied to fewer open stores and tightening of our loan underwriting standards, an increase in net income and a decrease in other assets. This increase was partially offset by an increase in inventory levels and a decrease in accounts payable and accrued expenses.

For the year ended December 31, 2008, net cash provided by operating activities was approximately \$60.0 million, as compared to net cash used in operating activities for 2007 of approximately \$136.0 million. The increase in cash provided by operating activities was due to lower origination volume tied to tightening our loan underwriting standards, a decrease in vehicle inventory tied to lower

number of stores, and lower anticipated sales in the first quarter of 2009 versus first quarter of 2008. These increases were partially offset by a decrease in accounts payable and accrued expenses and a decrease in net income.

Investing activities

For the year ended December 31, 2010, net cash used in investing activities increased to \$20.5 million from \$12.8 million used in investing activities for 2009. The increase in cash used in investing activities was primarily due to ten new store openings in 2010, one of which was a purchased property, combined with two reconditioning facilities under development, remodeling our existing dealerships, and an increase in the addition of information technology infrastructure equipment to support our operations.

For the year ended December 31, 2009, net cash used in investing activities increased to \$12.8 million from \$6.3 million used in investing activities for 2008. This increase was related to the purchase of an aircraft, an increase in purchases of information technology infrastructure, and an increase in improvements related to new store openings.

Net cash used in investing activities decreased \$5.2 million to \$6.3 million used in the year ended December 31, 2008 from \$11.5 million used in 2007. This decrease was primarily the result of a reduction in the purchase of property and equipment since we did not open any new stores or reconditioning facilities during the year.

Financing activities

For the year ended December 31, 2010, net cash provided by financing activities was \$16.7 million, as compared to net cash used in financing activities of \$76.5 million for 2009. This change was a result of an increase in net borrowings under our warehouse facilities, which was a result of executing three new warehouse facilities and terminating one of our PALP financing agreements with one of our lenders, resulting in the pay-down of PALP while increasing warehouse borrowings. In addition, we issued \$200.0 million of 12.625% Senior Secured Notes in June 2010, which provided net proceeds to the Company of \$155.9 million (as \$37.0 million principal amount of the notes were exchanged for existing debt), which was used to pay down amounts outstanding under warehouse facilities and pay-off a portion of junior secured notes and subordinated notes payable to our principal shareholder.

Net cash used in financing activities increased to \$76.5 million for the year ended December 31, 2009 from \$70.4 million used in financing activities for 2008. The additional cash used in financing activities in 2009 was primarily attributable to a net decrease in amounts outstanding under portfolio warehouse facilities which included fully repaying one of our portfolio warehouse facilities in July 2009, a decrease in amounts outstanding under other notes payable, the repurchase of an aggregate amount of \$135.2 million in senior unsecured notes and securitization debt, whereas we only repurchased \$96.0 million in 2008. This decrease in cash used is also attributed to Verde providing \$75.0 million to us in the form of subordinated notes payable in 2008, as compared to no additions to this debt in 2009 as well as an increase in dividend distributions in 2009. Partially offsetting these decreases in cash used were a reduction in payment of debt issuance costs and an overall increase in portfolio term financings in 2009.

Net cash from financing activities decreased to \$70.4 million used in financing activities for the year ended December 31, 2008 from \$148.2 million provided for 2007. The decrease was primarily attributable to the fact that we could not securitize our receivables during 2008 and a reduction in our pre-fund accounts, which consist of amounts borrowed and held in trust based on receivables not yet originated and sold to the securitization trust. In addition, we incurred higher debt issuance costs, tied to renewal and upsizing of facilities. We also issued \$56.5 million of senior unsecured debt in 2007. Partially offsetting this decrease was a net increase in borrowings under portfolio warehouse facilities, as a result of the renewal of our two facilities in April 2008, the infusion of \$75.0 million in the form of subordinated notes from Verde in the second quarter of 2008, the issuance of \$55.1 million in junior secured notes payable, the issuance of \$157.0 million of PALP debt, the addition of \$46.7 million in our repurchase facility, and a reduction in dividends paid to our shareholder.

Contractual Obligations

The following tables set forth the aggregate amounts of our significant contractual obligations and commitments with definitive payment terms:

	As of December 31, 2010				
	Payments by Period				
	Total	Less than 1 Year ⁽³⁾	Years 2-3	Years 4-5	More than 5 Years
	(\$ in thousands)				
Securitizations & PALP financing ⁽¹⁾	\$ 314,033	\$ 168,165	\$ 145,868	\$ —	\$ —
Portfolio warehouse facilities ⁽²⁾	403,007	324,138	78,869	—	—
Portfolio term residual financing	100,000	—	100,000	—	—
Senior secured notes	197,829	—	—	—	197,829
Inventory facility.....	40,000	40,000	—	—	—
Real estate mortgage loan	12,859	198	430	487	11,744
Equipment note, secured by an aircraft.....	2,479	344	2,135	—	—
Capital lease obligations	3,457	1,109	1,789	559	—
Operating lease obligations.....	91,783	17,643	31,536	23,994	18,610
Total contractual obligations	\$ 1,165,447	\$ 551,597	\$ 360,627	\$ 25,040	\$ 228,183

- (1) Securitization obligations do not have a contractual termination date. Therefore, all collections on the contracts collateralizing the securities are used to repay the asset-backed security holders based on an expected duration of the securities. On the termination date of the PALP obligations, amounts outstanding at termination are not due and payable immediately. Collections on the contracts collateralizing the facility are used to repay the facility until it is paid in full.
- (2) On the termination date of the facilities, amounts outstanding at termination are not due and payable immediately. All collections on the contracts collateralizing this facility are used to pay down the facilities until they are paid in full, therefore, although those facilities expire in 2011, a portion of these balances are assumed to be required to be paid in years 2 and 3. These portfolio warehouse facilities are due to expire in March, May, July and December 2011. The facility that is due to expire in March was extended to April 10, 2011 and we are currently in negotiations with the lender to renew.
- (3) Generally and historically, we renewed or replaced with other financing alternatives for our debt obligations that come due for expiration or termination.

Senior Secured Notes Collateral

Our 12.625% Senior Secured Notes due June 15, 2017 contain a collateral coverage ratio covenant which requires the Company to maintain a collateral coverage ratio of 1.5x the outstanding Senior Secured Notes. The following is the calculation of the collateral coverage ratio as of December 31, 2010 and is not meant to portray a GAAP summary of collateral but rather a summary of collateral as it resides legally within the Guarantor Subsidiaries, Non-Guarantor Subsidiaries, and Co-Issuers.

	As of December 31, 2010			
	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Co-Issuers	Total
	(\$ in thousands)			
Collateral Amounts				
Net Receivables Value ⁽¹⁾	\$ —	\$ 281,827	\$ 159,814	\$ 441,641
Net Inventory Value ⁽²⁾	83,549	—	—	83,549
Cash Equivalents ⁽³⁾	—	—	—	—
Total Collateral Amount	\$ 83,549	\$ 281,827	\$ 159,814	\$ 525,190
12.625% Senior Secured Notes.....				200,000
Collateral Coverage Ratio.....				2.6x

- (1) Net Receivables Value equals 85% of the finance receivables (including accrued interest and capitalized loan costs) minus debt (exclusive of Senior Secured Notes) collateralized by finance receivables (including accrued interest) plus cash equivalents securing such debt. The 12.625% Senior Secured Notes are excluded from this calculation.

- ⁽²⁾ Net Inventory Value equals 85% of the book value of inventory pledged as collateral minus debt obligations (including accrued interest) secured by inventory. The 12.625% Senior Secured Notes are excluded from this calculation.
- ⁽³⁾ Cash equivalents equal cash and equivalents pledged directly to secure the 12.625% Senior Secured Notes.

Impact of New Accounting Pronouncements

For a discussion of recent accounting pronouncements applicable to us, see Note 17—Recent Accounting Pronouncements to the consolidated financial statements as of December 31, 2010, included elsewhere in this report.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

We lease the majority of our dealership and reconditioning facilities under operating leases. See “—Liquidity and Capital Resources—Operating Leases” for more information.

Impact of Inflation

Inflation generally results in higher interest rates on our borrowings, which could decrease the profitability of our existing portfolio to the extent we have variable rate debt and could decrease profitability of our future originations if we are not able to pass the increase on to our customers. We seek to limit the risk of increasing borrowing costs:

- through our portfolio term financings, which allowed us to fix a portion of our borrowing costs and generally match the term of the underlying finance receivables, and
- by increasing the interest rate charged for loans originated at our dealerships (if allowed under applicable law) while maintaining affordability of the customers' payment.

We believe that inflation has not had a material impact on our results of operations for the years ended December 31, 2008, 2009 or 2010.

Non-GAAP Discussion

EBITDA and Adjusted EBITDA, which we refer to as the non-GAAP financial measures, are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States (“GAAP”). The non-GAAP financial measures are not measures of our financial performance under GAAP and should not be considered as an alternative to GAAP net income (loss) or any other performance measures derived in accordance with GAAP. See the footnotes to the tables in “Item 6—Summary Financial Data” for definitions of the other non-GAAP financial measures.

We present non-GAAP financial measures because we consider them to be important supplemental measures of our operating performance. All of the adjustments made in our calculation of the non-GAAP financial measures are adjustments to items that management does not consider to be reflective of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period.

However, because these non-GAAP financial measures are not recognized measurements under GAAP, when analyzing our operating performance investors should use these non-GAAP financial measures in addition to, and not as an alternative for, net income, operating income, or any other performance measure presented in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of our liquidity. Because not all companies use identical calculations, our presentation of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies.

Because of these limitations, EBITDA and Adjusted EBITDA and other non-GAAP financial measures should not be considered as discretionary cash available to us to reinvest in the growth of our business. You should compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP financial measures supplementally.

EBITDA represents net income (loss) before income tax expense, total interest expense (secured and unsecured) and depreciation expense. Adjusted EBITDA represents EBITDA plus store closing costs, a legal settlement, non-cash compensation expense, Nevada sales tax liability, restricted stock compensation expense, IPO expense, less gain on extinguishment of debt, net.

In evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments described above. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by expenses that are unusual, non-routine, or non-recurring. EBITDA and Adjusted EBITDA have limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that it does reflect:

- cash expenditures for capital expenditures or contractual commitments;
- changes in, or cash requirements for, our working capital requirements;
- interest expense, or the cash requirements necessary to service interest or principal payments on our indebtedness;
- the cost or cash required to replace assets that are being depreciated or amortized; and
- the impact on our reported results of earnings or charges resulting from items accounted for in the GAAP measure from which EBITDA and Adjusted EBITDA is derived.

The following table presents data relating to EBITDA and Adjusted EBITDA, which are non-GAAP measures, for the periods indicated:

	Years Ended December 31,		
	2010	2009	2008
	(Unaudited) (\$ in thousands)		
Net income (loss)	\$ 70,682	\$ 51,997	\$ (280)
Plus EBITDA adjustments:			
Income tax expense	404	730	1,090
Total interest expense	98,102	110,666	97,082
Depreciation expense.....	13,751	13,061	14,088
EBITDA.....	<u>\$ 182,939</u>	<u>\$ 176,454</u>	<u>\$ 111,980</u>
Store closing costs ⁽¹⁾	1,184	3,485	9,984
Legal settlement ⁽²⁾	—	7,600	—
Non-cash compensation expense ⁽³⁾	1,125	2,250	2,250
Nevada sales tax liability ⁽⁴⁾	4,831	—	—
Restricted stock compensation expense ⁽⁵⁾	3,874	—	—
IPO expense ⁽⁶⁾	528	—	—
Less: loss (gain) on extinguishment of debt, net ⁽⁷⁾	3,418	(30,311)	(19,699)
Adjusted EBITDA.....	<u><u>\$ 197,899</u></u>	<u><u>\$ 159,478</u></u>	<u><u>\$ 104,515</u></u>

⁽¹⁾ Store closing costs represent costs to close stores in 2008 and 2009 related to downsizing (and do not include stores closed in the normal course of business).

⁽²⁾ Legal settlement represents cash paid in a legal settlement in 2009.

⁽³⁾ Non-cash compensation expense related to an agreement directly between Mr. Garcia and Mr. Fidel (not between the Company and Mr. Fidel), which expired in June 2010.

⁽⁴⁾ On February 24, 2011, we received an unfavorable ruling from the Nevada Supreme Court with respect to the efficacy of certain sales tax refunds we requested for the 2002 and 2003 tax years. See “Item 3—Legal Proceedings” for detail.

⁽⁵⁾ In December 2010, our chief executive officer, entered into a Restricted Stock Agreement with DTAG and DTAC pursuant to which we awarded a specified number of shares of restricted stock to Mr. Fidel, which shares will become vested shares over a three-year period based on the achievement by the company of certain income before income tax targets. See “Item 11—Executive Compensation— Compensation Discussion and Analysis—Chief Executive Officer Restricted Stock Grant.”

⁽⁶⁾ IPO expense represents costs incurred related to our withdrawn IPO in 2010.

⁽⁷⁾ Loss (Gain) on extinguishment of debt is a result of repurchasing outstanding indebtedness.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our financial instruments are exposed to market risk from changes in interest rates. We do not use financial instruments for trading purposes. We use fixed rate securities to manage risk. Our earnings are substantially affected by our net interest income, which is the difference between the income earned on interest-bearing assets and the interest paid on interest-bearing notes payable. Increases in market interest rates could have an adverse effect on profitability.

Our financial instruments consist primarily of fixed rate finance receivables and fixed and variable rate notes payable. Our finance receivables are classified as subprime loans and generally bear interest ranging from 3.6% to 29.9% or the maximum interest rate allowed in states that impose interest rate limits. At December 31, 2010, the remaining scheduled maturities on our finance receivables ranged from one to 62 months, with a weighted average remaining maturity of 40.6 months. The interest rates we charge our customers on finance receivables have not changed significantly as a result of fluctuations in market interest rates. We may increase the interest rates we charge in the future if market interest rates rise. The affordability of our customers' payments is an important component of the structure of our transactions. Because of these affordability concerns for our customers and interest rate limits imposed by some states, we may not pass on the entire portion of future rate increases to our customers.

Approximately \$627.2 million of our total debt of \$1.1 billion at December 31, 2010, is fixed-rate collateralized asset-backed securities issued under our securitization program, PALP financings, a term residual financing, Senior Secured Notes payable, and other notes with a fixed interest rate. Our securitization program has historically allowed us to mitigate our interest rate risk by periodically replacing variable rate borrowings under our portfolio warehouse facility with fixed rate borrowings during the year.

The table below illustrates the impact that hypothetical changes in interest rates could have on our interest expense for the years ended December 31, 2010 and 2009. We compute the impact on interest expense for the period by first computing the baseline interest expense on our debt with interest rate risk, which includes the variable rate revolving credit lines and the variable rate notes payable. We then determine interest expense based on each of the interest rate changes listed below and compare the results to the baseline interest expense. The table does not give effect to our fixed rate receivables and borrowings.

	Increase (Decrease) in Interest Expense	
	Year Ended December 31, 2010	Year Ended December 31, 2009
	(\$ in thousands)	
Change in Rates		
+200 basis points.....	\$ 6,018	\$ 6,498
+100 basis points.....	3,009	3,249
-100 basis points.....	(3,009)	(3,249)
-200 basis points.....	(6,018)	(6,498)

In computing the effect of hypothetical changes in interest expense, we have assumed that:

- interest rates used for the baseline and hypothetical net interest expense amounts are on a monthly basis and in effect for the entire month;
- interest for the period is calculated on monthly average debt balances during the applicable periods; and
- there is no change in average balance outstanding as a result of the interest rate changes.

Our sensitivity to interest rate changes could be significantly different if actual experience differs from the assumptions used to compute the estimates.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Certified Public Accountants	54
Consolidated Balance Sheets as of December 31, 2010 and 2009.....	55
Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008.....	56
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2010, 2009 and 2008.....	57
Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008.....	58
Notes to Consolidated Financial Statements.....	60

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
DriveTime Automotive Group, Inc.

We have audited the accompanying consolidated balance sheets of DriveTime Automotive Group, Inc. and subsidiaries (collectively the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DriveTime Automotive Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Phoenix, Arizona
March 31, 2011

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
	(\$ in thousands)	
ASSETS		
Cash and Cash Equivalents	\$ 23,677	\$ 21,526
Restricted Cash and Investments Held in Trust	81,891	84,064
Finance Receivables.....	1,408,741	1,340,591
Allowance for Credit Losses.....	(208,000)	(218,259)
Finance Receivables, net	1,200,741	1,122,332
Inventory.....	145,961	115,257
Property and Equipment, net.....	61,630	51,374
Other Assets.....	54,254	37,527
Total Assets	<u>\$ 1,568,154</u>	<u>\$ 1,432,080</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts Payable	\$ 5,896	\$ 5,060
Accrued Expenses and Other Liabilities	70,925	42,327
Accrued Expenses-Related Party	2,359	4,333
Portfolio Term Financings.....	414,033	795,857
Portfolio Warehouse Facilities	403,007	77,506
Senior Secured Notes Payable.....	149,360	—
Senior Secured Notes Payable-Related Party	48,469	—
Other Secured Notes Payable	55,338	75,277
Other Secured Notes Payable-Related Party	—	62,088
Senior Unsecured Notes Payable.....	—	1,487
Subordinated Notes Payable-Related Party	—	75,000
Total Liabilities.....	<u>1,149,387</u>	<u>1,138,935</u>
Shareholders' Equity-DTAG:		
Common Stock.....	—	—
Paid-in Capital.....	144,942	124,098
Retained Earnings.....	(2,383)	(19,969)
Total Shareholders' Equity-DTAG	142,559	104,129
Noncontrolling Interest-DTAC	276,208	189,016
Total Equity.....	<u>418,767</u>	<u>293,145</u>
Total Liabilities & Shareholders' Equity	<u>\$1,568,154</u>	<u>\$ 1,432,080</u>

See accompanying notes to Consolidated Financial Statements.

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Revenue:			
Sales of Used Vehicles	\$ 760,767	\$ 694,460	\$ 796,750
Interest Income	264,974	251,822	261,875
Total Revenue	1,025,741	946,282	1,058,625
Costs and Expenses:			
Cost of Used Vehicles Sold	481,210	394,362	477,255
Provision for Credit Losses	175,900	223,686	300,884
Portfolio Debt Interest Expense.....	68,314	75,293	64,323
Non-Portfolio Debt Interest Expense	4,581	14,630	22,976
Non-Portfolio Debt Interest Expense—Related party	10,176	20,743	9,783
Senior Secured Debt Interest Expense.....	11,878	—	—
Senior Secured Debt Interest Expense—Related party	3,153	—	—
Selling and Marketing	31,900	31,491	28,644
General and Administrative.....	135,256	137,657	145,447
General and Administrative—Related party	15,118	12,943	14,114
Depreciation Expense.....	13,751	13,061	14,088
Loss (Gain) on Extinguishment of Debt, net	3,418	(31,559)	(19,699)
Loss on Extinguishment of Debt—Related party	—	1,248	—
Total Costs and Expenses	954,655	893,555	1,057,815
Income Before Income Taxes	71,086	52,727	810
Income Tax Expense.....	404	730	1,090
Net Income (Loss)	\$ 70,682	\$ 51,997	\$ (280)
Net Loss attributable to noncontrolling interest-DTAC	(150,310)	(134,060)	(208,804)
Net Income (Loss) attributable to DTAG	220,992	186,057	208,524
Net Income (Loss)	\$ 70,682	\$ 51,997	\$ (280)

See accompanying notes to Consolidated Financial Statements.

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity

	<u>DriveTime Automotive Group, Inc.</u>				Total Consolidated Shareholders' Equity
	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Non-controlling Interest-DTAC</u>	
	(\$ in thousands)				
Balances, December 31, 2007	\$ —	\$ 121,848	\$ (16,407)	\$ 171,330	\$ 276,771
Net Income (Loss) for the Year.....	—	—	208,524	(208,804)	(280)
Non-Cash Compensation Expense-Related Party.....	—	1,125	—	1,125	2,250
Intercompany Transfers of Loans.....	—	—	(205,981)	205,981	—
Dividends-Related Party.....	—	—	—	(12,733)	(12,733)
Balances, December 31, 2008	<u>\$ —</u>	<u>\$ 122,973</u>	<u>\$ (13,864)</u>	<u>\$ 156,899</u>	<u>\$ 266,008</u>
Net Income (Loss) for the Year.....	—	—	186,058	(134,061)	51,997
Non-Cash Compensation Expense-Related Party.....	—	1,125	—	1,125	2,250
Intercompany Transfers of Loans.....	—	—	(176,224)	176,224	—
Dividends-Related Party.....	—	—	(15,939)	(11,171)	(27,110)
Balances, December 31, 2009	<u>\$ —</u>	<u>\$ 124,098</u>	<u>\$ (19,969)</u>	<u>\$ 189,016</u>	<u>\$ 293,145</u>
Net Income for the Year.....	—	—	220,992	(150,310)	70,682
Exchange of Other Secured Notes Payable-Related Party to Equity.....	—	—	—	60,088	60,088
Exchange of Subordinated Notes Payable-Related Party to Equity.....	—	20,000	—	20,000	40,000
Write-Off of Capitalized Loan Fees on Exchange of Debt for Equity.....	—	(55)	—	(580)	(635)
Discount to Equity on Exchange of Subordinated Debt to Sr. Debt.....	—	201	—	200	401
Non-Cash Compensation Expense-Related Party.....	—	562	—	563	1,125
Non-Cash Stock Compensation Expense-Related Party.....	—	136	—	135	271
Intercompany Transfers of Loans.....	—	—	(191,806)	191,806	—
Dividends-Related Party.....	—	—	(11,600)	(34,710)	(46,310)
Balances, December 31, 2010	<u>\$ —</u>	<u>\$ 144,942</u>	<u>\$ (2,383)</u>	<u>\$ 276,208</u>	<u>\$ 418,767</u>

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Cash Flows from Operating Activities:			
Net Income (Loss)	\$ 70,682	\$ 51,997	\$ (280)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:			
Provision for Credit Losses.....	175,900	223,686	300,884
Depreciation Expense	13,751	13,061	14,088
Non-Cash Compensation Expense-Related Party	1,125	2,250	2,250
Amortization of Debt Issuance Costs and Debt Premium and Discount.....	17,610	14,701	16,822
Loss (Gain) from Disposal of Property and Equipment.....	206	(121)	3,557
Originations of Finance Receivables	(747,329)	(686,214)	(789,360)
Collections and Recoveries on Finance Receivable Principal Balances	492,294	468,826	487,272
Decrease in Accrued Interest Receivable and Loan Origination Costs	726	3,789	712
(Increase) Decrease in Inventory	(30,704)	(15,046)	36,431
(Increase) Decrease in Other Assets	(12,029)	14,325	(1,190)
Increase (Decrease) in Accounts Payable, Accrued Expenses and Other Liabilities	26,459	(3,479)	(17,711)
(Decrease) Increase in Accrued Expenses-Related Party.....	(1,974)	(2,288)	6,621
Decrease in Income Taxes Payable.....	(780)	(176)	(108)
Net Cash Provided By Operating Activities	<u>5,937</u>	<u>85,311</u>	<u>59,988</u>
Cash Flows from Investing Activities:			
Proceeds from Disposal of Property and Equipment	423	469	913
Purchase of Property and Equipment.....	(20,881)	(13,304)	(7,229)
Net Cash Used in Investing Activities.....	<u>(20,458)</u>	<u>(12,835)</u>	<u>(6,316)</u>
Cash Flows from Financing Activities:			
Increase in Restricted Cash.....	(28,982)	(11,846)	(3,701)
Deposits into Investments Held in Trust.....	(4,500)	(4,467)	(28,834)
Collections, Buybacks and Change in Investments Held in Trust.....	35,655	3,472	68,583
Additions to Portfolio Term Financings	387,304	811,617	157,007
Repayments of Portfolio Term Financings	(768,850)	(350,181)	(437,541)
Additions to Portfolio Warehouse Facilities	940,150	968,112	1,083,126
Repayments of Portfolio Warehouse Facilities	(614,649)	(1,288,699)	(993,447)
Additions to Senior Secured Notes Payable.....	161,109	—	—
Additions to Other Secured Notes Payable.....	2,776	80,701	266,721
Repayments of Other Secured Notes Payable.....	(22,715)	(122,915)	(227,856)
Additions to Other Secured Notes Payable—Related Party	—	—	31,000
Repayments of Other Secured Notes Payable— Related Party	—	—	(5,000)
Repayments of Senior Unsecured Notes Payable	(1,500)	(90,000)	(13,000)
Repayments of Senior Unsecured Notes Payable—Related Party.....	—	(32,000)	—
Additions to Subordinated Notes Payable—Related Party.....	—	—	75,000
Payment of Debt Issuance Costs.....	(22,816)	(13,167)	(29,705)
Dividend Distributions.....	(46,310)	(27,110)	(12,733)
Net Cash Provided by (Used In) Financing Activities.....	<u>16,672</u>	<u>(76,483)</u>	<u>(70,380)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,151	(4,007)	(16,708)
Cash and Cash Equivalents at Beginning of Period.....	21,526	25,533	42,241
Cash and Cash Equivalents at End of Period.....	<u>\$ 23,677</u>	<u>\$ 21,526</u>	<u>\$ 25,533</u>

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows – (Continued)

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Supplemental Statement of Cash Flow Information:			
Interest Paid	\$ 83,694	\$ 96,401	\$ 89,374
Interest Paid-Related Party.....	\$ 15,024	\$ 23,125	\$ 5,282
Income Taxes Paid.....	\$ 1,184	\$ 906	\$ 1,198
Supplemental Statement of Non-Cash Investing and Financing Activities:			
Purchase of Property and Equipment Under Capital Lease.....	\$ 3,755	\$ 625	\$ 48
Disposal of Fully Depreciated Property & Equipment.....	\$ 4,504	\$ 5,241	\$ 13,676
Exchange of Other Secured Notes Payable to Equity—Related Party	\$ 60,088	\$ —	\$ —
Exchange of Subordinated Notes Payable to Equity—Related Party.....	\$ 40,000	\$ —	\$ —
Exchange of Other Secured Notes Payable-Related Party to Senior Secured Notes Payable	\$ 2,000	\$ —	\$ —
Exchange of Subordinated Notes Payable-Related Party to Senior Secured Notes Payable	\$ 35,000	\$ —	\$ —
Gain (Loss) on Extinguishment of Debt, net.....	\$ (3,418)	\$ 31,559	\$ 19,699
Loss on Extinguishment of Debt—Related Party.....	\$ —	\$ (1,248)	\$ —

See accompanying notes to Consolidated Financial Statements.

DRIVETIME AUTOMOTIVE GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Description of Business, Ownership Formation, Basis of Presentation, and Principles of Consolidation

Description of Business

DriveTime Automotive Group, Inc., (“DTAG”) (referred to herein as “we,” “our,” “the Company,” and “us”), through its subsidiaries, owns and operates used automobile dealerships in the United States focusing on the sale and financing of used vehicles to the subprime market. The subprime market is comprised of customers with modest incomes who have experienced credit difficulties or have very limited credit histories. We finance substantially all the vehicles we sell through installment sales contracts (“loans”). We have not sold our loans to third party lenders or finance companies on a servicing released basis and, unlike pure finance companies, we have not purchased finance receivables from other sources. We have historically funded this portfolio primarily through portfolio warehouse facilities and portfolio term financings, including securitizations.

Ownership Formation

DTAG, a Delaware corporation, was incorporated in April 1996. In January 2004, DTAG elected S-corporation status for income tax purposes. In February 2003, the shareholders of DTAG formed DT Acceptance Corporation (“DTAC”). DTAC is an S-corporation for income tax purposes. Prior to January 4, 2008, the direct shareholders of DTAG and DTAC were Ernest C. Garcia II (Chairman) and the Garcia Family Trusts owning 95%, and Raymond C. Fidel (President and CEO) owning 5%. Effective January 4, 2008, Mr. Garcia purchased Mr. Fidel’s 5% interest in DTAG and DTAC. With this purchase, Mr. Garcia and the Garcia Family Trusts (Principal Shareholder) owned 100% of DTAG and DTAC at the end of 2008 and 2009. DTAG and DTAC are sister companies, which are owned primarily by our Principal Shareholder.

Effective December 2010, we executed a restricted stock agreement with Mr. Fidel, which resulted in Mr. Fidel owning 1.7% of DTAG and DTAC as of December 31, 2010. See Note 12—Shareholders’ Equity & Dividends included herein for further details.

Basis of Presentation

We have determined that DTAC is a variable interest entity (“VIE”) and that DTAG is the primary beneficiary of DTAC. This determination was made under ASC 810, *Consolidation*, prior to January 1, 2010 and with consideration of amendments to the ASC in the FASB ASU 2009-17, *Consolidation*. We evaluated whether DTAG or DTAC are VIE’s and determined who is the primary beneficiary. In making this determination, we examined the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and whether there is an obligation to absorb losses or the right to receive residual returns that could potentially be significant to the VIE. In evaluating whether we have the power to direct such activities, we considered the purpose for which DTAC was created, the importance of each of the activities in which it is engaged and our decision making role, if any, in those activities that significantly determine DTAC’s economic performance as compared to other economic interest holders. We evaluated DTAG’s economic interests in DTAC. This evaluation considered all relevant factors of the entity’s design, including capital structure, contractual rights and relationships that are currently, or have the potential to be, economically significant. We determined DTAC to be a VIE since as a group, the holders of the equity investment at risk lack the power to direct the activities of DTAC that most significantly impact DTAC’s economic performance.

We determined DTAG is the primary beneficiary of DTAC because DTAG has both (1) the power to direct the activities of DTAC that most significantly impact DTAC’s economic performance *and* (2) a potentially significant variable interest that carries with it the obligation to absorb the losses or the right to receive benefits of DTAC. DTAG has the power to direct the activities of DTAC because it originates and sells 100% of the loan contracts DTAC is required to purchase, sets underwriting standards and origination terms, sets servicing and collection policies administered by DTAC, as well as the fact that DTAC was created and designed by DTAG to obtain third party financing for DTAG’s originations. DTAG also has potentially significant variable interests in the form of debt capital provided to DTAC through various debt issuances, guarantees of DTAC’s debt, as well as operational liabilities owed to DTAG, all of which carry the obligation to absorb losses or receive benefits of DTAC.

Total assets of DTAC consolidated into DTAG at December 31, 2010 and December 31, 2009 were approximately \$1.4 billion and \$1.2 billion, respectively, which are comprised primarily of net finance receivables, cash and cash equivalents, restricted cash, investments held in trust, and deferred financing costs. Total liabilities of DTAC consolidated into DTAG at December 31, 2010 and 2009 were approximately \$1.1 billion and \$1.0 billion, respectively, which are comprised primarily of portfolio warehouse and portfolio term debt. Total revenue of DTAC consolidated into DTAG for the years ended December 31, 2010, 2009, and 2008 were approximately \$265.0 million, \$251.8 million, and \$261.9 million, respectively, which are comprised of interest income. DTAC expenses consolidated into DTAG were approximately \$416.1 million, \$385.7 million, and \$470.3 million for the years ended

December 31, 2010, 2009, and 2008, respectively, which are comprised of provision for credit losses, interest expense and general and administrative expenses. These amounts do not include intercompany revenues and costs between DTAG and DTAC which are eliminated in consolidation.

Since DTAG and DTAC are consolidated for financial reporting purposes, we are required to separately present the non-controlling equity interest of the VIE (DTAC) on the consolidated balance sheets, consolidated statements of operations, and consolidated statement of shareholders' equity, for all periods presented. The non-controlling interest is DTAC's GAAP equity and income for the periods presented and there is no third-party, competing interests in DTAC, except for Mr. Fidel's share of stock noted above.

Also included in the consolidated financial statements are wholly-owned special purpose subsidiaries of DTAC, which are all "bankruptcy remote subsidiaries" formed in conjunction with our securitizations, warehouse facilities and pooled auto loan program financing transactions. All intercompany accounts and transactions have been eliminated in consolidation for all periods presented and, although not material, certain prior period amounts have been reclassified to be consistent with the current period financial statement presentation. The consolidated balance sheets have been adjusted to reflect Mr. Garcia's basis in the Company through the application of push-down accounting, as it relates to his acquisition of the Company in March 2002 when he acquired our predecessor, Ugly Duckling Corporation.

(2) Significant Accounting Policies

Cash & Cash Equivalents

We consider all highly liquid investments with original maturities at the date of purchase of three months or less to be cash equivalents. Periodically we maintain cash in excess of the amounts insured by the federal government.

Finance Receivables

Finance receivables consist of the aggregate principal balances of all auto loans in our active portfolio plus accrued interest receivable and direct loan origination costs, which are collateralized by used vehicles sold. Finance receivables are comprised solely of loans related to used vehicles sold by us, all of which are simple interest loans which may be prepaid without penalty. We do not place loans on nonaccrual status, nor do we classify loans as impaired, since accounts are charged-off when the loans become contractually 91 days past due.

Charge-off Policy

The accrual of interest along with any unamortized loan origination costs is discontinued and any accrued but unpaid interest is reversed and written-off when the loans are charged-off at 91 days contractually past due. Accounts which have been charged-off have been removed from finance receivables. Net charge-offs consist of finance receivable principal balances charged-off, net of any amounts received from vehicles recovered and sold at auction, sales tax refunds, where applicable, and any subsequent collections on the charged-off accounts, as well as an estimate of recoveries on loans previously charged-off (recovery receivables).

Allowance for Credit Losses

We maintain an allowance for credit losses on an aggregated basis. We accrue for estimated losses when it is probable that the amount will not be fully collectible and the amount of the loss can be reasonably estimated. The evaluation of the adequacy of the allowance for credit losses considers such factors as performance of the loan portfolio by month of origination ("static pool analysis"), the portfolio credit grade mix, our historical credit losses, the overall portfolio quality, delinquency status, the value of the underlying collateral, current economic conditions that may affect the borrowers' ability to pay, and the overall effectiveness of collection efforts. This estimate of existing probable and estimable losses is primarily based on static pool analyses prepared for various segments of the portfolio utilizing historic loss experience, adjusted for the estimated impact of current economic factors. In management's judgment, the allowance is maintained at a level that is adequate to provide for the estimate of probable credit losses inherent in our finance receivable portfolio. Charge-offs are recorded as a reduction to the allowance for credit losses. For previously charged-off accounts that are subsequently recovered, or portions thereof, the amount of such recovery is credited to the allowance for credit losses. On a quarterly basis management reviews the allowance for credit losses for reasonableness and adequacy. Adjustments to the allowance for credit losses as a result of our allowance analyses are recorded through the provision for credit losses.

Inventory

Inventory consists of used vehicles held-for-sale, or currently undergoing reconditioning, and is stated at the lower of cost or market value. Vehicle inventory cost is determined by specific identification. Direct and indirect vehicle reconditioning costs including parts and labor, costs to transport the vehicles to our reconditioning centers and dealership locations, and other incremental costs are capitalized as a component of inventory cost.

Property and Equipment

Repairs and maintenance costs that extend the life of an asset are capitalized. Property and equipment is stated at cost and is shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the assets, which range from three to 15 years for equipment, three to five years for furniture, three years for software, five to ten years for building improvements, and thirty years for buildings. Leasehold improvements are depreciated using the straight-line method over the lesser of the lease term or the estimated useful lives of the related improvements.

Capitalized Internally Developed Software

We capitalize direct costs of materials and services consumed in developing or obtaining internal use software and payroll and payroll-related costs for employees who are directly associated with and who devote time to the development of software products for internal use, to the extent of the time spent directly on the project. Capitalization of costs begins during the development stage and ends when the software is available for general use. Amortization is computed using the straight-line method over the estimated economic life of the software.

Recovery Receivables

Recovery receivables represent estimated recoveries to be received on charged-off finance receivables, including proceeds from selling repossessed vehicles at auction, along with insurance, bankruptcy and deficiency collections. The recovery amount from selling repossessed vehicles at auction is a forecast of vehicles to be recovered from loans previously charged-off and vehicles currently in our possession. With our extensive experience and historical database of auction recoveries, we estimate the number of units we will recover and the value that we will receive for these vehicles at auction. Our forecast utilizes historical data with respect to recovery rates, values, and time from charge-off to repossession. Changes in recovery receivables are treated as increases or decreases to net charge-offs and ultimately the allowance for credit losses. At December 31, 2010 and 2009 recovery receivables amounted to \$24.3 million and \$13.9 million, respectively, and are included as a component of other assets on the accompanying consolidated balance sheets.

Deferred Financing Costs

Costs relating to obtaining debt financing and capital leases are capitalized and amortized over the term of the related debt using the effective interest method. Unamortized deferred financing costs at December 31, 2010 and 2009 were \$17.8 million and \$13.4 million, respectively, and are included as a component of other assets on the accompanying consolidated balance sheets. Amortization of deferred financing costs is recorded as component of interest expense, and was \$17.8 million, \$14.5 million, and \$15.0 million for the years ended December 31, 2010, 2009, and 2008, respectively. When debt is paid in full prior to maturity, any unamortized deferred financing costs are removed from the balance sheet and either treated as a reduction of gain on extinguishment of debt, in the case of a repurchase of debt, or treated as interest expense, if debt is paid in full prior to maturity, or treated as a reduction of equity if debt is exchanged for equity.

Limited Warranty

Our DriveCare® limited warranty provides major mechanical and air-conditioning coverage on every used vehicle we sell. The limited warranty covers vehicles for 36 months or 36,000 miles, whichever comes first, and includes oil changes at Sears Automotive locations nationwide and 24/7 roadside assistance. The warranty is included in the sales price of the vehicle and is not sold as a separate product. A liability for the estimated cost of vehicle repairs under our warranty program is established at the time a used vehicle is sold by charging costs of used vehicles sold. We currently offer no warranty outside of our DriveCare® limited warranty. The liability is evaluated for adequacy through an analysis based on the program's historical performance of cost incurred per unit sold, management's estimate of frequency of vehicles to be repaired and severity of claims based on vehicles currently under warranty, the estimate cost of oil changes, and the estimate cost of roadside assistance, both of which are based on the program's historical performance and our expectation of future usage.

Revenue Recognition

Revenue from the sale of used vehicles is recognized upon delivery, when the sales contract is signed and the agreed-upon down payment or purchase price has been received. Sales of used vehicles include revenue from the sale of used vehicles, net of a reserve for returns. The reserve for returns is estimated using historical experience and trends. Our reserve for returns at December 31, 2010 and 2009 was \$2.3 million and \$2.6 million, respectively. Revenue is recognized at time of sale since persuasive evidence of an arrangement in the form of an installment sales contract exists, we have delivered the vehicle to the customer, transferred title, the sales have a fixed and determinable price, and collectability is reasonably assured.

Interest income consists of interest earned on installment sales contracts, net of amortization of loan origination costs, plus late payment fees and interest earned on investments held in trust. Interest income is recognized using the effective interest method and the loans provided to customers are simple interest loans that may be prepaid without penalty. Direct loan origination costs related to loans originated at our dealerships are deferred and charged against interest income over the life of the related loans using the effective interest method.

Cost of Used Vehicles Sold

Cost of used vehicles sold includes the cost to acquire vehicles and the reconditioning and transportation costs associated with preparing the vehicles for resale. Direct and indirect vehicle reconditioning costs, including parts and labor, costs to transport the vehicles to our dealership locations, warranty costs, and other incremental costs, are included in cost of used vehicles sold. The cost of used vehicles sold is determined on a specific identification basis.

Accounting for Transfers of Financial Assets

Securitizations. We periodically sell loans originated at our dealerships to bankruptcy remote securitization subsidiaries, which in turn, transfer the loans to separate trusts that issue notes and certificates collateralized by the loans. The senior classes of notes (Asset-Backed Securities) are sold to investors, and we retain the subordinate classes of notes and certificates. We continue to service all loans securitized. Due to certain restrictions placed on the trusts (i.e. the trusts do not have the right to pledge the assets), securitization transactions are accounted for as secured financings, in accordance with ASC 860—Transfers and Servicing (ASC 860). Loans included in the securitization transactions are recorded as finance receivables and the Asset-Backed Securities are recorded as a component of portfolio term financings in the accompanying consolidated balance sheets. The bankruptcy remote securitization subsidiaries are owned and controlled by DTAC.

Additional credit enhancement is achieved via over collateralization and a cash reserve account is established for the benefit of the Asset-Backed Security note holders. The reserve accounts are classified as restricted cash and investments held in trust in the consolidated balance sheets.

Other Portfolio Term Financings. As with our traditional securitization program, under our Pooled Auto Loan Program (“PALP”), we pooled loans originated at our dealerships and sold them to either (i) a special purpose entity which transfers the loans to a separate trust which, in turn, issues a note collateralized by the loans; or (ii) we sold the pooled loans, in a secured financing transaction, directly to a third-party financial institution to yield a specified return with the right to repurchase these loans at a specified date. We retained all servicing. Both types of PALP transactions are accounted for as secured financings, either due to our right to repurchase the loans sold at a specified date or due to certain restrictions placed on the trusts. Therefore, the loans included in these transactions remain in finance receivables and the debt is reflected as a component of portfolio term financings on the consolidated balance sheets.

Provision for Credit Losses

Provision for credit losses is the charge recorded to operations in order to maintain an allowance for credit losses adequate to cover losses inherent in the portfolio.

Advertising

All costs related to advertising and marketing are expensed in the period incurred. Advertising costs related to production are capitalized and expensed once the media is aired. We had no capitalized advertising costs as of December 31, 2010 and 2009. Total advertising costs for the years ended December 31, 2010, 2009, and 2008 were \$16.5 million, \$13.7 million, and \$11.2 million, respectively.

Income Taxes

DTAG and DTAC are both S-corporations for federal and state income tax purposes. There is no provision for income taxes, except for any amount of entity level state tax in certain jurisdictions, and federal income taxes related to a wholly-owned subsidiary of DTAG, which is a C-corporation. Income or losses of an S-corporation flow through to the individual shareholders, who report such income or loss on their individual income tax returns.

Impairment of Long-Lived Assets

We own a small number of used vehicle sales facilities, a reconditioning facility, and an operations call center building. These long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed would be reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. At December 31, 2010 and 2009, there were no indications of impairment pertaining to these assets.

Business Segment

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. The vertical integration of our business provides for one interdependent platform which enables us to both sell and finance vehicles to customers with subprime credit. We finance approximately 100% of all vehicles sold at our dealerships in a single sales/finance transaction and each of our individual stores are similar in nature and only engage in the selling and financing of used vehicles for the subprime segment of the market. In addition, decisions regarding allocation of resources and assessing operating performance are reviewed on a consolidated basis by our chief operating decision maker; therefore, we have one operating and reporting segment.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities. Certain accounting estimates involve significant judgments, assumptions, and estimates by management that have a material impact on the carrying value of certain assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period which management considers to be critical accounting estimates. The judgments, assumptions, and estimates used by management are based on historical experience, managements' experience, and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ materially from these judgments and estimates, which could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Significant items subject to estimates and assumptions include the allowance for credit losses, inventory valuation, fair value measurements, certain legal reserves, our reserve for sales returns and allowances, our recovery receivables, and our warranty accrual. Estimates used in deriving these amounts are described in the footnotes herein. Actual results could differ from these estimates.

Stock-Based Compensation

We record compensation expense for awards of restricted stock granted to employees in accordance with ASC 718, "Compensation-Stock Compensation". Under the fair value recognition provisions ASC 718, stock-based compensation cost is measured at the grant date based on the fair value. We utilize a third party financial and economic appraiser to assist us in determining the fair value of the awards. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods using graded vesting (see Note 12—Shareholders' Equity & Dividends to our consolidated financial statements included herein).

(3) Restricted Cash and Investments Held in Trust

We maintain various cash accounts, which are pledged as collateral under our debt agreements. We are permitted to invest funds in these accounts in short-term, high quality liquid investments. The following is a summary of restricted cash and investments held in trust:

	December 31, 2010	December 31, 2009
	(\$ in thousands)	
Restricted cash	\$ 56,110	\$ 27,128
Investments Held in Trust	25,781	56,936
	<u>\$ 81,891</u>	<u>\$ 84,064</u>

Restricted Cash

Restricted cash consists of collections related to loans held in securitization trusts, loans pledged to our portfolio warehouse facilities, and loans included in PALP transactions, which have been collected from customers, but have not yet been submitted either to the lenders or the securitization trustee, as appropriate.

Investments Held in Trust

We maintain cash reserve accounts on behalf of Asset-Backed Security investors in our securitizations and certain PALP transactions as a form of credit enhancement. At the time loans are transferred to a trust, a portion of the proceeds from sales of notes are deposited into a reserve account that is pledged to the trusts. We may be required to make additional deposits to reserve accounts from collections on the loans to fund the reserve account to the required target percentage. Investments held in trust also include collections related to loans held in securitization trusts and loans included in PALP financing transactions, which have been collected from customers, and submitted to the trustee, but have not yet been paid to the lenders, as appropriate. Balances in the reserve accounts (which are a component of investments held in trust) totaled \$7.1 million at December 31, 2010 and \$26.1 million at December 31, 2009.

(4) Finance Receivables

The following is a summary of finance receivables:

	December 31,	
	2010	2009
	(\$ in thousands)	
Principal Balances	\$ 1,381,092	\$ 1,312,216
Accrued Interest	12,156	10,806
Loan Origination Costs	15,493	17,569
Finance Receivables	<u>\$ 1,408,741</u>	<u>\$ 1,340,591</u>

In accordance with the requirements of ASU 2010-20: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, our disclosures include an aging analysis of past due financing receivables and credit quality. Our finance receivables are defined as one segment and class of loan, which is the sub-prime consumer auto loan. Therefore, the disaggregation of information into portfolio segment and classes for assets with different risk characteristics is limited, and the level of risks inherent in our financing receivables are managed as one homogeneous pool and further segmented with our proprietary credit scoring system as described below — *Credit Quality Indicators*. We have chosen our internal credit scoring to satisfy the required disclosure of credit risk quality since it has a direct and prominent impact in managing our portfolio receivables and monitoring its performance.

Finance receivables pledged as collateral associated with liabilities in our warehouse facilities, asset backed securitizations, and PALP financings, are provided in Note 8—Debt Obligations. We do not place loans on nonaccrual status, nor do we classify loans as impaired, since accounts are charged-off when the loan becomes contractually 91 days past due. We do not have loans that meet the definition of troubled debt restructurings; therefore, those disclosures are omitted. During the years ended December 31, 2010 and 2009, we did not purchase or sell finance receivables.

Credit quality information for our finance receivables portfolio is provided as of the dates indicated below:

Age Analysis of Past Due Finance Receivables

Days Delinquent:	December 31,			
	2010		2009	
	(\$ in thousands)			
	Percent of Portfolio	Loan Principal	Percent of Portfolio	Loan Principal
Current	54.2%	\$ 748,828	54.3%	\$ 711,746
01-30 Days.....	36.7%	506,585	38.3%	502,841
31-60 Days.....	6.3%	86,456	4.7%	62,199
61-90 Days.....	2.8%	39,223	2.7%	35,430
Total Past Due	45.8%	\$ 632,264	45.7%	\$ 600,470
Total Finance Receivables	100.0%	\$ 1,381,092	100.0%	\$ 1,312,216

An account is considered delinquent if a substantial portion of a scheduled payment has not been received by the date such payment was contractually due. Delinquencies may vary from period to period based upon the average age or seasoning of the portfolio, seasonality within the calendar year and economic factors. Delinquencies are presented on a Sunday-to-Sunday basis, which reflects delinquencies as of the nearest Sunday to period end. Sunday is used to eliminate any impact of the day of the week on delinquencies since delinquencies tend to be higher mid-week.

Credit Quality Indicators

We monitor our portfolio performance and the credit grade mix of originations. Our proprietary credit grading system segments our customers into eight distinct credit grades. We control the grade mix of originations through the deal terms provided to our customers, which are established centrally by our risk management team, and applied consistently throughout our dealership network. Our loans have an average original term of approximately 54 months and an average life of only 34 months, due to charge-offs and pay-offs. The average life of our loans enables us to closely monitor credit trends and make appropriate adjustments to both the grade mix and pricing of our originations.

Many companies use FICO scores as a standard metric to assess the credit risk of customers. Our internal scoring models include the use of alternative data sources along with traditional credit bureau data which allow us the ability to separate the credit risk levels of the subprime auto segment into different categories. Our centralized proprietary credit scoring models are currently used to classify customers into various risk grades that are linked to financing parameters. The scoring models are periodically updated to account for changes in loan performance, data sources, geographic presence, economic cycles, and business processes.

Prior to each sale, we require our customers to complete a credit application. Upon entering the customer information into our origination system, our proprietary credit scoring system determines the customer’s credit grade, which is used by the dealership manager to help select vehicles that fit the required deal terms and the customer’s needs. The customer’s credit grade and type of

vehicle determine the term, maximum installment payment, and minimum down payment amounts. The annual percentage rate (APR) charged is a function of the customer's credit grade, down payment, and model year of the vehicle. Our centralized risk management and pricing departments set these terms. The static-pool tracking of portfolio loss performance is also monitored by credit grade. Our scoring model is comprised of eight credit grades ranging from A+ to D-, with A+ being the lowest risk credit grade and a D- being the highest risk credit grade. Generally, the lower the risk grade, the lower the unit loss rate.

At December 31, 2010, a summary of our portfolio by our internally assigned credit risk ratings was as follows:

Grade	Average FICO Score	Percentage of Portfolio Contracts	Total Contracts	Percentage of Portfolio Principal	Total Portfolio Principal
(\$ in thousands)					
A+	560	9.9%	13,307	10.1%	\$ 138,903
A	537	17.4%	23,382	18.0%	247,937
B	516	35.9%	48,270	37.7%	521,331
C	499	29.1%	39,056	28.2%	388,979
C-	482	5.8%	7,801	4.5%	62,539
D+/D/D-	461	1.9%	2,448	1.5%	21,403
		100.0%	134,264	100.0%	\$ 1,381,092

Concentration of Credit Risk

At December 31, 2010, our portfolio concentration by state was as follows:

State	Percent of Portfolio	Loan Principal
(\$ in thousands)		
Texas	27.5%	\$ 379,396
Florida	18.1%	249,514
North Carolina	10.6%	146,086
Georgia	8.0%	110,303
Virginia	8.0%	109,818
Arizona	7.9%	109,108
California	5.6%	77,403
Nevada	4.6%	64,302
New Mexico	4.2%	58,029
Colorado	2.9%	40,571
South Carolina	1.0%	13,553
Tennessee	0.8%	10,492
Oklahoma	0.6%	10,171
Alabama	0.2%	2,346
	100.0%	\$ 1,381,092

(5) Allowance for Credit Losses

We maintain an allowance for credit losses on an aggregate basis at a level we consider sufficient to cover probable credit losses inherent in our portfolio of receivables as of each reporting date. The allowance takes into account historical credit loss experience, including timing, frequency and severity of losses. This estimate of existing probable credit losses inherent in the portfolio is primarily based on static pool analyses by month of origination based on origination principal, credit grade mix and deal structure, including down payment and term. The evaluation of the adequacy of the allowance also considers factors and assumptions regarding the overall portfolio quality, delinquency status, the value of the underlying collateral, current economic conditions that may affect the borrowers' ability to pay, and the overall effectiveness of collection efforts.

The static pool loss curves by grade are adjusted for actual performance to date, and historical seasonality patterns. The forecasted periodic loss rates, which drive the forecast for estimated gross losses (before recoveries) are calculated by factoring amortization speed, and origination terms. Recoveries are estimated using historical unit and dollar static pool recovery activity to forecast recoveries for estimated charge-offs at the balance sheet date. The forecasted recovery rates (on a per unit basis) are based on the historical unit recovery trend by recovery type as adjusted for estimated impact of economic and market conditions.

The allowance model is sensitive to changes in assumptions such that an increase or decrease in our forecasted net charge-offs would increase or decrease the allowance as a percentage of principal outstanding required to be maintained. The amount of our allowance is sensitive to losses within credit grade, recovery values, deal structure, the loss emergence period and overall credit grade mix of the portfolio.

The following table sets forth the rollforward of the allowance for credit losses for the periods indicated:

	Years Ended December 31,	
	2010	2009
	(\$ in thousands)	
Allowance Activity:		
Balance, beginning of period.....	\$ 218,259	\$ 242,600
Provision for credit losses	175,900	223,686
Net charge-offs.....	(186,159)	(248,027)
Balance, end of period.....	<u>\$ 208,000</u>	<u>\$ 218,259</u>
Allowance as a percent of ending principal.....	15.0%	16.6%
Charge-off Activity:		
Principal balances.....	\$ (302,714)	\$ (363,177)
Recoveries, net	116,555	115,150
Net charge-offs.....	<u>\$ (186,159)</u>	<u>\$ (248,027)</u>

(6) Property and Equipment, Net

A summary of property and equipment follows:

	December 31,	
	2010	2009
	(\$ in thousands)	
Land	\$ 8,883	\$ 8,144
Buildings and Improvements	77,600	68,737
Equipment	34,211	27,165
Furniture	12,198	12,051
Software	29,438	26,104
	<u>162,330</u>	<u>142,201</u>
Less Accumulated Depreciation and Amortization	(100,700)	(90,827)
Property and Equipment, Net	<u>\$ 61,630</u>	<u>\$ 51,374</u>

We have commitments under capital leases, consisting primarily of software, computer equipment, and reconditioning center equipment classified in Equipment and Software included in the above table. As of December 31, 2010, assets under capital leases had a cost of \$4.4 million and accumulated depreciation of \$0.8 million. As of December 31, 2009, assets under capital leases had a cost of \$0.7 million and accumulated depreciation of \$0.1 million.

For the years ended December 31, 2010, 2009, and 2008, we capitalized \$1.9 million, \$1.3 million, and \$1.6 million, respectively, of direct costs of materials and services consumed in developing or obtaining internal use software and payroll and payroll-related costs for employees who are directly associated with and who devote time to the development of software products for internal use, to the extent of the time spent directly on the project.

(7) Other Assets

A summary of other assets follows:

	December 31,	
	2010	2009
	(\$ in thousands)	
Prepaid assets.	\$ 6,062	\$ 3,450
Recovery receivables.	24,342	13,853
Deferred financing costs.	17,820	13,392
Other assets.	6,030	6,832
Total Other assets.	<u>\$ 54,254</u>	<u>\$ 37,527</u>

(8) Debt Obligations

Portfolio Term Financings

The following is a summary of portfolio term financings:

	December 31	
	2010	2009
	(\$ in thousands)	
Securitization Debt:		
Asset Backed Security obligations issued pursuant to the Company's securitizations.....	\$ 303,902	\$ 268,533
Portfolio Term Residual Financing:		
Fixed rate financing facility secured by residual interests in finance receivables of warehouse facilities and securitizations	100,000	—
Pooled Auto Loan Program Financings:		
Fixed rate secured financing transactions for our finance receivable portfolio.....	10,131	527,324
Total Portfolio Term Financings.....	<u>\$ 414,033</u>	<u>\$ 795,857</u>

Securitization debt

The following table is a summary of securitization transactions with outstanding balances for each period presented:

Original Note/Debt Amount	As of December 31, 2010			As of December 31, 2009		
	Note/Debt Balance	Receivables Balance	Cash Reserve ⁽¹⁾	Note/Debt Balance	Receivables Balance	Cash Reserve ⁽¹⁾
(\$ in thousands)						
<u>Securitization Transactions</u>						
2006-B	\$ 305,000	\$ —	\$ —	\$ 31,867	\$ 42,132	\$ 10,592
2007-A	320,000	—	—	61,530	78,089	11,112
2009-1	192,600	118,025	175,082	175,136	286,955	3,000
2010-1	228,000	185,877	264,939	—	—	—
	<u>\$ 303,902</u>	<u>\$ 440,021</u>	<u>\$ 6,339</u>	<u>\$ 268,533</u>	<u>\$ 407,176</u>	<u>\$ 24,704</u>

⁽¹⁾ Cash reserve consists of investments held in trust and cash collection accounts held by the trustee, which have not yet been applied to the monthly cash flow waterfall for the securitization bond holders. The cash reserve does not include restricted cash, which is cash collected and held in trust from loan payments, but has not yet been submitted to securitization trustee.

Asset-backed securities outstanding are secured by underlying pools of finance receivables and investments held in trust. Asset-backed securities outstanding have interest payable monthly at fixed rates ranging from 3.7% to 5.4% at December 31, 2010 and 5.2% to 5.6% at December 31, 2009. These rates represent the original duration weighted average rates of the outstanding asset-backed securities. Credit enhancement for the asset-backed securities consists of a reserve account, over collateralization, and subordination of certain classes of notes in each trust to more senior classes of notes in such trust. Over collateralization represents finance receivable principal balance in excess of the face value of asset-backed securities issued. Cash reserves are funded with proceeds from the sale of asset-backed securities and through cash collections. At December 31, 2010, our 2010-1, and 2009-1, securitization trusts comprise the outstanding balance depicted above. The 2010-1 securitization was rated in tranches with credit ratings from AAA to BBB by Standard and Poors (S&P) and DBRS, and the 2009-1 securitization was rated in tranches with credit ratings from AAA to A by DBRS.

Performance triggers. A securitization trust may contain certain covenants, including limitations on delinquencies, periodic net charge-offs, and cumulative net charge-offs (“performance triggers”). If a trust exceeds a performance trigger the required cash reserve increases and cash flow from the loans in the trust is “trapped” until the reserve account reaches the specified level, or until the holders are paid in full or the insurer waives the event. If the trust performance goes below the performance trigger the trapped cash is returned to us. Our 2009-1 and 2010-1 trusts do not contain performance triggers. At December 31, 2010 and December 31, 2009, all securitization trusts were in compliance with their performance triggers and there have been no requirements to trap cash or any termination events.

Individual securitization trusts are not cross-collateralized or cross-defaulted. Additionally, we have the option to purchase the remaining loans in a trust when the remaining principal balances of the loans reach a specified percentage (generally 10%) of their original principal balance.

Portfolio term residual financing

In May 2010, we entered into a \$100.0 million term residual facility with Santander Consumer USA Inc. (Santander), secured primarily by residual interests in our warehouse facilities (described below). This facility allows for maximum borrowings of \$100.0 million at an advance rate of 75% on the receivables pledged to the facility. This facility provides for funding through April 2012 with a term-out feature resulting in a final maturity of April 2013. Interest is fixed at 8.62%. At December 31, 2010, we were in compliance with all financial covenants of this facility.

Pooled auto loan program financings (PALP)

PALP financings are secured by underlying pools of finance receivables and in certain cases a cash reserve account. At December 31, 2010, interest rates on our outstanding PALP financings are at a fixed rate of 8.0%. At December 31, 2010 and December 31, 2009, the aggregate amount of finance receivables and cash reserve accounts securing these financings were \$13.6 million and \$739.3 million, respectively. The net advance rate on the receivables ranged from 69.9% to 74.1% of the principal balance for transactions outstanding at December 31, 2010 and from 67.6% to 73.4% of the principal balance for transactions outstanding at December 31, 2009. In certain cases there may be a cash reserve/holdback which is netted against the debt amount to arrive at the net advance rate. At December 31, 2010, we were in compliance with all financial covenants of the PALP financings.

In May 2010, in conjunction with the execution of our \$250.0 million warehouse facility and our \$100.0 million portfolio term residual financing, each with Santander, we reduced our PALP financing with Santander, from a \$518.0 million borrowing capacity to a \$250.0 million borrowing capacity. In addition, in August 2010, we terminated the PALP financing with Santander.

Portfolio warehouse facilities

The following is a summary of portfolio warehouse facilities

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	(\$ in thousands)	
Portfolio Warehouse Facilities:		
Warehouse Facility I—secured by certain finance receivables of the Company	\$ 141,715	\$ 77,506
Warehouse Facility II—secured by certain finance receivables of the Company	100,000	—
Warehouse Facility III—secured by certain finance receivables of the Company	117,392	—
Warehouse Facility IV—secured by certain finance receivables of the Company	43,900	—
Total Portfolio Warehouse Facilities	<u>\$ 403,007</u>	<u>\$ 77,506</u>

Warehouse Facility I

In July 2010, we amended our portfolio warehouse facility agreement with Deutsche Bank AG, New York Branch (Deutsche Bank), decreasing the total capacity from \$250.0 million to \$150.0 million, and extending the maturity from December 2010 to December 2011. As of December 31, 2010, this facility has a total capacity of \$150.0 million, carries an advance rate on the receivables pledged to the facility of 58%, and amounts outstanding at December 31, 2010 are secured by finance receivable principal balances of \$266.1 million. The amounts outstanding under the facility bear interest based on the lenders' cost of funds thereunder plus 4.25% (4.56% at December 31, 2010 and 4.49% at December 31, 2009) on or prior to December 31, 2010. Thereafter the amounts outstanding under the facility will bear interest based on the lenders' cost of funds thereunder plus 3.25%. This facility also has a term-out feature resulting in a final maturity of December 2012. At December 31, 2010, we were in compliance with all financial covenants of this facility.

Warehouse Facility II

In May 2010, we entered into a portfolio warehouse facility agreement with Santander with a capacity of \$250.0 million. This facility is secured by finance receivables of \$150.4 million at December 31, 2010, carries an advance rate on the receivables pledged to the facility of 70%, and amounts outstanding under the facility bear interest at LIBOR plus 5.00% (5.26% at December 31, 2010) on the first \$100.0 million outstanding and LIBOR plus 4.25% for amounts outstanding in excess of \$100.0 million. This facility requires us to maintain \$100.0 million outstanding at all times. This revolving facility provides for funding through May 2011 with a term-out feature resulting in a final maturity of May 2012. At December 31, 2010, we were in compliance with all financial covenants of this facility.

Warehouse Facility III

In April 2010 we entered into a portfolio warehouse facility agreement with UBS Real Estate Securities Inc. (UBS) with a capacity of \$125.0 million. This facility is secured by finance receivables of \$255.5 million at December 31, 2010, carries an advance rate on the receivables pledged to the facility of 50%, and amounts outstanding under the facility bear interest at LIBOR plus 2.50% (2.76% at December 31, 2010). Pursuant to an amendment executed on March 31, 2011, we extended the maturity date of this revolving facility from March 31, 2011 with a term-out feature resulting in a final maturity of March 2012 to April 10, 2011, with the term-out feature remaining in place. We plan on renewing this facility and are currently in negotiations with the lender for that renewal, however, terms have not yet been finalized. At December 31, 2010 we were in compliance with all financial covenants of this facility.

Warehouse Facility IV

In July 2010, we entered into a portfolio warehouse facility agreement with The Royal Bank of Scotland PLC (RBS) with a capacity of \$50.0 million, which expires in July 2011. This facility is secured primarily by finance receivables of \$87.6 million at December 31, 2010, and carries an advance rate on the receivables pledged to the facility of 50%. The amounts outstanding under the facility bear interest at the lenders' cost of funds thereunder plus 2.50% (2.81% at December 31, 2010). At December 31, 2010 we were in compliance with all financial covenants of this facility.

Collateral

The finance receivables pledged as collateral to each of the warehouse facilities is established for the benefit of the note holders, and the respective carrying amounts of the finance receivables pledged as collateral are disclosed above. These facilities contain a borrowing base which requires us to pledge finance receivables in excess of the amounts which we can borrow under the facilities. The aggregate balance of finance receivables are presented on our consolidated balance sheet included herein, and we do not separately classify those assets serving as collateral since the creditors in each of the warehouse facilities do not have the right to sell or repledge the collateral, except in certain cases upon an event of default.

Warehouse Facility Structure

We formed individual limited liability companies, each of which is a wholly-owned subsidiary of DTAC, which serve as the sole borrowers under our existing portfolio warehouse facilities and our portfolio term residual financing. Each of these LLC's is a special purpose entity established specifically for the purpose of the applicable lending relationship, with assets and liabilities distinct from the remainder of DTAG and DTAC. These facilities do not contain mark-to-market clauses that would otherwise enable the lenders to reduce advance rates based on market conditions, limit upstream recourse to 10.0% of the respective facility amounts, and limit the lenders' ability to sell or otherwise dispose of the underlying collateral upon certain termination events. In addition, on the termination date of the facilities, (i) failure to pay amounts outstanding at termination do not immediately give rise to the applicable lender's right to foreclose of the applicable collateral, (ii) all collections on the contracts collateralizing these facilities would be used to pay down the facility until they are paid in full, and (iii) we would continue to service the contracts that are pledged under this facility, for which we would receive an annualized service fee of up to 7.0%.

Each of these LLC's for each of our warehouse facilities have entered into demand notes in the amounts of \$15.0 million, \$35.0 million, \$12.5 million, and \$5.0 million, respectively, with DTAC, each of which has been pledged to the applicable lender. Each demand note is guaranteed by DTAG, Mr. Garcia, and Verde. Prior to the termination date under each of these warehouse facilities, under certain circumstances, the applicable lender can require DTAC to fund the demand note, and apply the proceeds to pay down the facility with the applicable special purpose entity. After the termination date, the applicable lender or program agent can require DTAC to fund the demand note, at its sole discretion, and apply the proceeds to pay down the facility with the applicable special purpose entity if, and only if, any of the following occurs: (i) the Termination Date (as defined in each agreement) occurs as a result of an Event of Termination (as defined in each agreement), (ii) the applicable special purpose entity fails to maintain borrowing base compliance after the Termination Date, (iii) an Event of Termination occurs after the termination date and is continuing and (iv) other than with respect to Warehouse Facility II the applicable special purpose entity fails to effect its required clean-up call.

Senior secured notes payable

A summary of Senior Secured Notes payable follows:

	December 31,	
	2010	2009
	(\$ in thousands)	
Senior Secured Notes Payable, net—interest at 12.625% per annum (Priced to yield 12.875%) interest payable semi-annually, principal balance due June 15, 2017	\$ 149,360	\$ —
Senior Secured Notes Payable, net—Related Party	48,469	—
Total Senior Secured Notes Payable	\$ 197,829	\$ —

In June 2010 we issued \$200.0 million of 12.625% Senior Secured Notes due June 15, 2017 (Senior Secured Notes). The Senior Secured Notes were issued with an original issuance price of 98.854%, resulting in an effective yield of 12.875%. Simultaneously with this offering, Verde exchanged \$35.0 million of our subordinated notes and Mr. Fidel, our Chief Executive Officer exchanged \$2.0 million of our junior secured notes for \$37.0 million aggregate principal balance of Senior Secured Notes issued. Therefore, net proceeds to the Company, after fees, expenses and issuance of the \$37.0 million to related parties, were approximately \$155.9 million. Interest on the notes is payable semi-annually in arrears on each June 15 and December 15.

In September 2010, Verde and Mr. Fidel, purchased \$10.0 million and \$2.0 million, respectively, of the Senior Secured Notes at a price of 99.0% from an unrelated third-party. As a result of this transaction, Verde and Mr. Fidel now own \$45.0 million and \$4.0 million of the Senior Secured Notes, respectively. At December 31, 2010 the notes are shown net of unamortized discount of \$0.5 million.

Guarantees

The Senior Secured Notes are unconditionally guaranteed by certain of our existing and future domestic restricted subsidiaries. The guarantees rank senior in right of payment to all existing and future subordinated indebtedness of these subsidiaries and equal in right of payment with all existing and future senior indebtedness of these subsidiaries.

Security

The collateral for the Senior Secured Notes consists of a (i) first lien on (a) finance receivables held by the issuers, (b) equity interests held by DTAC in the Pledged SPSs, and (c) residual property rights in finance receivables securing other financings, in each case subject to certain exceptions, and a (ii) second lien, behind one or more secured credit facilities, on inventory owned by one of the guarantors. If, following a payment default under the exchanges notes, the holders of Senior Secured Notes exercise their rights under the pledge agreement with respect to the Pledged SPSs, a third-party paying agent will direct all cash flows from the Pledged SPSs to their respective defined sets of creditors, with the residual to be paid to the collateral agent for the Senior Secured Notes. Therefore, a first-priority lien on the equity interests of the Pledged SPSs is effectively a second-priority lien on the underlying collateral held by such Pledged SPSs.

Maintenance covenants

We are required to comply with certain maintenance covenants relating to minimum net worth and minimum collateral coverage. As of December 31, 2010 we are in compliance with such covenants.

Exchange offer; registration rights

We have agreed to file a registration statement with the Securities and Exchange Commission (the "SEC") and to make an offer to exchange the Senior Secured Notes for registered, publicly tradable notes that have substantially identical terms as the Senior Secured Notes. However, we do not intend to apply for listing of the Senior Secured Notes on any securities exchange. On October 1, 2010 we filed a registration statement on Form S-4 and have subsequently filed four amendments to such registration statement and are in the process of responding to comments received from the SEC with respect to certain matters.

The Senior Secured Notes required us to affect the registration with the SEC by December 31, 2010, without being required to make and incur additional interest on the senior secured notes. The interest penalty for late registration effectiveness is 25 basis points for the first 90 days post December 31, 2010, unless cured prior to the end of the 90 days. This penalty increases every 90 days by another 25 basis points up to a maximum of 100 basis points over the original stated rate. If at any time subsequent to December 31, 2010, we affect the registration, the interest rate reverts back to the original stated rate. We are currently in our first interest penalty period, therefore, we began accruing an additional 25 basis points of interest on January 1, 2011.

Other secured notes payable

A summary of other secured notes payable follows:

	December 31,	
	2010	2009
	(\$ in thousands)	
Revolving Inventory Facility, secured by the Company's vehicle inventory.....	\$ 40,000	\$ 50,000
Junior Secured Notes, secured by finance receivables-related party...	—	62,088
Repurchase Facility, secured by 2009-1 securitization bonds owned by the Company.....	—	12,231
Mortgage Note Payable Bearing Interest at 5.87%, secured by real property	12,859	13,046
Equipment Note Payable, secured by an aircraft.....	2,479	—
Total Other Secured Notes Payable.....	\$ 55,338	\$ 137,365

Revolving inventory facility

In October 2010, we amended our revolving inventory facility with Santander and Manheim Automotive Financial Services, Inc., and extending the maturity from October 2010 to October 2011. At December 31, 2010, the revolving inventory facility has a maximum capacity of \$50.0 million, an interest rate of LIBOR plus 3.0% (3.26% at December 31, 2010) and is secured by \$146.0

million of vehicle inventory. The interest rate was LIBOR plus 6.0% (6.23% at December 31, 2009). At December 31, 2010 we were in compliance with all financial covenants of this facility.

Junior secured notes—related party

At December 31, 2009, these junior secured notes consisted of a \$38.1 million Tranche A component and a \$24.0 million subordinate Tranche B component and had a maturity of December 2012. These junior secured notes were secured by a junior interest in our finance receivables. The Tranche A component was comprised of four notes, three of which were payable to Verde in the aggregate amount of \$36.1 million and one of which was a \$2.0 million note to Mr. Fidel and the Tranche B component was comprised of one subordinate note to Verde.

In conjunction with our offering of our Senior Secured Notes, Verde transferred to our principal shareholder and our principal shareholder received and contributed to equity, the aggregate amount of the Tranche A and B junior secured notes in the amount of \$60.1 million. In conjunction with this exchange these junior secured notes were cancelled. In addition, the \$2.0 million Tranche A note held by Mr. Fidel was exchanged (and contemporaneously cancelled) for an equal principal amount of the Senior Secured Notes. As a result of these transactions, our obligations under the junior secured notes have been satisfied.

See Note 10—Related Party Transactions to our consolidated financial statements included herein for more information regarding transactions involving the Junior Secured Notes and Verde.

Repurchase facility

In December 2009, we issued \$192.6 million of securitization bonds in conjunction with our 2009-1 securitization. We purchased \$17.5 million of the initial issuance. This purchase was funded with cash and \$12.2 million in borrowings under a 30-day rolling repurchase facility with interest at LIBOR plus 1.5%.

In connection with Senior Secured Notes, we utilized a portion of the proceeds to repay the amount then outstanding on this facility and this facility is now terminated.

Mortgage note payable

Our mortgage note payable is secured by our operations call center building in Mesa, Arizona (a commercial property). Terms of the note agreement provide for monthly principal and interest payments with a balloon payment due in March 2017. At December 31, 2010, we were in compliance with all financial covenants of this loan.

Equipment note payable

In April 2010, we entered into a three year term loan with an original principal amount of \$2.7 million bearing interest at the Prime rate plus 1.5% (4.75% at December 31, 2010). Terms of the note agreement provide for monthly principal and interest payments with a balloon payment due in April 2013. At December 31, 2010, we were in compliance with all financial covenants of this loan.

Unsecured notes payable

A summary of senior unsecured notes payable follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	(\$ in thousands)	
Senior Unsecured Notes Payable, net—Interest at 11.25% per Annum (Priced to Yield 12.5%) Payable Semi-Annually, Principal Balance Due October 1, 2010	\$ —	\$ 1,487
Subordinated Notes—Related Party.....	—	75,000
Total Unsecured Notes Payable.....	\$ —	\$ 76,487

The senior unsecured notes due 2010 are shown net of unamortized discount of \$13,000 at December 31, 2009. At September 30, 2010, we were in compliance with all required covenants of these senior unsecured notes. On October 1, 2010, at the senior unsecured note's due date, the full principal payment was made. As a result, our obligations under these senior unsecured notes have been fully satisfied.

During 2008, Verde provided a total of \$75.0 million in cash to us in return for subordinated notes payable. At December 31, 2009, these notes bore interest at 12.0% and had a maturity of August 2013. In conjunction with our offering of our Senior Secured Notes, Verde transferred to our principal shareholder and our principal shareholder received and contributed to equity, \$40.0 million of such subordinated notes, at which time the notes were cancelled. In addition, the remaining \$35.0 million in subordinated notes payable to Verde were exchanged (and contemporaneously cancelled) for an equal principal amount of Senior Secured Notes due 2017. As a result of these transactions, our obligations under the subordinated notes payable have been satisfied.

Future Minimum Principal Payments

The following table represents the future minimum principal payments required under notes payable and capital leases as of December 31, 2010:

As of December 31, 2010							
Payments by Period							
(\$ in thousands)							
	Total	Less than 1 Year ⁽³⁾	Year 2	Year 3	Year 4	Year 5	More than 5 Years
Securitization & PALP ⁽¹⁾	\$ 314,033	\$ 168,165	\$ 106,271	\$ 39,597	\$ —	\$ —	\$ —
Portfolio warehouse facility ⁽²⁾	403,007	324,138	78,869	—	—	—	—
Portfolio Term Residual Financing.....	100,000	—	33,658	66,342	—	—	—
Senior secured notes.....	197,829	—	—	—	—	—	197,829
Inventory facility.....	40,000	40,000	—	—	—	—	—
Real estate mortgage loan.....	12,859	198	208	222	236	251	11,744
Equipment note, secured by an aircraft.....	2,479	344	360	1,775	—	—	—
Capital lease obligations.....	3,457	1,109	1,066	723	472	87	—
Total.....	\$ 1,073,664	\$ 533,954	\$ 220,432	\$ 108,659	\$ 708	\$ 338	\$ 209,573

- (1) Securitization obligations do not have a contractual termination date. Therefore, all collections on the contracts collateralizing the securities are used to repay the asset-backed security holders based on an expected duration of the securities. On the termination date of the PALP obligations, amounts outstanding at termination are not due and payable immediately. Collections on the contracts collateralizing the facility are used to repay the facility until it is paid in full.
- (2) On the termination date of the facilities, amounts outstanding at termination are not due and payable immediately. All collections on the contracts collateralizing this facility are used to pay down the facilities until they are paid in full, therefore, although those facilities expire in 2011, a portion of these balances are assumed to be required to be paid in years 2 and 3. These portfolio warehouse facilities are due to expire in March, May, July and December 2011. The facility that is due to expire in March was extended to April 10, 2011 and we are currently in negotiations with the lender to renew.
- (3) Generally and historically, we renewed or replaced with other financing alternatives for our debt obligations that come due for expiration or termination.

(9) Extinguishments of Debt

A summary of gains and losses on extinguishment of debt is as follows:

Year Ended December 31, 2010			
Month	Type	Principal Repurchased	Loss
(\$ in thousands)			
August	Santander Pooled Auto Loans	\$ 227,890	\$ (3,418)

Year Ended December 31, 2009			
Month	Type	Principal Repurchased	Net Gain (Loss)
(\$ in thousands)			
January.....	Senior Unsecured Notes	\$ 15,000	\$ 4,908
March.....	2007-A Securitization Debt	13,200	1,846
April.....	Senior Unsecured Notes	30,000	9,911
May.....	Senior Unsecured Notes	25,000	8,246
June.....	Senior Unsecured Notes	20,000	6,648
September.....	Senior Unsecured Notes – Related Party	32,000	(1,248)
			<u>\$ 30,311</u>

Year Ended December 31, 2008			
Month	Type	Principal Repurchased	Net Gain
(\$ in thousands)			
August	2007-A Securitization Debt	\$ 62,100	\$ 10,254
December.....	2007-A Securitization Debt	20,865	4,854
December.....	Senior Unsecured Notes	13,000	4,591
			<u>\$ 19,699</u>

(10) Related Party Transactions

During the years ended December 31, 2010, 2009, and 2008, we recorded related party operating expenses as follows:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
General and Administrative Expenses—Related Party			
Property lease expense	\$ 4,583	\$ 4,741	\$ 5,383
Store closing costs	1,451	1,969	2,484
Non-cash compensation expense	1,125	2,250	2,250
Restricted stock compensation expense	3,874	—	—
Aircraft operating and lease expense	3,693	3,626	3,723
Salaries and wages, general & administrative and other expenses	812	567	484
Reimbursement of certain general and administrative expenses	(420)	(210)	(210)
Total General and Administrative Expenses—Related Party	\$ 15,118	\$ 12,943	\$ 14,114

Relationship with Verde Investments, Inc. Verde Investments, Inc. (hereinafter referred to as “Verde”) is an Arizona corporation that is wholly-owned by Mr. Garcia. Verde engages in the acquisition, development, and long-term investment in real estate and other commercial assets. Mr. Garcia is the principal stockholder, president and director of Verde. Transactions between us and Verde are described below.

Property lease expense

For the years ended December 31, 2010, 2009, and 2008, we leased an average of 15, 16, and 18 vehicle sales facilities, respectively, three reconditioning facilities, our former loan servicing center (which is currently being partially subleased to a third-party tenant), and our corporate office from Verde and another affiliate of Mr. Garcia (the Garcia Family Limited Liability Partnership, LLP). At December 31, 2010, three of these facilities are closed locations. For the years ended December 31, 2010 and 2009, we also leased one used vehicle sales facility, and a reconditioning center from Steven Johnson, a director and former officer of DTAC who is also Mr. Garcia’s brother-in-law. For the year ended at December 31, 2008, we leased two vehicle sales facilities and a reconditioning center from Steven Johnson. These are also closed locations. At December 31, 2010, the maturity of these related party leases range from 2013 to 2023.

During the year ended December 31, 2010, we paid \$0.4 million in a lease termination fee on one of our closed properties to terminate the lease with Verde. This amount was previously accrued at December 31, 2009 and did not have an impact on net income.

Store closing costs

During the years ended December 31, 2008 and 2009, we closed a total of 28 dealerships and six reconditioning centers, 10 of which were facilities we lease from Verde and Steven Johnson. These facilities are a subset of the leases described above in Property Lease Expense. In accordance with ASC 420—Exit or Disposal Activities (ASC 420), we recorded lease obligations, asset disposal costs, and other closing costs associated with these closures for the periods presented. We remained obligated for related party leases on three and four dealership facilities as of December 31, 2010 and December 31, 2009, respectively. We also remained obligated on two closed reconditioning centers and one closed operations facility as of December 31, 2010 and December 31, 2009. We ceased use of a former loan servicing center in 2007 and this facility is currently being partially subleased. The store closing costs represent ongoing costs related to property leases, property taxes, and maintenance, which are reflected in our general and administrative expenses—related party.

As of December 31, 2010 and December 31, 2009, \$2.1 million and \$2.3 million, respectively, remain in accrued expenses and other liabilities—related party on the accompanying consolidated balances sheets for these lease obligations. The expiration of these leases range from 2013 to 2018.

Non-cash compensation expense and Restricted stock compensation expense

See Note 12—Shareholders’ Equity & Dividends for details.

Aircraft lease and operating expenses

In September, 2005, we entered into a five year lease with Verde for an aircraft. Under the terms of the lease agreement, we agreed to pay monthly lease payments of \$150,000 plus taxes to Verde, and are responsible for paying all costs and expenses related to the aircraft and its operations. In August 2010, we extended the lease term for an additional five years and all other terms remained consistent.

Salaries and wages, general and administrative and other expenses

Certain general and administrative expenses and salaries and wages of Verde and Verde employees who are enrolled in our health plan are reflected in our general and administrative expenses—related party.

Reimbursement of general and administrative expenses

For each of the periods presented, we received reimbursement of certain general and administrative expenses incurred by us on Verde's behalf. This amount was \$52,500 for each of the quarters in 2008 and 2009, and was \$105,000 for each of the quarters in 2010.

During the years ended December 31, 2010, 2009, and 2008, we recorded related party interest expense as follows:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Non-Portfolio Debt Interest Expense—Related Party			
Junior Secured Notes:			
Tranche A—Related Party: CEO	\$ 185	\$ 400	\$ 30
Tranche A—Related Party: Verde	3,374	2,460	—
Tranche B—Related Party: Verde	2,754	6,035	450
\$5.0 million Shareholder Note Payable	—	—	140
\$32.0 million Senior Unsecured Notes Payable	—	2,690	3,224
\$75.0 million Subordinated Notes Payable	3,863	9,158	5,939
Total Non-Portfolio Debt Interest Expense—Related Party	\$ 10,176	\$ 20,743	\$ 9,783
Senior Secured Notes Interest Expense—Related Party			
Senior Secured Notes Payable—Verde.....	\$ 2,930	\$ —	\$ —
Senior Secured Notes Payable—CEO	223	—	—
Total Senior Secured Notes Interest Expense—Related Party	\$ 3,153	\$ —	\$ —

Interest expense—related party

During the years ended December 31, 2010, 2009, and 2008, we recorded related party interest expense associated with junior secured notes, a shareholder note payable, senior unsecured notes, subordinated notes, and Senior Secured Notes as depicted above. For the terms of these debt instruments see Note 8—Debt Obligations.

2008:

In January 2008, Verde purchased \$29.0 million face value of our 11.25% senior unsecured notes due 2013. This purchase was made on the open market between Verde and a third-party broker. The purchase price was 70.0% of face value. In May, 2008, Verde subordinated principal and interest on the \$29.0 million in notes.

In the second quarter of 2008, Verde provided a total of \$75.0 million in cash to us in return for subordinated notes, bearing interest at 12.0% per annum, and with a maturity date of August 2013.

In September 2008, our Principal Shareholder provided \$5.0 million in cash to us in return for a short term subordinated note bearing interest at 12.0% per annum, due December 2008. The note was collateralized by certain real estate owned by us. As of December 31, 2008 this note was paid in full.

In September 2008, Verde purchased an additional \$3.0 million face value of our 11.25% senior unsecured notes due 2013. This purchase was made on the open market between Verde and a third-party broker. The purchase price was 52.0% of face value.

In December 2008, we issued junior secured notes. These notes consisted of a Tranche A component and a subordinate Tranche B component. The Tranche A component was comprised of four notes (one of which is a \$2.0 million note to Mr. Fidel, our Chief Executive Officer) and the Tranche B component of \$24.0 million was comprised of one subordinate note to Verde. At December 31, 2009, the Tranche A notes bore interest at 22.0% per annum, increasing by 2.0% each year until maturity and the Tranche B note bore interest at 27.0% per annum, increasing 2.0% each year until maturity.

2009:

During the year ended December 31, 2009, Verde purchased an aggregate amount of \$36.1 million in notes from third-party Tranche A note holders. After these transactions at December 31, 2009, Verde held \$36.1 million of Tranche A junior secured notes and the \$24.0 million Tranche B junior secured notes.

In September 2009, we repurchased the \$32.0 million face value of our 11.25% senior unsecured notes due 2013 which was held by Verde. This repurchase was made at par and resulted in a net loss on extinguishment of debt of \$1.2 million as a result of the write-off of unamortized debt discount and unamortized capitalized loan fees.

2010:

In June 2010 we issued \$200.0 million of 12.625% Senior Secured Notes due June 15, 2017. Simultaneously with this offering, Verde transferred to Mr. Garcia and Mr. Garcia received and contributed to equity the aggregate amount of the Tranche A and B junior secured notes in the amount of \$60.1 million. In addition, the \$2.0 million Tranche A note held by Mr. Fidel was exchanged for an equal principal amount of the 12.625% Senior Secured Notes due 2017. As a result of this transaction, the debt obligation for junior secured notes was fully satisfied.

In conjunction with the Senior Secured Notes offering in June 2010, Verde also transferred to Mr. Garcia and Mr. Garcia received and contributed to equity, \$40.0 million of subordinated notes payable, at which time the notes were cancelled. In addition, the remaining \$35.0 million in subordinated notes payable to Verde were exchanged (and contemporaneously cancelled) for an equal principal amount of 12.625% Senior Secured Notes due 2017. As a result, we were no longer obligated on the \$75.0 million subordinated notes payable.

In September 2010, Verde and Mr. Fidel, purchased \$10.0 million and \$2.0 million, respectively, of the 12.625% Senior Secured Notes at a price of 99.0% from an unrelated third-party. As a result of this transaction, Verde and Mr. Fidel now own \$45.0 million and \$4.0 million of the Senior Secured Notes, respectively.

As a result of the transactions described above, we incurred related party interest expense on non-portfolio debt associated with the junior secured notes, subordinated notes and the 11.25% senior unsecured notes due 2013 through June 2010, at which time previous amounts outstanding were either exchanged for equity or the new 12.625% Senior Secured Notes due 2017, as described above.

At December 31, 2010 and 2009, we had \$0.3 million and \$2.0 million, respectively, accrued in related party interest expense as "Accrued Expenses—Related Party" in the accompanying consolidated balance sheets, which represents the amount incurred in excess of amount paid.

(11) Income Taxes

The consolidated financial statements consist of DTAG (S-corporation status elected in 2004) and DTAC (an S-corporation since inception). Since DTAC and DTAG are flow through entities for Federal income tax purposes, there is no Federal income tax expense related to the income of DTAC and DTAG, other than for one of DTAG's wholly-owned subsidiaries, which is a C-corporation. The taxable income flows through to our shareholders who are responsible for paying the associated taxes. Although most states follow the Federal recognition of S-corporation status, some states do impose an entity level tax on that income; therefore, the tax expense is adjusted accordingly. Income tax liability was \$0.3 million and \$1.1 million as of December 31, 2010 and December 31, 2009, respectively.

A reconciliation between expected taxes computed at the federal statutory rate of 35% and the effective tax rate on income before income taxes follows:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Computed "Expected" Income Taxes	\$ 24,880	\$ 18,454	\$ 284
Non C-Corporation (Income) Expense	(24,174)	(17,788)	535
Entity Level State Income Tax on S Corp. Income	618	100	450
Other, Net	(920)	(36)	(179)
Computed "Expected" Income Taxes	<u>\$ 404</u>	<u>\$ 730</u>	<u>\$ 1,090</u>

Components of income tax (benefit) expense are as follows:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Current Expense:			
Federal	\$ 686	\$ 630	\$ 640
State	(282)	100	450
Deferred	—	—	—
Total	<u>\$ 404</u>	<u>\$ 730</u>	<u>\$ 1,090</u>

DTAG and DTAC, along with a wholly-owned C-corporation subsidiary of DTAG, file a federal and various state income tax returns. For federal purposes, the 2007 – 2009 years remain subject to examination, while for state purposes, the 2006 – 2009 years remain subject to examination. In May 2010, the IRS commenced an examination of DTAG's and DTAC's 2008 federal income tax return but has not communicated any findings or proposed any adjustments as of December 31, 2010. We do not anticipate any material impact to our financial statements as a result of this audit. We do not have any open state income tax examinations.

We adopted the provisions of ASC 740-10 (formerly known as FIN 48) on January 1, 2009. As of December 31, 2010 and December 31, 2009, we had not recorded any liabilities for unrecognized tax benefits, nor have we recorded any liability for interest or penalties related to such positions in our financial statements.

(12) Shareholders' Equity & Dividends

Certain of our debt facilities place restrictions on the amount of cash dividends we are permitted to pay to our shareholders. We are permitted to pay cash dividends limited to an amount not greater than the percentage of S-corporation taxable income for such quarterly period equal to the highest combined federal, state, and/or local tax rate for individuals, plus 50% of the difference between net earnings less amounts paid for tax.

During the year ended December 31, 2010, we paid \$46.3 million in dividends related to 2010 income. We did not have any approved but unpaid dividends at December 31, 2010 or December 31, 2009, and we did not have any amount available to be distributed as of December 31, 2010 or December 31, 2009.

In January 2008, Mr. Garcia entered into an agreement with Mr. Fidel to purchase Mr. Fidel's 5% interest in DTAG and DTAC for \$17.5 million. The terms of the purchase were such that Mr. Garcia paid Mr. Fidel \$6.25 million in cash and \$11.25 million in a promissory note bearing interest at 8.0% per annum. The term of the note is five years with annual installment payments required. The agreement contained an employment condition, requiring Mr. Fidel to remain employed with the Company through June 30, 2010. In the event Mr. Fidel voluntarily terminated his employment as the President and Chief Executive Officer of the Company at a time prior to June 30, 2010, one-half of the principal balance of the note would have been waived and no longer payable by Mr. Garcia. Accordingly, one-half of the \$11.25 million note was deemed compensation expense recognized over the term of the employment condition, which expired in June 2010. As a result, \$1.1 million of non-cash compensation expense was recorded for the year ended December 31, 2010, and \$2.3 million for the years ended December 31, 2009 and 2008, as an increase to general and administrative expenses—related party and increase to paid-in capital on the accompanying consolidated statements of operations and balance sheets.

For the years ended December 31, 2010, 2009, and 2008, Mr. Garcia paid the interest to Mr. Fidel, \$0.5 million, \$0.7million, and \$0.9 million, respectively.

Prior to June 30, 2010, Verde was the holder of all of our outstanding \$75.0 million 12% subordinated notes and the holder of \$60.1 million of our junior secured notes. In conjunction with our offering of our 12.625% Senior Secured Notes due 2017 issued in June 2010, Verde transferred to Mr. Garcia and Mr. Garcia received and contributed to equity an aggregate of \$100.1 million of debt, comprised of \$40.0 million in subordinated notes and \$60.1 million in junior secured notes. As a result of this agreement, paid-in capital was increased by \$100.1 million in June 2010.

As a result of the exchange of debt for equity by Mr. Garcia, we wrote-off unamortized deferred financing costs associated with the subordinated notes and junior secured notes. The portion of the unamortized costs associated with related party debt and the discount associated with the issuance of the Senior Secured Notes owned by Mr. Garcia were treated as capital transactions and resulted in a net decrease to paid-in capital of approximately \$0.2 million.

Chief Executive Officer Restricted Stock Grant

In December 2010, the Board of Directors of each of DTAG and DTAC approved a restricted stock award to Mr. Fidel. On December 28, 2010, Mr. Fidel entered into a Restricted Stock Agreement with each of DTAG and DTAC, pursuant to which he was issued an award of 2.8595 shares of restricted stock in each of DTAG and DTAC, subject to certain vesting restrictions. Mr. Fidel made an election under Section 83(b) of the United States Internal Revenue Code of 1986, as amended, to be taxed on the fair market value of the entire restricted stock grant as of the award date. In connection therewith, that portion of shares the fair market value of which was sufficient to satisfy Mr. Fidel's federal and state income tax obligations with respect to the entire award was deemed to be vested in full as of the award date. However, only those shares of a value equal to the minimum statutory federal and state withholding due from Mr. Fidel on the grant were repurchased by DTAG and DTAC, and the proceeds from such repurchases were delivered to the relevant tax authorities. The remaining unvested shares of restricted stock will vest one-third each year over a period of three years based on Mr. Fidel's continued employment with us and on the achievement of certain income before income tax targets for the consolidated results of DTAG, measured for the preceding twelve months as of June 30, 2011, 2012 and 2013. For income tax purposes, Mr. Fidel was deemed to own 2.8595 shares at the grant date, and immediately thereafter the Company repurchased 1.0899 shares resulting in Mr. Fidel owning 1.7696 shares in each of DTAG and DTAC as of December 31, 2010. A shortfall in the performance target measured at June 30, 2011 or 2012 (and therefore a failure of one-third of the unvested shares to vest at such date) may be made up at a subsequent date if the consolidated results of DTAG exceed the relevant income before income tax target applicable to such subsequent period. Shares of restricted stock that would otherwise vest at June 30, 2013 will only become vested shares if Mr. Fidel's employment with us continues until December 31, 2013. In connection with the execution of the Restricted Stock Agreements, Mr. Fidel also entered into a Shareholders' Agreement with our principal shareholder and DTAG and DTAC, which, among other things, restricts his ability to transfer his shares of restricted stock and grants him certain tag-along rights in the event of a sale by our principal shareholder and certain piggy-back registration rights in connection with a public offering of our shares or any successor entity.

In December 2010, we obtained a valuation of the Company and Mr. Fidel's 2.78% ownership from a third party appraisal firm resulting in a \$9.5 million grant date fair value of the award. As the terms of the Agreement do not meet the specific criteria for liability classification as set forth in *ASC 718 Compensation – Stock Compensation*, we have determined the awards to be equity based stock compensation awards, therefore recognizing the expense over the requisite service periods based on a graded vesting. As DriveTime's Restricted Stock Agreement requires the achievement of a service and a performance condition, the Company would only recognize compensation expense for those periods in which the service is rendered and the performance condition is met. In addition, as the number of shares and purchase price are known by Mr. Fidel at the time of grant, compensation cost is fixed and measured as of the grant date.

As a result of this transaction, we recorded \$3.9 million in share-based compensation expense for the 1.1721 shares which vested on December 31, 2010. The remaining 59% of the shares will vest over the following 36 months based on various vesting periods as set forth in the Agreement and be recognized as compensation expense over the requisite service periods based on a graded vesting. The vesting is dependent upon achieving a predetermined performance ratio.

Pursuant to the Restricted Stock Agreements, Mr. Fidel would be entitled to the vesting in full of all of the then-unvested shares of restricted stock granted under such agreements if at any time during the terms of the agreements there is a Change in Control of the company or if his employment is terminated by the company without Cause or if he terminates his employment for Good Reason, as each such term is defined in the respective Restricted Stock Agreement. In addition, in the event of Mr. Fidel's death, only those shares that have previously vested under the Restricted Stock Agreements shall remain vested shares and Mr. Fidel's estate (or any beneficiary named by him) shall be entitled to the proceeds of an insurance policy on Mr. Fidel's life with a death benefit in the amount of \$10 million. The premium on such policy will be paid by the company, and the benefit amount will reduce in proportion to

the amount that any vested shares on a vesting date bear to the unvested shares. The premium paid for this policy was \$14,000 for 2011.

Intercompany Loan Transfers

DriveTime Car Sales Company, LLC, a wholly-owned subsidiary of DTAG, has a contractual commitment to sell all loans it originates at its dealerships to DTAC. Under ASC 805-50, these transfers of loans from DTCS to DTAC are accounted for as a sale (and not a secured financing), at carryover basis since DTCS and DTAC are entities under common control. Therefore, the difference between book value and purchase price is accounted for as a debit to retained earnings on DTAG and credit to retained earnings on DTAC. These amounts are shown as “Intercompany Transfers of Loans” on the accompanying consolidated statements of shareholders’ equity for each period presented.

(13) Commitments and Contingencies

Executive Bonus. In July 2005, we executed an executive bonus plan with certain of our executives. Under the current terms of the plan, we are committed to make six annual contributions beginning May 1, 2006 and for each year thereafter through May 1, 2011 to fund this program. An executive must remain employed by us to receive these benefits. If the executive terminates his employment without cause or is terminated with cause, any unpaid amounts are forfeited. If the executive is terminated without cause (including on account of disability), the executive will receive all amounts that have been contributed to date. The total potential contributions to be paid under this plan are \$14.0 million, funded by us over the first six years and paid out to the executive in five equal annual installments beginning May 1, 2011. We are recognizing compensation expense under this plan based upon the service period required to receive payments of ten years (exclusive of acceleration and forfeiture clauses).

For the years ended December 31, 2010, 2009, and 2008, we recognized compensation expense of \$1.8 million for each of the three years under this bonus plan. As of December 31, 2010 and 2009, we had \$0.9 million and \$1.4 million, respectively, recorded as a prepaid asset in the accompanying consolidated balance sheets, which represents the amount paid in excess of expense recognized. In accordance with the terms of the bonus plan, in May 2006, 2007, and 2008, we made our annual contributions in the amount of \$2.8 million for each year. In May 2009, the executives that participate in the plan agreed to amend the scheduled plan contributions to be \$1.4 million in May 2009 and May 2010 and \$2.8 million in May 2011, in lieu of the originally scheduled \$2.8 million in May 2009 and May 2010. At December 31, 2010 and 2009, we had \$2.8 million and \$4.2 million, respectively, remaining to be funded over the remaining term of the bonus plan.

Limited warranty

The limited warranty accrual is recorded as a component of accrued expenses and other liabilities on the accompanying consolidated balance sheets for each year presented. The following table reflects activity in the warranty accrual for the periods indicated:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Balance, Beginning of Period.....	\$ 920	\$ 777	\$ 1,007
Warranty Expense.....	23,898	3,028	5,393
Warranty Claims Paid.....	(6,882)	(2,885)	(5,623)
Balance, End of Period.....	<u>\$ 17,936</u>	<u>\$ 920</u>	<u>\$ 777</u>

Lease commitments

We lease used car sales facilities, reconditioning centers, our former loan servicing center, our corporate office, an aircraft, and certain other office/computer equipment from unrelated and related entities under various operating leases that expire through January 2025. The leases provide for periodic rent increases and many contain escalation clauses and various renewal options from one to ten years. In certain instances, we are also responsible for occupancy and maintenance costs, including real estate taxes, insurance, and utility costs. We recognize rent expense on a straight-line basis over the length of the lease term. Rent expense, including store closing costs, totaled \$16.9 million, \$18.3 million, and \$21.7 million for the years ended December 31, 2010, 2009, and 2008, respectively.

A summary of future minimum lease payments required under non-cancelable operating leases with remaining lease terms in excess of one year as of December 31, 2010 follows:

	Related Party	Non-Related Party	Total
	(\$ in thousands)		
Year 1	\$ 8,128	\$ 9,515	\$ 17,643
Year 2	8,309	7,870	16,179
Year 3	8,447	6,910	15,357
Year 4	8,164	5,232	13,396
Year 5	7,665	2,933	10,598
Thereafter	15,879	2,731	18,610
Total	<u>\$ 56,592</u>	<u>\$ 35,191</u>	<u>\$ 91,783</u>

We have properties where we ceased operations and still remain in contract under the lease agreements, which we have sub-leased to third party tenants. A summary of future minimum sub-lease income required under non-cancelable operating leases with remaining lease terms in excess of one year as of December 31, 2010 follows:

	Total
	(\$ in thousands)
Year 1	\$ 893
Year 2	946
Year 3	395
Year 4	—
Year 5	—
Thereafter	—
Total	<u>\$ 2,234</u>

During 2008 and 2009 we closed dealerships and reconditioning centers and incurred store closing costs and recorded lease termination liabilities in accordance with ASC 420—Exit or Disposal Activities (ASC 420). At December 31, 2010 and 2009, approximately \$2.3 million and \$4.1 million, respectively, remain in accrued expenses and other liabilities on the accompanying consolidated balance sheet for these lease obligations. In accordance with ASC 420, we recorded an aggregate amount of \$2.1 million, \$5.9 million, and \$12.4 million in lease obligations, severance, and asset disposal costs associated with these closures for the years ended December 31, 2010, 2009, and 2008, respectively. At December 31, 2010, the expiration of these leases range from 2012 to 2018.

Legal matters

We are involved in various claims and actions arising in the ordinary course of business. In the opinion of management, based on consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on us. We believe appropriate accruals have been made for the disposition of these matters. In accordance with ASC 450, *Contingencies*, we establish an accrual for a liability when it is both probable that the liability has been incurred and the amount of the loss can be reasonably estimated. These accruals are reviewed monthly and adjusted to reflect the impact of negotiations, settlements and payments, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Legal expenses related to defense, negotiations, settlements, rulings, and advice of outside legal counsel are expensed as incurred.

In August 2008, we received a Civil Investigative Demand from the Texas Office of Attorney General, Consumer Protection Division, asking for the production of certain materials. The demand indicates it is the subject of an investigation of possible violations of the Deceptive Trade Practices Act, Sections 17.46(a) and (b) in the marketing, advertising, financing, and selling of used vehicles. We provided the Texas Office of Attorney General with all requested information in August 2008. At that time, we met with the state's Attorney General's Office to provide them with an overview of the Company and discuss the requested materials. In addition, the Attorney General's Office indicated that they would review the materials we provided to them and if there were any concerns they would contact us to meet, discuss and resolve the concerns. The Texas Attorney General has requested additional information and documentation from time to time, most recently in February 2010 when it requested clarifying information limited to vehicle inspections, after sale repairs, warranty, loan servicing, and consumer concerns. We believe the request is routine in nature and

we have responded accordingly. We believe we are in compliance with all applicable state laws and regulations and we intend to continue to cooperate with state officials, and we will continue to fully cooperate with the state's Attorney General's Office in responding to the demand and any follow up discussions with them. We believe we do not have loss contingencies related to this matter.

On February 24, 2011, the Nevada Supreme Court denied our appeal regarding an adverse administrative ruling related to the efficacy of certain sales tax refunds we had requested for the 2002 and 2003 tax years. See Note 16—Subsequent Events for details.

Additionally, in the ordinary course of business, we are a defendant in various other types of legal proceedings. Although we cannot determine at this time the amount of the ultimate exposure from these lawsuits, if any, based on the advice of counsel management does not expect the final outcome to have a material adverse effect on us.

(14) Retirement Plan

We established a qualified 401(k) retirement plan (defined contribution plan), which became effective on October 1, 1995. The plan, as amended, covers substantially all employees having no less than 60 days of service, who have attained the age of 18, and work at least 1,000 hours per year. Participants may voluntarily contribute to the plan up to the maximum limits established by Internal Revenue Service regulations. In 2010, 2009, and 2008, we provided a matching contribution of cash in the amount of 40%, up to the first 6% of each employee's deferrals. Compensation expense related to this plan totaled \$0.7 million, \$0.7 million, and \$0.8 million for the years ended December 31, 2010, 2009, and 2008, respectively.

(15) Fair Value of Financial Instruments

Generally Accepted Accounting Principles require that we disclose estimated fair values for our financial instruments. Fair values are based on estimates using quoted market prices, discounted cash flows, or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and the estimated timing and amount of future cash flows. Therefore, the estimates of fair value may differ substantially from amounts that ultimately may be realized or paid at settlement or maturity of the financial instruments and those differences may be material. Accordingly, the aggregate fair value amounts presented do not represent our underlying institutional value.

Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument; they are subjective in nature and involve uncertainties, matters of judgment and, therefore, cannot be determined with ultimate precision. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular instrument. Changes in assumptions could significantly affect these estimates. Since the fair value is estimated as of each balance sheet date presented, the amounts that will actually be realized or paid in settlement of the instruments could be significantly different.

The following is a summary of carrying value and fair value of our financial instruments for each period presented:

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(\$ in thousands)			
Finance Receivables, net	\$ 1,187,543 ⁽¹⁾	\$ 1,251,004	\$ 1,107,332 ⁽¹⁾	\$ 1,133,936
Portfolio Warehouse Facilities	403,007	403,007	77,506	77,506
Repurchase Facility	—	—	12,231	12,231
Pooled Auto Loan Program Financings	10,131	10,400	527,324	545,400
Portfolio Term Residual Financing	100,000	101,000	—	—
Securitization Debt	303,902	315,434	268,533	269,461
Revolving Inventory Facility	40,000	40,300	50,000	50,000
Junior Secured Notes Payable	—	—	62,088	62,088
Mortgage Note Payable	12,859	10,500	13,046	9,400
Senior Secured Notes Payable	197,829	211,829	—	—
Senior Unsecured Notes Payable	—	—	1,487	1,487
Equipment Note Payable	2,479	2,500	—	—
Subordinated Notes Payable	—	—	75,000	69,000

⁽¹⁾ Represents finance receivable principal balances, plus accrued interest, less the allowance for credit losses.

Valuation methodologies

Finance receivables

The fair value of finance receivables was estimated by discounting future cash flows expected to be collected using current rates at which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. This discounted cash flow is estimated utilizing internal valuation models, which use a combination of market inputs (i.e. discount rates for similar and like transactions) and our own assumptions regarding credit losses, recoveries, and prepayment rates in our portfolio. We estimate the cash flow of the portfolio and the cash flow of our retained interests in securitization and PALP transactions in measuring total cash flow. These cash flows are developed on a leveraged basis since our finance receivable portfolio is financed by these debt instruments and are not separable transactions.

Portfolio warehouse facilities

The portfolio warehouse facilities are short term in nature and the interest rates adjust in conjunction with the lender's cost of funds or 30-day LIBOR. Warehouse Facility I was amended in July 2010 to reduce its capacity from \$250.0 million to \$150.0 million and we extended the maturity from December 2010 to December 2011, with no change in interest rate. Warehouse Facility II was executed in May 2010, Warehouse Facility III was executed in April 2010, and Warehouse Facility IV was executed in July 2010. Since these warehouse facilities were recently renewed or executed and contain a floating market rate of interest, we believe the fair value of this facility approximates carrying value at December 31, 2010. At December 31, 2009, the fair value approximates market value due to the adjustable rate nature of this debt instrument, and the ability to pre-pay at any time.

Pooled auto loan program financings

The fair value of PALP debt at December 31, 2010 and 2009 is based on third party discounted cash flow using market interest rates for this debt.

Portfolio term residual financing

This facility allows for maximum borrowings under a term component of \$100.0 million bearing a fixed rate of interest of 8.62%. Since we have the right to prepay the debt on May 9, 2011, we believe the fair value of this debt approximates carrying value at December 31, 2010 adjusted for prepayment fees.

Securitization debt

At December 31, 2010 and 2009, the fair value of securitization debt was estimated using third party quoted market prices.

Revolving inventory facility

At December 31, 2010 and 2009, the fair value of the inventory facility was determined third party discounted cash flow using market interest rates for this debt.

Mortgage note payable

At December 31, 2010 and 2009, the fair value of this note was determined using third-party market prices for similar commercial real estate mortgages.

Senior secured notes payable

The fair value of Senior Secured Notes payable at December 31, 2010 was determined using third-party quoted market prices.

Senior unsecured notes payable

On October 1, 2010, at the note's due date, the full principal payment was made. As a result, our obligations under the senior unsecured notes have been fully satisfied. At December 31, 2009, the fair value of the senior unsecured notes was determined to be par due to the short term to maturity and our ability to pre-pay the balance remaining.

Equipment note payable

At December 31, 2010, the fair value of the equipment note payable was determined third-party discounted cash flow using market interest rates for this debt.

Subordinated notes payable

At December 31, 2009, the fair value of these notes was determined utilizing a third-party valuation based on similar types of instruments.

(16) Subsequent Events

We have evaluated subsequent events potential recognition and/or disclosure through March 31, 2010, or the date the financial statements were available for issuance.

Accordingly, the following disclosures apply:

In February 2011, we completed a securitization transaction (2011-1) by issuing \$214.2 million of asset backed securities, which are collateralized by approximately \$280.0 million of finance receivables. The asset backed securities were rated by Standard and Poors (S&P) and DBRS and are structured in four tranches with credit ratings ranging from AAA to BBB, without external credit enhancement from a monoline insurer. The weighted average coupon of these four tranches was 3.03%.

On February 24, 2011, the Nevada Supreme Court denied our appeal regarding an adverse administrative ruling related to the efficacy of certain sales tax refunds we had requested for the 2002 and 2003 tax years. Prior to this adverse ruling, the Department of Taxation of the State of Nevada had, in an audit for tax years 1998-2001, allowed such refunds. The Department is now taking the position that we do not qualify to claim such refunds under the State's statute. While only applicable to the claims submitted for 2002 and 2003, this denial could impact our ability to claim sales tax refunds in years subsequent to 2003. We also file for and receive sales tax refunds in states other than Nevada related to sales taxes paid on retail installment sales of the amount related to that portion of the sales price ultimately not collected from our customers. To our knowledge, this decision by the State of Nevada should not affect our position regarding sales tax refunds in states other than Nevada. On March 14, 2011, we filed a motion for reconsideration with the Nevada Supreme Court as we maintain our belief that we are entitled to these sales tax refunds. Despite this motion for reconsideration, we have accrued a total liability of \$5.5 million related to this matter.

Pursuant to an amendment executed on March 31, 2011, we extended the maturity date of the portfolio warehouse facility agreement with UBS from March 31, 2011 with a term-out feature resulting in a final maturity of March 2012 to April 10, 2011, with the term-out feature remaining in place. We plan on renewing this facility and are currently in negotiations with the lender for that renewal, however, terms have not yet been finalized.

(17) Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other accounting standards setting bodies, which we may adopt as of the specified date required by each standard. Unless otherwise discussed, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption. The below information is not a comprehensive list of all new pronouncements. We have only included those pronouncements we believe the reader of the financial statements would find meaningful. We have excluded certain pronouncements that we believe do not apply to us or the industry in which we operate.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires additional disclosure about a company's allowance for credit losses and the credit quality of the company's financing receivables on a disaggregated basis. The enhanced disclosures are designed to assist financial statement users in assessing an entity's credit risk exposure and in evaluating the adequacy of an entity's allowance for credit losses. The required disclosures are to evaluate: (i) the nature of the credit risk inherent in the receivables, (ii) how the entity analyzes and assesses credit risk to estimate the allowance for credit losses and (iii) changes in both the receivable and the allowance for credit losses and the reasons for those changes. This pronouncement is effective for interim and annual periods ending on or after December 15, 2010. We have included the newly required disclosures in our consolidated notes for the fiscal year ending December 31, 2010. The adoption of this pronouncement had no impact on our results of operations, financial condition, or cash flows. See Note 4—Finance Receivables and Note 5—Allowance for credit losses for additional information.

(18) Supplemental Consolidating Financial Information

In accordance with the indenture governing our 12.625% Senior Secured Notes due 2017 (see Note 8—Debt Obligations), certain wholly-owned subsidiaries of the Company have fully and unconditionally guaranteed the Senior Secured Notes on a joint and several basis. Pursuant to Regulation S-X, Rule 3-10(f), we are required to present condensed consolidating financial information for subsidiaries that have guaranteed the debt of a registrant issued in a public offering, where the guarantee is full and unconditional, joint and several, and where the voting interest of the subsidiary is 100% owned by the registrant.

The following tables present condensed consolidating balance sheets as of December 31, 2010 and 2009; and condensed consolidating statements of income for the years ended December 31, 2010, 2009, and 2008; and condensed consolidated statements of cash flows for the years ended December 31, 2010, 2009, and 2008 for (i) DriveTime Automotive Group, Inc. (“DTAG”) and DT Acceptance Corporation (“DTAC”)—the co-issuers of the Senior Notes, (ii) the separate DTAG and DTAC guarantor subsidiaries on a combined basis, (iii) the separate DTAG and DTAC non-guarantor subsidiaries on a combined basis, (iv) elimination adjustments, and (v) total consolidated amounts. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management believes that such information is not material to the senior note holders. Consolidating adjustments include elimination of investment in subsidiaries, elimination of intercompany accounts; elimination of intercompany sales between guarantor and non-guarantor subsidiaries; and elimination of equity in earnings (losses) of subsidiaries. The condensed consolidating financial information should be read in conjunction with the consolidated financial statements herein.

Included in the column for DTAG Guarantor Subsidiaries Combined are DriveTime Sales and Finance Company, LLC and DriveTime Car Sales Company, LLC. Included in the column for DTAC Guarantor Subsidiaries Combined are DriveTime Credit Company, LLC, and DT Jet Leasing, LLC. Included in the column for DTAG Non-Guarantor Subsidiaries Combined are all other subsidiaries that are wholly-owned by DTAG and included in the column for DTAC Non-Guarantor Subsidiaries Combined are all other subsidiaries that are wholly-owned by DTAC, that are not guarantor subsidiaries. The column for the Issuers includes the accounts for DTAG and DTAC as issuers and as parent company for each of its respective subsidiaries.

Consolidated amounts may be immaterially different compared to the consolidated financial statements due to rounding.

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Balance Sheets
December 31, 2010
(\$ in thousands)

	<u>DriveTime Automotive Group, Inc.</u>					<u>DT Acceptance Corporation</u>					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non- Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non- Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated		Eliminations
ASSETS												
Cash and Cash Equivalents	\$ 3,589	\$ 322	\$ -	\$ -	\$ 3,911	\$ 285	\$ 515	\$ 18,966	\$ -	\$ 19,766	\$ -	\$ 23,677
Restricted Cash and Investments Held in Trust	5	-	-	-	5	20,777	61,109	-	-	81,886	-	81,891
Finance Receivables	-	-	-	-	-	-	-	1,408,741	-	1,408,741	-	1,408,741
Allowance for Credit Losses	-	-	-	-	-	-	-	(208,000)	-	(208,000)	-	(208,000)
Finance Receivables, Net	-	-	-	-	-	-	-	1,200,741	-	1,200,741	-	1,200,741
Inventory	145,961	-	-	-	145,961	-	-	-	-	-	-	145,961
Property and Equipment, Net	37,424	-	-	-	37,424	4,618	15,860	3,728	-	24,206	-	61,630
Investments in Subsidiaries	-	-	545,679	(545,679)	-	-	-	91,504	(91,504)	-	-	-
Other Assets	251,511	371,839	187,834	(625,339)	185,845	61,210	846,165	96,810	(937,558)	66,627	(198,218)	54,254
Total Assets	<u>\$ 438,490</u>	<u>\$ 372,161</u>	<u>\$ 733,513</u>	<u>\$ (1,171,018)</u>	<u>\$ 373,146</u>	<u>\$ 86,890</u>	<u>\$ 923,649</u>	<u>\$1,411,749</u>	<u>\$(1,029,062)</u>	<u>\$ 1,393,226</u>	<u>\$ (198,218)</u>	<u>\$ 1,568,154</u>
LIABILITIES & SHAREHOLDERS' EQUITY												
Liabilities:												
Accounts Payable	\$ 5,896	\$ -	\$ -	\$ -	\$ 5,896	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,896
Accrued Expenses and Other Liabilities	215,645	3,431	492,039	(625,339)	85,776	45,173	20,988	1,036,627	(917,062)	185,726	(198,218)	73,284
Portfolio Term Financings	-	-	-	-	-	-	434,529	-	(20,496)	414,033	-	414,033
Portfolio Warehouse Facilities	-	-	-	-	-	-	403,007	-	-	403,007	-	403,007
Other Secured Notes Payable	40,000	-	-	-	40,000	2,479	12,859	-	-	15,338	-	55,338
Senior Secured Notes Payable	-	-	98,915	-	98,915	-	-	98,914	-	98,914	-	197,829
Senior Unsecured Notes Payable	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	<u>261,541</u>	<u>3,431</u>	<u>590,954</u>	<u>(625,339)</u>	<u>230,587</u>	<u>47,652</u>	<u>871,383</u>	<u>1,135,541</u>	<u>(937,558)</u>	<u>1,117,018</u>	<u>(198,218)</u>	<u>1,149,387</u>
Shareholder's Equity:												
Total Shareholders' Equity	<u>176,949</u>	<u>368,730</u>	<u>142,559</u>	<u>(545,679)</u>	<u>142,559</u>	<u>39,238</u>	<u>52,266</u>	<u>276,208</u>	<u>(91,504)</u>	<u>276,208</u>	<u>-</u>	<u>418,767</u>
Total Liabilities & Shareholders' Equity	<u>\$ 438,490</u>	<u>\$ 372,161</u>	<u>\$ 733,513</u>	<u>\$ (1,171,018)</u>	<u>\$ 373,146</u>	<u>\$ 86,890</u>	<u>\$ 923,649</u>	<u>\$1,411,749</u>	<u>\$(1,029,062)</u>	<u>\$ 1,393,226</u>	<u>\$ (198,218)</u>	<u>\$ 1,568,154</u>

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Balance Sheets
December 31, 2009
(\$ in thousands)

	<u>DriveTime Automotive Group, Inc.</u>					<u>DT Acceptance Corporation</u>					<u>DriveTime Automotive Group, Inc. and Subsidiaries</u>	
	<u>Guarantor Subsidiaries Combined</u>	<u>Non-Guarantor Subsidiary</u>	<u>Parent Company</u>	<u>Eliminations</u>	<u>Consolidated</u>	<u>Guarantor Subsidiaries Combined</u>	<u>Non-Guarantor Subsidiaries Combined</u>	<u>Parent Company</u>	<u>Eliminations</u>	<u>Consolidated</u>		
ASSETS												
Cash and Cash Equivalents	\$ 791	\$ 152	\$ -	\$ -	\$ 943	\$ 41	\$ 549	\$ 19,993	\$ -	\$ 20,583	\$ -	\$ 21,526
Restricted Cash and Investments Held in Trust	-	-	-	-	-	15,809	68,259	-	-	84,068	-	84,068
Finance Receivables	-	-	-	-	-	-	-	1,340,591	-	1,340,591	-	1,340,591
Allowance for Credit Losses	-	-	-	-	-	-	-	(218,259)	-	(218,259)	-	(218,259)
Finance Receivables, Net	-	-	-	-	-	-	-	1,122,332	-	1,122,332	-	1,122,332
Inventory	115,257	-	-	-	115,257	-	-	-	-	-	-	115,257
Property and Equipment, Net	28,162	-	-	-	28,162	4,773	16,420	2,019	-	23,212	-	51,374
Investments in Subsidiaries	-	-	315,410	(315,410)	-	-	-	216,958	(216,958)	-	-	-
Other Assets	273,379	277,989	113,631	(533,494)	131,505	192,295	518,344	121,538	(875,332)	(43,155)	(50,827)	37,523
Total Assets	<u>\$ 417,589</u>	<u>\$ 278,141</u>	<u>\$ 429,041</u>	<u>\$ (848,904)</u>	<u>\$ 275,867</u>	<u>\$ 212,918</u>	<u>\$ 603,572</u>	<u>\$1,482,840</u>	<u>\$(1,092,290)</u>	<u>\$ 1,207,040</u>	<u>\$ (50,827)</u>	<u>\$ 1,432,080</u>
LIABILITIES & SHAREHOLDER'S EQUITY												
Liabilities:												
Accounts Payable	\$ 5,060	\$ -	\$ -	\$ -	\$ 5,060	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,060
Accrued Expenses and Other Liabilities	322,407	2,853	275,700	(521,782)	79,178	162,425	57,399	673,817	(875,332)	18,309	(50,827)	46,660
Portfolio Term Financings	-	-	-	-	-	-	289,156	506,701	-	795,857	-	795,857
Portfolio Warehouse Facilities	-	-	-	-	-	-	77,506	-	-	77,506	-	77,506
Other Secured Notes Payable	50,000	-	11,712	(11,712)	50,000	-	13,046	74,319	-	87,365	-	137,365
Senior Secured Notes Payable	-	-	-	-	-	-	-	1,487	-	1,487	-	1,487
Senior Unsecured Notes Payable	-	-	37,500	-	37,500	-	-	37,500	-	37,500	-	75,000
Total Liabilities	<u>377,467</u>	<u>2,853</u>	<u>324,912</u>	<u>(533,494)</u>	<u>171,738</u>	<u>162,425</u>	<u>437,107</u>	<u>1,293,824</u>	<u>(875,332)</u>	<u>1,018,024</u>	<u>(50,827)</u>	<u>1,138,935</u>
Shareholder's Equity:												
Total Shareholder's Equity	<u>40,122</u>	<u>275,288</u>	<u>104,129</u>	<u>(315,410)</u>	<u>104,129</u>	<u>50,493</u>	<u>166,465</u>	<u>189,016</u>	<u>(216,958)</u>	<u>189,016</u>	<u>-</u>	<u>293,145</u>
Total Liabilities & Shareholder's Equity	<u>\$ 417,589</u>	<u>\$ 278,141</u>	<u>\$ 429,041</u>	<u>\$ (848,904)</u>	<u>\$ 275,867</u>	<u>\$ 212,918</u>	<u>\$ 603,572</u>	<u>\$1,482,840</u>	<u>\$(1,092,290)</u>	<u>\$ 1,207,040</u>	<u>\$ (50,827)</u>	<u>\$ 1,432,080</u>

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2010
(\$ in thousands)

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated		Eliminations
Revenue:												
Sales of Used Vehicles	\$ 760,767	\$ -	\$ -	\$ -	\$ 760,767	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 760,767
Interest Income	-	-	-	-	-	-	171,367	266,011	(172,404)	264,974	-	264,974
Other Revenue	39,886	2,018	13,372	-	55,276	70,205	-	-	(70,205)	-	(53,259)	2,017
Equity in Income of Subsidiaries	-	-	230,269	(230,269)	-	-	-	97,298	(97,298)	-	-	-
Total Revenue	800,653	2,018	243,641	(230,269)	816,043	70,205	171,367	363,309	(339,907)	264,974	(53,259)	1,027,758
Costs and Expenses:												
Cost of Used Vehicles Sold	481,210	-	-	-	481,210	-	-	-	-	-	-	481,210
Provision for Credit Losses	-	-	-	-	-	-	-	175,900	-	175,900	-	175,900
Portfolio Debt Interest Expense	-	-	-	-	-	-	42,335	25,979	-	68,314	-	68,314
Non-Portfolio Debt Interest Expense	2,934	-	1,772	-	4,706	88	1,542	203,549	(172,405)	32,774	(22,723)	14,757
Senior Secured Notes Interest Expense	-	-	7,515	-	7,515	-	-	7,516	-	7,516	-	15,031
Selling and Marketing	31,798	-	-	-	31,798	-	-	102	-	102	-	31,900
General and Administrative	44,243	-	12,979	-	57,222	66,044	32,919	96,946	(70,204)	125,705	(30,536)	152,391
Depreciation Expense	11,363	-	-	-	11,363	756	590	1,042	-	2,388	-	13,751
Loss (Gain) on Extinguishment of Debt, net	-	-	-	-	-	-	-	3,418	-	3,418	-	3,418
Total Costs and Expenses	571,548	-	22,266	-	593,814	66,888	77,386	514,452	(242,609)	416,117	(53,259)	956,672
Income before Income Taxes	229,105	2,018	221,375	(230,269)	222,229	3,317	93,981	(151,143)	(97,298)	(151,143)	-	71,086
Income Tax Expense (Benefit)	-	854	383	-	1,237	-	-	(833)	-	(833)	-	404
Net Income (Loss)	\$ 229,105	\$ 1,164	\$ 220,992	\$ (230,269)	\$ 220,992	\$ 3,317	\$ 93,981	\$ (150,310)	\$ (97,298)	\$ (150,310)	\$ -	\$ 70,682

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2009
(\$ in thousands)

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated		Eliminations
Revenue:												
Sales of Used Vehicles	\$ 694,460	\$ -	\$ -	\$ -	\$ 694,460	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 694,460
Interest Income	-	-	-	-	-	-	122,051	251,822	(122,051)	251,822	-	251,822
Other Revenue	-	1,902	21,261	-	23,163	70,629	-	-	(70,629)	-	(21,261)	1,902
Equity in Income of Subsidiaries	-	-	183,263	(183,263)	-	-	-	72,027	(72,027)	-	-	-
Total Revenue	694,460	1,902	204,524	(183,263)	717,623	70,629	122,051	323,849	(264,707)	251,822	(21,261)	948,184
Costs and Expenses:												
Cost of Used Vehicles Sold	394,362	-	-	-	394,362	-	-	-	-	-	-	394,362
Provision for Credit Losses	-	-	-	-	-	-	-	223,686	-	223,686	-	223,686
Portfolio Debt Interest Expense	-	-	-	-	-	-	28,869	46,423	-	75,292	-	75,292
Non-Portfolio Debt Interest Expense	3,883	-	10,315	-	14,198	-	687	142,539	(122,051)	21,175	-	35,373
Selling and Marketing	31,489	-	-	-	31,489	-	-	2	-	2	-	31,491
General and Administrative	71,636	-	8,206	-	79,842	66,964	22,803	74,783	(70,629)	93,921	(21,261)	152,502
Depreciation Expense	11,099	-	-	-	11,099	686	581	695	-	1,962	-	13,061
Gain on Extinguishment of Debt, net	-	-	-	-	-	-	63	(30,374)	-	(30,311)	-	(30,311)
Total Costs and Expenses	512,469	-	18,521	-	530,990	67,650	53,003	457,754	(192,680)	385,727	(21,261)	895,456
Income before Income Taxes	181,991	1,902	186,003	(183,263)	186,633	2,979	69,048	(133,905)	(72,027)	(133,905)	-	52,728
Income Tax Expense (Benefit)	-	630	(55)	-	575	-	-	155	-	155	-	730
Net Income (Loss)	\$ 181,991	\$ 1,272	\$ 186,058	\$ (183,263)	\$ 186,058	\$ 2,979	\$ 69,048	\$ (134,060)	\$ (72,027)	\$ (134,060)	\$ -	\$ 51,998

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2008
(\$ in thousands)

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated		Eliminations
Revenue:												
Sales of Used Vehicles	\$ 796,750	\$ -	\$ -	\$ -	\$ 796,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 796,750
Interest Income	-	-	-	-	-	-	182,480	261,875	(182,480)	261,875	-	261,875
Other Revenue	-	2,339	17,350	-	19,689	79,058	-	-	(79,058)	-	(17,350)	2,339
Equity in Income of Subsidiaries	-	-	198,504	(198,504)	-	-	-	107,137	(107,137)	-	-	-
Total Revenue	796,750	2,339	215,854	(198,504)	816,439	79,058	182,480	369,012	(368,675)	261,875	(17,350)	1,060,964
Costs and Expenses:												
Cost of Used Vehicles Sold	477,257	-	-	-	477,257	-	-	-	-	-	-	477,257
Provision for Credit Losses	-	-	-	-	-	-	-	300,884	-	300,884	-	300,884
Portfolio Debt Interest Expense	-	-	-	-	-	-	43,949	20,374	-	64,323	-	64,323
Non-Portfolio Debt Interest Expense	4,558	-	5,392	-	9,950	-	807	204,483	(182,480)	22,810	-	32,760
Selling and Marketing	29,551	-	-	-	29,551	-	-	13	-	13	-	29,564
General and Administrative	76,290	-	1,838	-	78,128	72,930	35,081	71,246	(79,058)	100,199	(17,350)	160,977
Depreciation Expense	12,289	-	-	-	12,289	694	578	527	-	1,799	-	14,088
Gain on Extinguishment of Debt, net	-	-	-	-	-	-	362	(20,061)	-	(19,699)	-	(19,699)
Total Costs and Expenses	599,945	-	7,230	-	607,175	73,624	80,777	577,466	(261,538)	470,329	(17,350)	1,060,154
Income before Income Taxes	196,805	2,339	208,624	(198,504)	209,264	5,434	101,703	(208,454)	(107,137)	(208,454)	-	810
Income Tax Expense (Benefit)	-	640	100	-	740	-	-	350	-	350	-	1,090
Net Income (Loss)	\$ 196,805	\$ 1,699	\$ 208,524	\$ (198,504)	\$ 208,524	\$ 5,434	\$ 101,703	\$ (208,804)	\$ (107,137)	\$ (208,804)	\$ -	\$ (280)

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended December 31, 2010
(\$ in thousands)

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated		Eliminations
Cash Flows from Operating Activities:												
Net Income (Loss)	\$ 229,105	\$ 1,164	\$ 220,992	\$ (230,269)	\$ 220,992	\$ 3,317	\$ 93,981	\$ (150,310)	\$ (97,298)	\$ (150,310)	\$ -	\$ 70,682
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:												
Provision for Credit Losses	-	-	-	-	-	-	-	175,900	-	175,900	-	175,900
Depreciation Expense	11,363	-	-	-	11,363	756	590	1,042	-	2,388	-	13,751
Non-Cash Compensation Expense-Related Party	-	-	563	-	563	-	-	562	-	562	-	1,125
Amortization of Debt Issuance Costs and Debt Premium and Discount	226	-	263	-	489	-	11,051	6,070	-	17,121	-	17,610
Loss (Gain) from Disposal of Property and Equipment	(136)	-	-	-	(136)	(17)	-	359	-	342	-	206
Originations of Finance Receivables	-	-	-	-	-	-	-	(747,329)	-	(747,329)	-	(747,329)
Collections and Recoveries on Finance Receivable Principal	-	-	-	-	-	-	-	492,294	-	492,294	-	492,294
Changes in Accrued Interest Receivable and Loan Origination Costs	-	-	-	-	-	-	-	726	-	726	-	726
Decrease (Increase) in Inventory	(30,704)	-	-	-	(30,704)	-	-	-	-	-	-	(30,704)
Decrease (Increase) in Other Assets	(70,123)	(1,571)	(491,503)	322,113	(241,084)	116,512	(310,863)	339,240	(63,229)	81,660	147,391	(12,033)
Increase (Decrease) in Accounts Payable, Accrued Expenses and Other Liabilities	(106,194)	432	200,001	(90,059)	4,180	(117,250)	(36,411)	363,087	(41,730)	167,696	(147,391)	24,485
Increase (Decrease) in Income Taxes Payable	-	144	227	-	371	-	-	(1,151)	-	(1,151)	-	(780)
Net Cash Provided By (Used In) Operating Activities	33,537	169	(69,457)	1,785	(33,966)	3,318	(241,652)	480,490	(202,257)	39,899	-	5,933
Cash Flows from Investing Activities:												
Proceeds from Disposal of Property and Equipment	347	-	-	-	347	55	-	21	-	76	-	423
Purchase of Property and Equipment	(20,570)	-	2,615	-	(17,955)	(640)	(30)	(2,256)	-	(2,926)	-	(20,881)
Net Cash Provided By (Used In) Investing Activities	(20,223)	-	2,615	-	(17,608)	(585)	(30)	(2,235)	-	(2,850)	-	(20,458)
Cash Flows from Financing Activities:												
Increase in Restricted Cash	(5)	-	-	-	(5)	(4,968)	(24,005)	-	-	(28,973)	-	(28,978)
Deposits into Investments Held in Trust	-	-	-	-	-	-	(4,500)	-	-	(4,500)	-	(4,500)
Collections, Buybacks and Change in Investments Held in Trust	-	-	-	-	-	-	35,655	-	-	35,655	-	35,655
Additions to Portfolio Term Financings	-	-	-	-	-	-	328,753	79,047	(20,496)	387,304	-	387,304
Repayment of Portfolio Term Financings	-	-	-	-	-	-	(183,103)	(585,747)	-	(768,850)	-	(768,850)

DriveTime Automotive Group, Inc.

DT Acceptance Corporation

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated	Eliminations	Subsidiaries
Additions to Portfolio Warehouse Facilities	-	-	-	-	-	-	940,150	-	-	940,150	-	940,150
Repayment of Portfolio Warehouse Facilities	-	-	-	-	-	-	(614,649)	-	-	(614,649)	-	(614,649)
Additions to Senior Secured Notes Payable	-	-	80,555	-	80,555	-	-	80,554	-	80,554	-	161,109
Additions to Other Secured Notes Payable	-	-	1,785	(1,785)	-	2,700	-	76	-	2,776	-	2,776
Repayment of Other Secured Notes Payable	(10,000)	-	-	-	(10,000)	(221)	(187)	(12,307)	-	(12,715)	-	(22,715)
Repayment of Senior Unsecured Notes Payable	-	-	-	-	-	-	-	(1,500)	-	(1,500)	-	(1,500)
Payment of Debt Issuance Costs	(511)	-	(3,898)	-	(4,409)	-	(13,713)	(4,694)	-	(18,407)	-	(22,816)
Dividend Distributions	-	-	(11,600)	-	(11,600)	-	(222,753)	(34,710)	222,753	(34,710)	-	(46,310)
Net Cash Provided By (Used In) Financing Activities	(10,516)	-	66,842	(1,785)	54,541	(2,489)	241,648	(479,281)	202,257	(37,865)	-	16,676
Net Increase (Decrease) in Cash and Cash Equivalents	2,798	169	-	-	2,967	244	(34)	(1,026)	-	(816)	-	2,151
Cash and Cash Equivalents at Beginning of Period	791	153	-	-	944	41	549	19,992	-	20,582	-	21,526
Cash and Cash Equivalents at End of Period	\$ 3,589	\$ 322	\$ -	\$ -	\$ 3,911	\$ 285	\$ 515	\$ 18,966	\$ -	\$ 19,766	\$ -	\$ 23,677

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended December 31, 2009
(\$ in thousands)

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation						DriveTime Automotive Group, Inc. and Subsidiaries
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated	Eliminations	
Cash Flows from Operating Activities:												
Net Income (Loss)	\$ 181,991	\$ 1,272	\$ 186,058	\$ (183,263)	\$ 186,058	\$ 2,979	\$ 69,048	\$(134,061)	\$ (72,027)	\$(134,061)	\$ -	\$ 51,997
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:												
Provision for Credit Losses	-	-	-	-	-	-	-	223,686	-	223,686	-	223,686
Depreciation Expense	11,099	-	-	-	11,099	686	581	695	-	1,962	-	13,061
Non-Cash Compensation Expense	-	-	1,125	-	1,125	-	-	1,125	-	1,125	-	2,250
Amortization of Debt Issuance Costs and Debt Premium and Discount	1,081	-	16	-	1,097	-	6,989	6,615	-	13,604	-	14,701
Loss (Gain) from Disposal of Property and Equipment	(116)	-	-	-	(116)	(5)	-	-	-	(5)	-	(121)
Originations of Finance Receivables	-	-	-	-	-	-	-	(686,214)	-	(686,214)	-	(686,214)
Collections and Recoveries on Finance Receivable Principal	-	-	-	-	-	-	-	468,826	-	468,826	-	468,826
Changes in Accrued Interest Receivable and Loan Origination Costs	-	-	-	-	-	-	-	3,789	-	3,789	-	3,789
Decrease (Increase) in Inventory	(15,046)	-	-	-	(15,046)	-	-	-	-	-	-	(15,046)
Decrease (Increase) in Other Assets	(256,386)	(2,012)	(289,804)	331,474	(216,728)	(53,681)	40,618	180,001	41,792	208,730	22,327	14,329
Increase (Decrease) in Accounts Payable, Accrued Expenses and Other Liabilities	72,466	766	116,832	(146,331)	43,733	58,827	52,252	(34,684)	(103,568)	(27,173)	(22,327)	(5,767)
Increase (Decrease) in Income Taxes Payable	-	(114)	(168)	-	(282)	-	-	106	-	106	-	(176)
Net Cash Provided By (Used In) Operating Activities	(4,911)	(88)	14,059	1,880	10,940	8,806	169,488	29,884	(133,803)	74,375	-	85,315
Cash Flows from Investing Activities:												
Proceeds from Disposal of Property and Equipment	371	-	-	-	371	98	-	-	-	98	-	469
Purchase of Property and Equipment	(3,811)	-	-	-	(3,811)	(3,744)	-	(5,749)	-	(9,493)	-	(13,304)
Net Cash Provided By (Used In) Investing Activities	(3,440)	-	-	-	(3,440)	(3,646)	-	(5,749)	-	(9,395)	-	(12,835)
Cash Flows from Financing Activities:												
Increase in Restricted Cash	(68)	-	-	-	(68)	(5,120)	(6,662)	-	-	(11,782)	-	(11,850)
Deposits into Investments Held in Trust	-	-	-	-	-	-	(4,467)	-	-	(4,467)	-	(4,467)
Collections, Buybacks and Change in Investments Held in Trust	-	-	-	-	-	-	3,472	-	-	3,472	-	3,472

DriveTime Automotive Group, Inc.

DT Acceptance Corporation

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated	Eliminations	Subsidiaries
Additions to Portfolio Term Financings	-	-	-	-	-	-	272,099	539,518	-	811,617	-	811,617
Repayment of Portfolio Term Financings	-	-	-	-	-	-	(171,660)	(178,521)	-	(350,181)	-	(350,181)
Additions to Portfolio Warehouse Facilities	-	-	-	-	-	-	508,970	459,142	-	968,112	-	968,112
Repayment of Portfolio Warehouse Facilities	-	-	-	-	-	-	(624,964)	(663,735)	-	(1,288,699)	-	(1,288,699)
Additions to Other Secured Notes Payable	50,399	-	1,880	(1,880)	50,399	-	-	30,302	-	30,302	-	80,701
Repayment of Other Secured Notes Payable	(64,963)	-	-	-	(64,963)	-	(176)	(57,776)	-	(57,952)	-	(122,915)
Repayment of Senior Unsecured Notes Payable	-	-	-	-	-	-	-	(122,000)	-	(122,000)	-	(122,000)
Payment of Debt Issuance Costs	(251)	-	-	-	(251)	-	(12,042)	(874)	-	(12,916)	-	(13,167)
Dividend Distributions	-	-	(15,939)	-	(15,939)	-	(133,803)	(11,171)	133,803	(11,171)	-	(27,110)
Net Cash Provided By (Used In) Financing Activities	(14,883)	-	(14,059)	(1,880)	(30,822)	(5,120)	(169,233)	(5,115)	133,803	(45,665)	-	(76,487)
Net Increase (Decrease) in Cash and Cash Equivalents	(23,234)	(88)	-	-	(23,322)	40	255	19,020	-	19,315	-	(4,007)
Cash and Cash Equivalents at Beginning of Period	24,025	240	-	-	24,265	1	294	973	-	1,268	-	25,533
Cash and Cash Equivalents at End of Period	\$ 791	\$ 152	\$ -	\$ -	\$ 943	\$ 41	\$ 549	\$ 19,993	\$ -	\$ 20,583	\$ -	\$ 21,526

DriveTime Automotive Group, Inc. and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended December 31, 2008
(\$ in thousands)

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated		
Cash Flows from Operating Activities:												
Net Income (Loss)	\$ 196,805	\$ 1,699	\$ 208,524	\$ (198,504)	\$ 208,524	\$ 5,434	\$ 101,703	\$ (208,804)	\$ (107,137)	\$ (208,804)	\$ -	\$ (280)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:												
Provision for Credit Losses	-	-	-	-	-	-	-	300,884	-	300,884	-	300,884
Depreciation Expense	12,290	-	-	-	12,290	693	578	527	-	1,798	-	14,088
Non-Cash Compensation Expense	-	-	1,125	-	1,125	-	-	1,125	-	1,125	-	2,250
Amortization of Debt Issuance Costs and Debt Premium and Discount	804	-	11	-	815	-	6,567	9,440	-	16,007	-	16,822
Loss (Gain) from Disposal of Property and Equipment	3,597	-	-	-	3,597	7	-	(47)	-	(40)	-	3,557
Originations of Finance Receivables	-	-	-	-	-	-	-	(789,360)	-	(789,360)	-	(789,360)
Collections and Recoveries on Finance Receivable Principal	-	-	-	-	-	-	-	487,272	-	487,272	-	487,272
Changes in Accrued Interest Receivable and Loan Origination Costs	-	-	-	-	-	-	-	712	-	712	-	712
Decrease (Increase) in Inventory	36,431	-	-	-	36,431	-	-	-	-	-	-	36,431
Decrease (Increase) in Other Assets	(239,980)	(2,164)	(401,696)	351,407	(292,433)	(37,293)	270,918	222,226	(188,159)	267,692	23,551	(1,190)
Increase (Decrease) in Accounts Payable, Accrued Expenses and Other Liabilities	(13,032)	581	153,869	(150,736)	(9,318)	31,839	(4,777)	(185,889)	180,606	21,779	(23,551)	(11,090)
Increase (Decrease) in Income Taxes Payable	-	(41)	(83)	-	(124)	-	-	16	-	16	-	(108)
Net Cash Provided By (Used In) Operating Activities	(3,085)	75	(38,250)	2,167	(39,093)	680	374,989	(161,898)	(114,690)	99,081	-	59,988
Cash Flows from Investing Activities:												
Proceeds from Disposal of Property and Equipment	402	-	-	-	402	145	-	366	-	511	-	913
Purchase of Property and Equipment	(2,211)	-	-	-	(2,211)	(1,074)	-	(3,944)	-	(5,018)	-	(7,229)
Net Cash Used In Investing Activities	(1,809)	-	-	-	(1,809)	(929)	-	(3,578)	-	(4,507)	-	(6,316)
Cash Flows from Financing Activities:												
Decrease (Increase) in Restricted Cash	295	-	-	-	295	249	(4,245)	-	-	(3,996)	-	(3,701)
Deposits into Investments Held in Trust Collections, Buybacks and Change in Investments Held in Trust	-	-	-	-	-	-	(28,834)	-	-	(28,834)	-	(28,834)
Additions to Portfolio Term Financings	-	-	-	-	-	-	68,583	-	-	68,583	-	68,583
	-	-	-	-	-	-	7,000	150,007	-	157,007	-	157,007

DriveTime Automotive Group, Inc.

DT Acceptance Corporation

	DriveTime Automotive Group, Inc.					DT Acceptance Corporation					DriveTime Automotive Group, Inc. and Subsidiaries	
	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiary	Parent Company	Eliminations	Consolidated	Guarantor Subsidiaries Combined	Non-Guarantor Subsidiaries Combined	Parent Company	Eliminations	Consolidated	Eliminations	Subsidiaries
Repayment of Portfolio Term Financings	-	-	-	-	-	-	(433,238)	(4,303)	-	(437,541)	-	(437,541)
Additions to Portfolio Warehouse Facilities	-	-	-	-	-	-	343,500	739,626	-	1,083,126	-	1,083,126
Repayment of Portfolio Warehouse Facilities	-	-	-	-	-	-	(202,900)	(790,547)	-	(993,447)	-	(993,447)
Additions to Other Secured Notes Payable	32,000	-	7,167	(2,167)	37,000	-	-	260,721	-	260,721	-	297,721
Repayment of Other Secured Notes Payable	(42,436)	-	(6,329)	-	(48,765)	-	(163)	(183,928)	-	(184,091)	-	(232,856)
Repayment of Senior Unsecured Notes Payable	-	-	-	-	-	-	-	(13,000)	-	(13,000)	-	(13,000)
Additions to Subordinated Notes Payable	-	-	37,500	-	37,500	-	-	37,500	-	37,500	-	75,000
Payment of Debt Issuance Costs	(1,657)	-	(103)	-	(1,760)	-	(10,959)	(16,986)	-	(27,945)	-	(29,705)
Dividend Distributions	-	-	-	-	-	-	(114,690)	(12,733)	114,690	(12,733)	-	(12,733)
Net Cash Provided By (Used In) Financing Activities	(11,798)	-	38,235	(2,167)	24,270	249	(375,946)	166,357	114,690	(94,650)	-	(70,380)
Net Increase (Decrease) in Cash and Cash Equivalents	(16,692)	75	(15)	-	(16,632)	-	(957)	881	-	(76)	-	(16,708)
Cash and Cash Equivalents at Beginning of Period	40,717	165	15	-	40,897	1	1,252	91	-	1,344	-	42,241
Cash and Cash Equivalents at End of Period	\$ 24,025	\$ 240	\$ -	\$ -	\$ 24,265	\$ 1	\$ 295	\$ 972	\$ -	\$ 1,268	\$ -	\$ 25,533

(21) Selected Quarterly Financial Data—Unaudited

A summary of the quarterly data follows:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
	(\$ in thousands)				
2010:					
Total revenue	\$ 297,038	\$ 245,747	\$ 263,323	\$ 219,633	\$ 1,025,741
Costs and expenses ⁽¹⁾	\$ 263,405	\$ 225,975	\$ 244,838	\$ 220,437	\$ 954,655
Income before income taxes	\$ 33,633	\$ 19,772	\$ 18,485	\$ (804)	\$ 71,086
Net income / (loss)	\$ 33,284	\$ 19,322	\$ 19,232	\$ (1,156)	\$ 70,682
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
	(\$ in thousands)				
2009:					
Total revenue	\$ 286,745	\$ 233,025	\$ 233,165	\$ 193,347	\$ 946,282
Costs and expenses ⁽¹⁾	\$ 275,238	\$ 195,199	\$ 224,238	\$ 198,880	\$ 893,555
Income / (loss) before income taxes	\$ 11,507	\$ 37,826	\$ 8,927	\$ (5,533)	\$ 52,727
Net income / (loss)	\$ 11,137	\$ 37,536	\$ 8,817	\$ (5,493)	\$ 51,997

⁽¹⁾ Includes net gains / losses on extinguishment of debt.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2010. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2010, the end of the period covered by this annual report, to ensure that the information required to be disclosed by us in the reports that we file or submit, as if we were required to file or submit such reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. We will continue to review and document our disclosure controls and procedures on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the year ended December 31, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors:

DriveTime Automotive Group, Inc.

Name	Age	Position(s)
Ernest C. Garcia II	53	Chairman/Director
Raymond C. Fidel	53	Director, Chief Executive Officer, and President
Mark G. Sauder.....	50	Executive Vice President and Chief Financial Officer and Treasurer
Alan J. Appelman	53	Executive Vice President and Credit Risk and Customer Analytics
Jon D. Ehlinger	53	Executive Vice President, Secretary, and General Counsel and Public Relations
Keith W. Hughes.....	64	Director
MaryAnn N. Keller	67	Director
Donald J. Sanders	66	Director
Gregg E. Tryhus.....	53	Director

Ernest C. Garcia II. Mr. Garcia has served as our Chairman of the Board since 1992. Mr. Garcia served as our Chief Executive Officer from 1992 to 1999, and served as our President from 1992 to 1996. Mr. Garcia has been the President of Verde Investments, Inc. since 1992. As our founder and former Chief Executive Officer, Mr. Garcia brings to his role as Chairman of the Board an extensive understanding of the automobile sales and finance industry, which enables him to serve as a resource to our management team in their assessment and management of risks and development of overall corporate strategy.

Raymond C. Fidel. Mr. Fidel has served as a Director, our Chief Executive Officer and President since 2004. Prior to that, Mr. Fidel served as our Chief Operating Officer from 2001 to 2004. Mr. Fidel graduated with a Bachelor of Science degree in finance and a Master of Business Administration degree from the University of New Mexico. Mr. Fidel's long tenure as a senior executive of the company, as well as his day to day leadership and intimate knowledge of our business and operations, provide the Board with company-specific experience and expertise.

Mark G. Sauder. Mr. Sauder has served as our Chief Financial Officer since 2002 and as Executive Vice President since 2004. Mr. Sauder is a Certified Public Accountant and graduated with a Bachelor of Science degree in accounting from Ball State University.

Alan J. Appelman. Mr. Appelman has served as our Executive Vice President and Chief Credit Officer since 2009. From 2007 until 2009, Mr. Appelman served as our Chief Credit Officer, and from 2000 until 2007, Mr. Appelman served as our Vice President of Risk Management. Mr. Appelman graduated with a Bachelor of Arts degree in psychology from the University of Missouri and received a Masters of Business Administration degree from the University of Texas at Austin.

Jon D. Ehlinger. Mr. Ehlinger has served as our General Counsel and Secretary since 1998, and was appointed Executive Vice President in 2009. Mr. Ehlinger graduated with a Bachelors of Arts degree in history from Drake University and received his Juris Doctorate degree from the University of Notre Dame Law School.

Keith W. Hughes. Mr. Hughes retired as Vice Chairman and director of Citigroup in 2001. Mr. Hughes was Chairman and Chief Executive Officer of Associates First Capital from 1996 to 2000 when the company was acquired by Citigroup. Mr. Hughes' experience in banking and finance covers 32 years with Continental Bank Chicago; Northwestern National Minneapolis; Crocker National San Francisco; and Associates First Capital. Mr. Hughes has served on the board of Fidelity National Information Services, provides technology services to financial institutions, since 2003. Mr. Hughes served on the board of directors and audit committee of Pilgrim's Pride Corporation (NYSE: PPC) from 2004 to 2009, and on the board of directors and audit committee of Texas Industries, Inc. (NYSE: TXI) from 2003 to 2009. Mr. Hughes also serves on the board of directors of THL Credit, a publicly traded business development company. Mr. Hughes' extensive career in the subprime finance industry, his experience as a chief executive of major organizations, and his significant role on numerous boards of directors, give him the leadership and industry knowledge to guide our Board on a variety of matters, including operating strategy, corporate governance, and other matters.

Maryann N. Keller. Ms. Keller currently serves as the principal of Maryann Keller and Associates, a firm providing consulting services to automotive clients. From July 1999 to November 2000, Ms. Keller served as the President of the Automotive Services unit of Priceline.com. She joined Priceline.com from Furman Selz, an investment banking firm, where she served as a managing director of the firm from 1986 to 1999. Prior to joining Furman Selz, Ms. Keller was a portfolio manager with Vilas-Fischer Associates from 1983 to 1986, and served as automotive industry analyst with Kidder Peabody & Co. Inc. and Paine Webber from 1972 to 1983. Ms. Keller also served as Chairman of the Society of Automotive Analysts from 1994 to 1999. She is currently a director of Dollar Thrifty Automotive Group, Inc. (NYSE: DTG), a publicly-traded rental car company, where she serves as Chairman of the Audit Committee and is a member of the human resources and compensation committee. She has previously served as a director of Lithia Motors, Inc. (NYSE: LAD), a new and used vehicle retailer. Ms. Keller's extensive experience as an analyst of, consultant to, and director of organizations in the automotive industry brings valuable expertise and experience to our Board.

Donald J. Sanders. Mr. Sanders has worked in the consumer finance industry for 40 years and has held management positions with Korvettes Department Stores (private label credit business), Citicorp, and Commercial Credit Corporation. In 1990, Mr. Sanders co-founded and served as Chief Executive Officer of Credit and Risk Management Associates, Inc., a risk management and marketing consulting, data warehousing, and systems integration firm that was acquired by Fair, Isaac Companies in 1996. Mr. Sanders retired from Fair, Isaac in 2001, but continues to provide private consulting services as Deer Creek Consulting, LLC. Mr. Sanders also serves as a Senior Industry Advisor to Bridgeforce, Inc., a Delaware consulting firm, and serves on the board of directors of Collections Marketing Center, Inc., a private company. Mr. Sanders also served on the board of directors of Metris Companies, Inc., from 2004 to 2005. Mr. Sanders' extensive career focusing on credit scoring and risk modeling for the consumer finance industry, including as a chief executive and later as a consultant, gives him the industry knowledge to guide our Board on a variety of matters.

Gregg E. Tryhus. Mr. Tryhus is President and owner of Grayhawk Development, a company involved in land development, golf development, construction and operations, and resort development. Prior to that, Mr. Tryhus was in the land sales business and founded his own land sales company, Tryhus Company, in 1984.

Board Composition

Our directors are elected annually to serve until the next annual meeting of stockholders, until their successors are duly elected and qualified, or until their earlier death, resignation, disqualification, or removal. Directors may be removed at any time for cause by the affirmative vote of the holders of a majority of the voting power then entitled to vote.

As of December 31, 2010, the Company's board of directors does not have any committees.

We have adopted a code of ethics that applies to all directors, officers and employees of our company, including our Chief Executive Officer, Chief Financial Officer, or persons performing similar functions. Upon the effectiveness of our registration statement and our becoming a public reporting company, we intend to make a copy of our Code of Ethics available on our website at www.drivetime.com and to satisfy the disclosure requirements under Item 10 of Form 8-K in the event of an amendment to, or a waiver from, a provision of our Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, or persons performing similar functions, by disclosing such information on our website.

Item 11. Executive Compensation

Compensation Discussion and Analysis

The following discussion and analysis should be read in conjunction with the related tables that are presented immediately below.

Overview

The purpose of this compensation discussion and analysis is to provide information about each material element of compensation that we pay or award to, or that is earned by, our named executive officers, who consist of our principal executive officer, principal financial officer, and our three other most highly compensated executive officers. For our 2010 fiscal year, our named executive officers were:

- Ernest C. Garcia II, our Chairman;
- Raymond C. Fidel, our President and Chief Executive Officer;
- Mark G. Sauder, our Executive Vice President and Chief Financial Officer;
- Jon D. Ehlinger, our Executive Vice President, Secretary, and General Counsel; and
- Alan J. Appelman, our Executive Vice President and Chief Credit Officer.

This compensation discussion and analysis addresses and explains the compensation practices that we followed in 2010, the numerical and related information contained in the summary compensation and related tables presented below, and actions we have taken regarding executive compensation since the end of our 2010 fiscal year.

Compensation Determinations

Most, if not all, of our compensation policies and determinations applicable to our named executive officers have been the product of research by and discussion among our management team.

Objectives of Compensation Programs

We pay our named executive officers based on business performance and individual performance, and, in setting compensation levels, we take into consideration our past practices and our current and anticipated future needs, the relative skills and experience of each individual executive, and the competitive market. To date, we have not utilized the services of a compensation consultant and have not engaged in any benchmarking when making policy-level or individual compensation determinations.

Compensation philosophy. A named executive officer's total compensation will vary based on our overall performance and with the particular named executive officer's personal performance and contribution to overall results. This philosophy generally applies to all of our employees, with a more significant level of variability and compensation at risk depending upon an employee's function and level of responsibility. Implementing this philosophy allows us to attract, motivate, and retain highly qualified individuals responsible for guiding us and creating value for our investors.

Overriding objectives. The overriding goal of our executive compensation program is the same as our goal—to create long-term value. Additional objectives of the executive compensation program are:

- to motivate our named executive officers to achieve and exceed our financial performance goals and drive the value of our business by rewarding such success;
- to ensure that executive compensation programs are effective in attracting, retaining, and motivating top quality executives who have the ability to significantly influence our long-term financial success and are responsible for effectively managing our operations in a way that maximizes the value of our business;
- to achieve a balance between compensation levels and our annual and long-term budgets, strategic plans, business objectives, and investor expectations;
- to motivate executive officers to achieve our business objectives, and to align the incentives of our officers with, on a prospective basis, long-term incentive awards;

- to provide named executive officers with appropriately leveraged total compensation opportunities that are competitive in form and in value with comparable companies taking into account: industry sector, market capitalization, revenues, profitability, and regional operational focus; and
- to have programs that are simple, well understood, which reward accountability and are closely tied to our key financial goals and strategic objectives.

Company compensation policies. A named executive officer's total in-service compensation consists of base salary, a cash bonus, a deferred bonus, a long-term incentive program, and limited perquisites. With regard to these components, we have in the past adhered to the following compensation policies:

- *Base salaries should be competitive and should encourage retention.* Our compensation programs should reflect base salaries as being competitive compensation for the named executive officers to perform the essential elements of their respective jobs.
- *Bonuses should be structured to reward superior company performance and encourage retention.* Each of our executive officers may be entitled to an annual cash bonus based on our prior year performance. To encourage continuity of management, an amount equal to each annual cash bonus is awarded on a deferred basis and such amounts are paid, subject to continued employment, three years following the year in which the deferred bonus was awarded.
- *Short- and long-term incentives.* Our compensation programs are structured to assure that those key executives who are involved in critical decisions that impact our success have a meaningful, competitively supportable portion of their total compensation linked to their success in helping meet performance objectives.
- *Compensation should be paid in cash.* As a private company whose equity securities are not publicly traded, we believe that the true compensatory value to be accorded to equity-based incentives would be difficult for both us and a recipient to determine. With the exception to the Restricted Stock Grant awarded to our CEO in December 2010, we have not in the past utilized equity based incentives and have instead focused entirely on providing the opportunity for our named executive officers to earn total cash compensation at levels that enable us to achieve the motivation and retention goals described above.
- *Benefits.* Benefits are offered that are competitive within the defined talent market, generally on par with our employee population, and offered on the basis of business need and adequate individual protection. Our benefit plans provide participants with reasonable flexibility to meet individual means.

We believe our policies have helped us achieve our compensation objectives of motivation and retention, as evidenced by the limited turnover in our executive officer ranks over the past several years.

Compensation Programs Design and Elements of Compensation

We choose to pay each element of compensation to further the objectives of our compensation program, which, as noted, includes the need to attract, retain, and reward key leaders critical to our success by providing competitive total compensation.

Elements of in-service compensation. For our 2010 fiscal year, our executive compensation mix included base salary, discretionary cash bonuses, and other benefits generally available to all employees. We generally determine the nature and amount of each element of compensation as follows:

- *Base Salary.* We typically agree upon a base salary with a named executive officer at the time of initial employment. The amount of base salary agreed upon, which is not at risk, reflects our views as to the individual executive's past experience, future potential, knowledge, scope of anticipated responsibilities, skills, expertise, and potential to add value through performance. We review executive salaries annually and may adjust them based on an evaluation of our performance for the year and the performance of the functional area(s) under an executive's scope of responsibility. We also consider qualitative criteria, such as education and experience requirements, complexity, and scope or impact of the position compared to other executive positions internally.
- *Non-Equity Incentive Plan Compensation.* We provide cash bonuses to recognize and reward our named executive officers with cash payments above base salary based on our success in a given year. The cash bonuses are paid annually and the bonus program includes a deferred bonus in the amount of the annual bonus that is payable three years after the payment of the annual bonus, subject to the executive officer still being employed by us at the time of payment. Amounts deferred

accrue interest at the Prime rate. For 2010, the bonuses received by Messrs. Fidel, Sauder, Ehlinger and Appelman reflected, in part, bonuses for 2010 performance and, in part, the deferred portion of bonuses earned in 2007. See “—Impact of Performance on Compensation—Bonus Plan.”

- *Retention Plan Bonus.* We provide cash bonuses under our retention bonus plan to Messrs. Sauder, Ehlinger and Appelman. Under the terms of the plan, we are committed to make six annual contributions beginning May 1, 2006 through May 2011 to fund the plan. An executive must remain employed by us to receive annual benefits paid out under the plan beginning in May 2011 through May 2015. The difference in the bonus paid to Mr. Sauder, in comparison to Mr. Ehlinger and Mr. Appelman, reflects the terms of the bonus plan and the value it places on Mr. Sauder’s performance in his position as chief financial officer of the company, which is a critically important role in our company given the complexity of our business model and the importance of financing to our business.
- *Perquisites.* We seek to compensate our named executive officers at levels that eliminate the need for material perquisites and enable each individual officer to provide for his or her own needs. Accordingly, in 2010, we provided limited perquisites to our named executive officers.
- *Other.* We offer other employee benefits to key executives for the purpose of meeting current and future health and security needs for the executives and their families. These benefits, which we generally offer to all eligible employees, include medical, dental, vision and life insurance benefits; short-term disability pay; long-term disability insurance; flexible spending accounts for medical expense reimbursements; tuition reimbursement; and a 401(k) retirement savings plan.
- *Restricted Stock Plans.* The Restricted Stock Grant awarded to Mr. Fidel allowed him to acquire an ownership interest in our business and, as a result, encouraging him to contribute to our success. See below for “—Chief Executive Officer Restricted Stock Grant.” for detail.

Elements of post-termination or change of control compensation and benefits. None of our named executive officers is a party to an employment agreement with us, although certain of our executives are parties to special retention agreements that provide for benefits to be accelerated upon certain events involving termination of employment or a change of control. See “—Severance and Change of Control Arrangements” below.

Impact of Performance on Compensation—Bonus Plan

We have an annual cash bonus program that is based primarily on pretax earnings. When evaluating whether earnings targets have been satisfied, we typically disregard certain non-operating gains and/or losses over which management has no control, and certain performance measures may be adjusted in extraordinary circumstances. We determine target earnings at the start of each year, and bonuses can be paid anywhere from 50% to 150% of the target for each executive officer, depending on our performance against the targets. We determine the targets by analyzing our budget and forecasted earnings, and economic and other competitive factors.

The cash bonuses are paid annually, and the bonus program includes a deferred bonus in the amount of the annual bonus that is payable three years after the payment of the annual bonus, subject to the executive officer still being with us at the time of payment. Amounts deferred accrue interest at the Prime rate.

For 2010, the threshold level of earnings that would entitle our executive officers to a bonus was \$44.0 million (which would entitle them to a 50% payout of their base bonus), and our actual performance, using a predetermined formula, was \$80.1 million, which resulted in a 150% payout of their base bonus. The dollar amounts provided are not equivalent to our net income since certain items are included and/or excluded when calculating our bonus earnings.

Retention Plan

Prior to July 2005, Raymond C. Fidel, Mark G. Sauder, Jon E. Ehlinger, and Alan J. Appelman were parties to change in control and equity participation agreements with DTAG and DTAC. These agreements were designed to encourage continuous improvement in performance, attract and retain key executives, motivate successful execution of business strategies, and provide for executive participation in the companies’ financial success.

In July 2005, we replaced the change of control and equity participation agreements with a retention plan in which Mark G. Sauder, Jon D. Ehlinger, and Alan J. Appelman participate. Raymond C. Fidel was not included in this plan because it was determined that, as a shareholder at that time, his 5% ownership interest in us encouraged Mr. Fidel to remain with us, and that he would be financially rewarded in his capacity as one of our shareholders. Subsequently, in 2008, Mr. Fidel entered into an agreement with Mr. Garcia for the purchase of Mr. Fidel’s ownership interest. See “—Executive Employment Agreements.”

Under the current terms of the plan, we are committed to make six annual contributions beginning May 1, 2006 and for each year thereafter through May 1, 2011 to fund this program. An executive must remain employed by us to receive these benefits. If the executive terminates his employment without cause or is terminated with cause, any unpaid amounts are forfeited and revert to the company. If the executive is terminated without cause (including on account of disability), the executive terminates for good reason, or upon certain change of control events, the executive will receive all amounts that have been contributed to date. The total potential contributions to be paid under this plan is \$14.0 million, funded by us over the first six years and paid out to the executive in five installments beginning May 1, 2011. We recognize compensation expense under this plan based upon the service period required to receive payments of ten years (exclusive of acceleration and forfeiture clauses).

We contributed \$2.8 million in each of May 2006, 2007, and 2008 in accordance with the plan. In May 2009, the executives that participate in the plan agreed to amend the scheduled plan contributions to be \$1.4 million in May 2009 and May 2010 and \$2.8 million in May 2011, in lieu of the originally scheduled \$2.8 million in May 2009 and May 2010. At December 31, 2010, we had \$2.8 million remaining to be funded over the remaining term of the retention plan.

Contributions are made into secular trusts that were set up on behalf of each participant. We fund contributions into the trusts to provide participants a level of certainty regarding payment of their retention benefits. Contributions to the secular trusts are taxable to the named executive officers and the funds are not subject to claims from creditors in the event of bankruptcy. The named executive officers also have investment discretion with respect to the contributions.

Chief Executive Officer Restricted Stock Grant

In December 2010, the Board of Directors of each of DTAG and DTAC approved a restricted stock award to Mr. Fidel, our Chief Executive Officer. On December 28, 2010, Mr. Fidel entered into a Restricted Stock Agreement with each of DTAG and DTAC, pursuant to which he was issued an award of 2.8595 shares of restricted stock in each of DTAG and DTAC, subject to certain vesting restrictions. Mr. Fidel made an election under Section 83(b) of the United States Internal Revenue Code of 1986, as amended, to be taxed on the fair market value of the entire restricted stock grant as of the award date. In connection therewith, that portion of shares the fair market value of which was sufficient to satisfy Mr. Fidel's federal and state income tax obligations with respect to the entire award was deemed to be vested in full as of the award date. However, only those shares of a value equal to the minimum statutory federal and state withholding due from Mr. Fidel on the grant were repurchased by DTAG and DTAC, with the proceeds from such repurchases were delivered to the relevant tax authorities. The remaining unvested shares of restricted stock will vest one-third each year over a period of three years based on Mr. Fidel's continued employment with us and on the achievement of certain income before income tax targets for the consolidated results of DTAG, measured for the preceding twelve months as of June 30, 2011, 2012 and 2013. For income tax purposes, Mr. Fidel was deemed to own 2.8595 shares at the grant date, and immediately thereafter the Company repurchased 1.0899 shares resulting in Mr. Fidel owning 1.7696 shares in each of DTAG and DTAC as of December 31, 2010. A shortfall in the performance target measured at June 30, 2011 or 2012 (and therefore a failure of one-third of the unvested shares to vest at such date) may be made up at a subsequent date if the consolidated results of DTAG exceed the relevant income before income tax target applicable to such subsequent period. Shares of restricted stock that would otherwise vest at June 30, 2013 will only become vested shares if Mr. Fidel's employment with us continues until December 31, 2013. In connection with the execution of the Restricted Stock Agreements, Mr. Fidel also entered into a Shareholders' Agreement with our principal shareholder and DTAG and DTAC, which, among other things, restricts his ability to transfer his shares of restricted stock and grants him certain tag-along rights in the event of a sale by our principal shareholder and certain piggy-back registration rights in connection with a public offering of our shares or any successor entity. See "Item 13—Certain Relationships and Related Transactions, and Director Independence—Related Party Transactions—Shareholders' Agreements."

Internal Revenue Code Section 409A

Section 409A of the Code requires that "nonqualified deferred compensation" be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and other service providers to accelerated income tax liabilities and penalty taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, it is our intention to design and administer our compensation and benefits plans and arrangements for all of our employees and other service providers, including our named executive officers, so that they are either exempt from, or satisfy the requirements of, Section 409A. With respect to our compensation and benefit plans that are subject to Section 409A, in accordance with Section 409A and regulatory guidance issued by the IRS, we are currently operating such plans in compliance with Section 409A.

Conclusion

We believe that the compensation amounts paid to our named executive officers for their service in 2010 were reasonable and appropriate and in our best interests.

Executive Employment Agreements

None of our named executive officers is a party to an employment agreement with us, although certain of our executives are parties to special retention agreements and non-equity incentive plan compensation that provide for benefits to be accelerated upon certain events involving termination of employment or a change of control. See “—Severance and Change of Control Arrangements” below. In 2008, Mr. Fidel entered into an agreement with Mr. Garcia for the purchase of Mr. Fidel’s 5% ownership interest in us. Such agreement included an employment condition which expired on June 30, 2010. While we are not a party to this agreement, which is solely between Mr. Garcia and Mr. Fidel, under GAAP, the existence of the employment condition requires us to treat a portion of the amount payable by Mr. Garcia to Mr. Fidel pursuant to their agreement as compensation for financial statement reporting purposes only. Since no amounts payable pursuant to the agreement between Mr. Garcia and Mr. Fidel are payable by us, we do not treat any such amounts as compensation for purposes of this Compensation Discussion and Analysis or for any other purpose. On December 28, 2010, Mr. Fidel entered into a Restricted Stock Agreement with each of DTAG and DTAC, pursuant to which he was issued an award of 2.8595 shares of restricted stock in each of DTAG and DTAC, subject to certain vesting restrictions. The unvested shares of restricted stock will vest one-third each year over a period of three years based on Mr. Fidel’s continued employment with us and on the achievement of certain income before income tax targets for the consolidated results of DTAG, measured for the preceding twelve months as of June 30, 2011, 2012 and 2013. See “—Chief Executive Officer Restricted Stock Grant” for detail.

Other than as described above, there have been no other material changes to items of compensation applicable to our named executive officers or directors for fiscal 2010.

Summary Compensation Table

The following table sets forth the total compensation earned for services rendered by our principal executive officer, our principal financial officer, and our three other most highly compensated executive officers whose total compensation for the fiscal year ended December 31, 2010 was in excess of \$100,000 and who were serving as executive officers at the end of that fiscal year. The listed individuals are referred to herein as the “named executive officers.”

Name and Principal Position	Year	Salary	Bonus ⁽²⁾	Stock Awards ⁽³⁾	Non-Equity Incentive Plan Compensation ⁽⁴⁾	All Other Compensation ⁽⁵⁾	Total
Ernest C. Garcia II..... <i>Chairman</i>	2010	\$ 779,052	\$ —	\$ —	\$ —	\$ 578,111	\$ 1,357,163
Raymond C. Fidel..... <i>President and Chief Executive Officer</i>	2010	1,775,000 ⁽¹⁾	—	9,452,000	701,093	80,106	12,008,199
Mark G. Sauder..... <i>Executive Vice President and Chief Financial Officer</i>	2010	324,423	1,000,000	—	425,547	18,137	1,768,107
Jon D. Ehlinger..... <i>Executive Vice President, Secretary, and General Counsel</i>	2010	264,619	200,000	—	325,437	12,879	802,935
Alan J. Appelman..... <i>Executive Vice President and Chief Credit Officer</i>	2010	264,519	200,000	—	325,437	12,649	802,605

⁽¹⁾ Included is the \$1.1 million of non-cash compensation expense as discussed in “Related Party Transactions—Non-cash compensation expense.”

⁽²⁾ As discussed in “—Retention Plan” above, reflects amounts awarded to the applicable named executive officers in 2010 under the retention plan. Amounts awarded under this plan will be paid to participants in five installments starting May 1, 2011, subject to forfeiture as provided above.

⁽³⁾ See “—Chief Executive Officer Restricted Stock Grant.”

⁽⁴⁾ Includes amounts as discussed in “—Impact of Performance on Compensation—Bonus Plan”

⁽⁵⁾ All other compensation consists of the following:

Name	Year	Automobile Allowance	Personal Use of Company Aircraft (a)	Life Insurance Policy Premium	Total
Ernest C. Garcia II.....	2010	\$ —	\$ 578,111	\$ —	\$ 578,111
Raymond C. Fidel.....	2010	12,600	67,506	—	80,106
Mark G. Sauder.....	2010	12,250	3,747	2,140	18,137
Jon D. Ehlinger.....	2010	11,250	—	1,629	12,879
Alan J. Appelman.....	2010	11,750	—	899	12,649

^(a) Relates to an aircraft that we lease from Verde and an aircraft owned by the Company. In connection with this offering, this lease will be terminated. See “Item 13—Certain Relationships and Related Transactions, and Director Independence—Related Party Transactions—Aircraft lease and operating expenses.” The incremental cost to us of personal use of the aircraft is calculated based on the variable operating costs to us, including fuel costs, trip-related maintenance, universal weather-monitoring costs, on-board catering, landing/ramp fees, crew travel expenses, and other miscellaneous variable costs. Fixed costs that do not change based on usage, such as pilot salaries, our lease costs, and the cost of maintenance not related to trips, are excluded.

The difference in Mr. Garcia’s base salary in comparison to other named executive officers reflects his status as the founder, Chairman of the Board, and owner of a private company, which entitles him to dividends and a salary. With respect to Mr. Fidel, his salary is attributable to his contributions to the Company and the Company’s performance. In particular, his salary reflects the

substantial progress the Company has made under his direction in its operations and financial performance since he became the Chief Operating Officer in 2001 and President/CEO in 2004. While our other executive officers have also made significant, meaningful contributions over this time period, we believe Mr. Fidel's compensation appropriately reflects his additional contributions to our success. Finally, in setting Mr. Fidel's salary, we have reviewed his base compensation in the context of overall compensation.

Severance and Change of Control Arrangements

The annual cash bonus program, in which our executive officers participate, and the deferred bonus arrangements with Mr. Fidel, Mr. Sauder, Mr. Ehlinger, and Mr. Appelman entitle them to certain severance payments and other benefits in the event of certain types of terminations and changes of control, which are summarized below. The table below reflects the amount of compensation to be paid to each of them in the event of termination of such executive's employment. The amounts shown assume that such termination was effective as of December 31, 2010, and thus includes amounts earned through such time and are estimates of the amounts that would be paid out to the executives upon their termination. The actual amounts to be paid out can only be determined at the time of such executive's separation from us.

Pursuant to the Restricted Stock Agreements described above under "—Chief Executive Officer Restricted Stock Grants," Mr. Fidel would be entitled to the vesting in full of all of the then-unvested shares of restricted stock granted under such agreements if at any time during the terms of the agreements there is a Change in Control of the company or if his employment is terminated by the company without Cause or if he terminates his employment for Good Reason, as each such term is defined in the respective Restricted Stock Agreement. In addition, in the event of Mr. Fidel's death, only those shares that have previously vested under the Restricted Stock Agreements shall remain vested shares and Mr. Fidel's estate (or any beneficiary named by him) shall be entitled to the proceeds of an insurance policy on Mr. Fidel's life with a death benefit in the amount of \$10 million. The premium on such policy will be paid by the company, and the benefit amount will reduce in proportion to the amount that any vested shares on a vesting date bear to the unvested shares. The premium paid for this policy was \$14,000 for 2011.

Named Executive Officer	Resignation without Good Reason / Termination for Cause	Resignation with Good Reason / Termination without Cause / Upon Change of Control	Termination Upon Change of Control
Raymond C. Fidel ⁽¹⁾	\$ —	\$ 5,577,625	\$ 6,723,222
Mark G. Sauder ⁽²⁾	—	4,562,823	5,210,621
Jon D. Ehlinger ⁽²⁾	—	1,036,640	1,510,246
Alan J. Appelman ⁽²⁾	—	1,097,479	1,571,084

⁽¹⁾ Amounts included are for the restricted stock grants and deferred bonus arrangement.

⁽²⁾ Amounts included are the annual cash bonus program and deferred bonus arrangement.

Director Compensation

We pay our non-employee directors an annual cash retainer of \$50,000 for their board service.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2010 for:

- each person, or group of affiliated persons, known to us to own beneficially 5% or more of our outstanding common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

The information in the following table has been presented in accordance with the rules of the SEC. Under SEC rules, beneficial ownership of a class of capital stock includes any shares of such class as to which a person, directly or indirectly, has or shares voting power or investment power and also any shares as to which a person has the right to acquire such voting or investment power within 60 days through the exercise of any stock option, warrant or other right. If two or more persons share voting power or investment power with respect to specific securities, each such person is deemed to be the beneficial owner of such securities. Except as we otherwise indicate below and under applicable community property laws, we believe that the beneficial owners of the common stock listed below, based on information they have furnished to us, have sole voting and investment power with respect to the shares shown. Unless otherwise noted below, the address for each holder listed below is 4020 East Indian School Road, Phoenix, Arizona 85018.

	Beneficially Owned	
	Shares	Percent
Principal Shareholder:		
Ernest C. Garcia II and affiliates ⁽¹⁾	100.0	98.3%
Directors and Named Executive Officers:		
Ernest C. Garcia II.....	100.0	98.3%
Raymond C. Fidel ⁽²⁾	1.7696	1.7%
Mark G. Sauder	—	—
Alan J. Appelman	—	—
Jon D. Ehlinger.....	—	—
Keith W. Hughes	—	—
MaryAnn N. Keller	—	—
Donald J. Sanders.....	—	—
Gregg E. Tryhus	—	—
All directors and executive officers as a group		
(Nine persons)	101.7696	100 %

⁽¹⁾ Consists of (i) five shares held of record by the Ernest C. Garcia III Multi-Generational Trust, (ii) 90 shares held of record by Ernest C. Garcia II and Elizabeth Joanne Garcia, and (iii) five shares held of record by the Ernest Irrevocable 2004 Trust. Mr. Garcia is deemed to be the beneficial owner of shares held by these trusts.

⁽²⁾ Mr. Fidel's shares were awarded pursuant to a Restricted Stock Agreement dated as of December 28, 2010, and will vest equally over a three-year period, one-third on each of June 30, 2011, June 30, 2012, and December 2013, based on the achievement of certain performance targets by the company. See "Item 11—Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Restricted Stock Grant."

Item 13. Certain Relationships and Related Transactions, and Director Independence

Policies and Procedures for Related Party Transactions

We have a written code of business conduct and ethics governing policies and procedures for related party transactions.

Relationship with Verde Investments, Inc.

Verde Investments, Inc., or “Verde,” is an Arizona corporation that is wholly-owned by Ernest C. Garcia II, our Chairman and principal shareholder. Verde engages in the acquisition, development, and long-term investment in real estate and other commercial assets. Mr. Garcia is the principal shareholder, president and director of Verde. Another affiliate of Mr. Garcia is the Garcia Family Limited Partnership, LLP, of which Mr. Garcia and his wife own 7.32% and Verde owns 66.18%. The other interests are owned by his sons and two related trusts.

As of December 31, 2007, Raymond C. Fidel, our President and Chief Executive Officer, was obligated to Verde for a \$5.0 million note payable at a fixed rate of interest of 4.0% per annum. Mr. Fidel satisfied this obligation in January 2008 in connection with Mr. Garcia’s purchase of Mr. Fidel’s 5% ownership interest in each of DTAG and DTAC.

Related Party Transactions

During the year ended December 31, 2010, 2009, and 2008, we recorded related party operating expenses as follows:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
General and administrative expenses—related party			
Property lease expense	\$ 4,583	\$ 4,741	\$ 5,383
Store closing costs on related party leases	1,451	1,969	2,484
Non-cash compensation expense.....	1,125	2,250	2,250
Restricted stock compensation expense	3,874	—	—
Aircraft lease expense	1,960	1,950	1,949
Aircraft operating expense	1,733	1,676	1,774
Salaries and wages, general & administrative, and other expenses.....	812	567	484
Reimbursement of certain general and administrative expenses.....	(420)	(210)	(210)
Total general and administrative expenses—related party.....	\$ 15,118	\$ 12,943	\$ 14,114

Property leases

For the years ended December 31, 2010, 2009, and 2008, we leased an average of 15, 16, and 18 vehicle sales facilities, respectively, three reconditioning facilities, our former loan servicing center (which is currently being partially subleased to a third-party tenant), and our corporate office from Verde and another affiliate of Mr. Garcia (the Garcia Family Limited Liability Partnership, LLP). At December 31, 2010, three of these facilities are closed locations. At December 31, 2010 and 2009, we also leased one used vehicle sales facility, and a reconditioning center from a director and former officer of DTAC and Mr. Garcia’s brother-in-law, Steven Johnson, and at December 31, 2008, we also leased two vehicle sales facilities and a reconditioning center. These are also closed locations. At December 31, 2010, the maturity of these leases range from 2013 to 2023.

During the year ended December 31, 2010, we paid \$0.4 million in a lease termination fee on one of our closed properties to terminate a lease with Verde. This amount was previously accrued at December 31, 2009 and did not have an impact on net income during this period.

Store closing costs on related-party leases

We closed 19 stores and four reconditioning facilities during the year ended December 31, 2008, six of which were facilities we leased from Verde and Steven Johnson. In accordance with ASC 420—Exit or Disposal Activities (ASC 420), we recorded lease obligations, asset disposal costs, and other closing costs associated with these closures for the year ended December 31, 2008. As of December 31, 2008, \$2.1 million remained in accrued expenses and other liabilities—related party on the accompanying consolidated balance sheet for lease obligations pertaining to these closed facilities. The expiration of these leases at December 31, 2008 range from 2013 to 2018.

We closed an additional nine stores and two reconditioning centers in the year ended December 31, 2009, four of which were facilities we lease from Verde and Steven Johnson. In accordance with ASC 420, we recorded lease obligations, asset disposal costs, and other closing costs associated with these closures. During 2009 we terminated the leases on two of the closed related party facilities and paid \$0.4 million in lease termination fees. We remained obligated for related-party leases on four closed used car sales facilities, two closed reconditioning centers, and one closed operations facility as of December 31, 2009.

We remain obligated for related-party leases on three dealership facilities, two closed reconditioning centers, and one closed operations facility as of December 31, 2010. We ceased use of the former loan servicing center in 2007 and this facility is currently being partially subleased. The store closing costs represent ongoing costs related to property leases, property taxes, and maintenance, which are reflected in our general and administrative expenses—related party. We incurred \$5.7 million, \$5.5 million, and \$5.1 million, (including store closing costs) in total lease expenses for these leases in years ended December 31, 2010, 2009, and 2008, respectively.

Non-cash compensation expense

In January 2008, Mr. Garcia entered into an agreement with Mr. Fidel to purchase Mr. Fidel's 5% interest in DTAG and DTAC for \$17.5 million. The terms of the purchase were such that Mr. Garcia paid Mr. Fidel \$6.25 million in cash and \$11.25 million in a promissory note bearing interest at 8.0% per annum. The term of the note is five years with annual installment payments required. For the years ended December 31, 2010, 2009, and 2008, Mr. Garcia paid the interest to Mr. Fidel, \$0.5 million, \$0.7million, and \$0.9 million, respectively.

The agreement contains an employment condition, requiring Mr. Fidel to remain employed with the Company through June 30, 2010. Under the terms of the agreement, if Mr. Fidel voluntarily terminates his employment as the President and Chief Executive Officer of the Company at a time prior to June 30, 2010, one-half of the principal balance of the note would be waived and would no longer be payable by Mr. Garcia. Accordingly, under GAAP, one-half of the \$11.25 million note is deemed non-cash compensation expense to be recognized over the term of the employment condition.

Restricted stock compensation expense

In December 2010, the Board of Directors of each of DTAG and DTAC approved a restricted stock award to Mr. Fidel, our Chief Executive Officer. On December 28, 2010, Mr. Fidel entered into a Restricted Stock Agreement with each of DTAG and DTAC, pursuant to which he was issued an award of 2.8595 shares of restricted stock in each of DTAG and DTAC, subject to certain vesting restrictions.

See Note 12—Shareholders' Equity & Dividends—*Chief Executive Officer Restricted Stock Grant* included in our consolidated financial statements as of December 31, 2010 and “—Shareholders' Agreements” below for further details.

Aircraft lease and operating expenses

In September 2005, we entered into a lease with Verde for an aircraft. Under the terms of the lease agreement, we agreed to pay monthly lease payments of \$150,000 plus taxes to Verde, and are responsible for paying all costs and expenses related to the aircraft and its operations. In August 2010, we extended the lease term for five years, which expires September 30, 2015.

Salaries and wages, general and administrative, and other expenses

For the years ended December 31, 2010, 2009 and 2008, an aggregate of \$0.8 million, \$0.6 million, and \$0.5 million, respectively, in general and administrative expenses and salaries and wages of Verde and Verde employees who are enrolled in our health plan, are reflected in our general and administrative expenses—related party. We will continue to incur these expenses following this offering.

Reimbursement of general and administrative expenses

We received \$52,500 for each of the quarters in 2008 and 2009 from Verde, as reimbursement of certain general and administrative expenses incurred by us on Verde's behalf. This amount was \$105,000 for each of the quarters in 2010. Verde will continue to reimburse us for these expenses following this offering.

Related party indebtedness

Our recent financial performance was impacted by the turmoil in the credit markets, the deterioration of the securitization market, and the effects of the recession on our customers. In response, among other items, we secured alternative sources of financing, including from related parties. See “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for further information. During the years ended December 31, 2010, 2009, and 2008, we recorded related party interest expense and loss on extinguishment of debt as follows:

	Years Ended December 31,		
	2010	2009	2008
	(\$ in thousands)		
Non-portfolio debt interest expense—related party			
Junior Secured Notes:			
Tranche A—Related Party: CEO	\$ 185	\$ 400	\$ 30
Tranche A—Related Party: Verde.....	3,374	2,460	—
Tranche B—Related Party: Verde.....	2,754	6,035	450
\$5.0 million Shareholder Note Payable	—	—	140
\$32.0 million Shareholder Note Payable	—	2,690	3,224
\$75.0 million Subordinated Note Payable	3,863	9,158	5,939
Total non-portfolio debt interest expense—related party	\$ 10,176	\$ 20,743	\$ 9,783
Senior secured notes interest expense—related party			
\$45.0 million Sr. Secured Debt: Verde.....	\$ 2,930	\$ —	\$ —
\$4.0 million Sr. Secured Debt: CEO	223	—	—
Total senior secured notes interest expense—related party	\$ 3,153	\$ —	\$ —
Loss on extinguishment of debt—related party			
\$32.0 million Senior Unsecured Notes Payable	\$ —	\$ 1,248	\$ —

Interest expense—related party

In the second quarter of 2008, Verde provided a total of \$75.0 million in cash to us in return for subordinated notes, bearing interest at 12.0% per annum, and with a maturity date of August 2013. In conjunction with the Senior Secured Notes offering in June 2010, Verde transferred to our principal shareholder and our principal shareholder received and contributed to equity, \$40.0 million of subordinated notes payable, at which time the notes were cancelled. In addition, the remaining \$35.0 million in subordinated notes payable to Verde were exchanged (and contemporaneously cancelled) for an equal principal amount of Senior Secured Notes due 2017. As a result, we are no longer obligated on the \$75.0 million subordinated notes payable.

In December 2008, we issued junior secured notes. These notes consisted of a Tranche A component and a subordinate Tranche B component. The Tranche A component was comprised of four notes (one of which is a \$2.0 million note to Mr. Fidel, our Chief Executive Officer) and the Tranche B component was comprised of one subordinate note to Verde. At December 31, 2009, the Tranche A notes bore interest at 22.0% per annum, increasing by 2.0% each year until maturity and the Tranche B note bore interest at 27.0% per annum, increasing 2.0% each year until maturity.

During the year ended December 31, 2008, in two separate transactions, Verde purchased \$32.0 million face value of our 11.25% senior unsecured notes due 2013. These purchases were made on the open market between Verde and a third-party broker. The purchase prices were 70.0% of face value and 52.0% of face value.

In September 2009, we repurchased the \$32.0 million face value of our 11.25% senior unsecured notes from Verde for face value, but incurred a loss on extinguishment of \$1.2 million, related to the write-off of unamortized deferred financing costs. The write-off was not treated as a capital transaction since the costs to issue the senior unsecured notes was incurred in 2005 when the notes were originally issued. In addition, the notes were originally issued 100% to third parties.

During the year ended December 31, 2009, Verde purchased an aggregate amount of \$36.1 million in notes from third-party Tranche A note holders. After these transactions at December 31, 2009, Verde held \$36.1 million of Tranche A junior secured notes and the \$24.0 million Tranche B junior secured notes.

In June 2010 we issued \$200.0 million of 12.625% Senior Secured Notes due June 15, 2017. Simultaneously with this offering, Verde transferred to our principal shareholder and our principal shareholder received and contributed to equity the aggregate amount of the Tranche A and B junior secured notes in the amount of \$60.1 million. In addition, the \$2.0 million Tranche A note held by Mr.

Fidel was exchanged for an equal principal amount of the 12.625% Senior Secured Notes due 2017. As a result of this transaction, the debt obligation for junior secured notes was fully satisfied.

In September 2010, Verde and Mr. Fidel, our President and Chief Executive Officer, purchased \$10.0 million and \$2.0 million, respectively, of the Senior Secured Notes at a price of 99.0% from an unrelated third-party. As a result of this transaction, Verde and Mr. Fidel now own \$45.0 million and \$4.0 million of the Senior Secured Notes, respectively.

As a result of the transactions described above, we incurred related party interest expense on non-portfolio debt associated with the junior secured notes, subordinated notes and the 11.25% senior unsecured notes due 2013 through June 2010, at which time previous amounts outstanding were either exchanged for equity or the new 12.625% Senior Secured Notes due 2017, as described above.

Loss on extinguishment of debt

In September 2009, we repurchased the \$32.0 million face value of our 11.25% senior unsecured notes due 2013 which were held by Verde. This repurchase was made at par and resulted in a net loss on extinguishment of debt of \$1.2 million as a result of the write-off of unamortized debt discount and unamortized capitalized loan fees.

Shareholders' Agreements

On December 28, 2010, Mr. Fidel, our chief executive officer, entered into a Restricted Stock Agreement with DTAG and DTAC pursuant to which we awarded a specified number of shares of restricted stock to Mr. Fidel, which shares will become vested shares over a three-year period based on the achievement by the company of certain income before income tax targets. See "Item 11—Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Restricted Stock Grant." In connection with the grant of shares of restricted stock, Mr. Fidel entered into a Shareholders' Agreement with us and our principal shareholder. Each Shareholders' Agreement sets forth certain restrictions on transfer of the shares of common stock of such entity owned by each shareholder, grants Mr. Fidel certain tag-along rights in a sale of shares by our principal shareholder as well as preemptive rights to participate in new issuances of common stock by such entity. Each Shareholders' Agreement also grants Mr. Fidel certain piggy-back registration rights in connection with a public offering of common stock of such entity or a successor entity.

Director Independence

Our debt is not listed on any exchange and our equity is privately held. Our Board of Directors has voted and approved on, Mr. Hughes, Ms. Keller, Mr. Sanders and Mr. Tryhus may each be considered independent under current New York Stock Exchange listing standards. Under current New York Stock Exchange listing standards (to which we are not currently subject), we believe that Mr. Garcia would not be considered independent due to his holding of the substantial majority of our equity capital and that Mr. Fidel would not be considered independent due to his employment relationship with us.

Item 14. Principal Accountant Fees and Services

Grant Thornton LLP, has been our independent registered public accountants since 2006. We have not had and do not have an Audit Committee, and our executive management has appointed Grant Thornton as our independent registered public accounting firm and approved the engagement of Grant Thornton to perform the audit of the financial statements and internal control over financial reporting included in our annual report for the fiscal year ending December 31, 2010. Grant Thornton's additional function is to review certain related filings with Securities and Exchange Commission and to conduct limited reviews of the financial statements included in our quarterly reports.

The following table sets forth the fees billed to us for the audit and other services provided by Grant Thornton LLP to us for the years ended December 31, 2010 and 2009:

	Year Ended December 31,	
	2010	2009
Audit Fees ⁽¹⁾	\$ 750,996	\$ 503,593
Audit-Related Fees ⁽²⁾	509,648	226,978
Tax Fees ⁽³⁾	243,615	183,509
All Other Fees	—	—
Total	<u>\$ 1,504,259</u>	<u>\$ 914,080</u>

- ⁽¹⁾ Audit fees are for the audit of the Company's consolidated financial statements and quarterly reviews of unaudited consolidated financial statements.
- ⁽²⁾ The fees primarily included fees associated with audit services rendered in connection with our withdrawn IPO during 2009 and the issuance of \$200.0 million 12.625% Senior Secured Notes in June 2010.
- ⁽³⁾ Tax fees are fees associated with tax consultations in consideration of conversion from S-Corporation to C-Corporation for our withdrawn IPO and other tax consulting services.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements:

1) **Audited Consolidated Financial Statements**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2010 and 2009

Consolidated Statements of Operations for the years ended December 31, 2010, 2009, and 2008

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2010, 2009, and 2008

Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009, and 2008

- 2) The financial statement schedules have been omitted because they are not applicable, are not required, or the information required to be set forth therein is included in the Consolidated Financial Statements and Notes thereto.
- 3) The Exhibits listed on the accompanying Index to Exhibits immediately following the financial statement schedule are filed as part of, or incorporated by reference into, this annual report.

(b) Exhibits

See Item 15 (a) (3) above.

(c) Financial Statement Schedules

See Item 15 (a) (2) above.

SIGNATURES

The Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Phoenix, State of Arizona, on March 31, 2011.

DRIVETIME AUTOMOTIVE GROUP, INC.

By: /s/ RAYMOND C. FIDEL

Raymond C. Fidel

President, Chief Executive Officer and Director

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Document</u>
4.1.1	Indenture governing 12.625% Senior Secured Notes due 2017, including the form of 12.625% Senior Secured Notes due 2017, among DriveTime Automotive Group, Inc., DT Acceptance Corporation, DriveTime Car Sales Company, LLC, DriveTime Sales and Finance Company, LLC, DT Credit Company, LLC, DT Jet Leasing, LLC and Wells Fargo Bank, National Association, dated as of June 4, 2010**
4.1.2	First Supplemental Indenture governing 12.625% Senior Secured Notes due 2017, dated as of September 20, 2010, among DriveTime Automotive Group, Inc., DT Acceptance Corporation, Approval Services Company, LLC and Wells Fargo Bank, National Association, as Trustee.**
4.1.3	Security Agreement dated as of June 4, 2010, among DT Acceptance Corporation, DriveTime Automotive Group, Inc., DriveTime Car Sales Company, LLC, and Wells Fargo Bank, National Association, as collateral agent.**
4.1.4	Pledge Agreement dated as of June 4, 2010, between DT Acceptance Corporation and Wells Fargo Bank, National Association, as collateral agent.**
4.1.5	Pledge Letter dated as of August 2, 2010, amending the Pledge Agreement dated as of June 4, 2010.**
4.1.6	Intercreditor Agreement, dated as of June 4, 2010, among Santander Consumer USA Inc. and Manheim Automotive Financial Services, Inc. as First Priority Creditors, Wells Fargo Bank, National Association, as Collateral Agent and Second Priority Representative for the Second Priority Secured Parties (as defined therein), and as Trustee for the Holders (as defined therein), DriveTime Automotive Group, Inc., DriveTime Sales and Finance Company, LLC, DriveTime Car Sales Company, LLC, and DT Acceptance Corporation, and each of the other Loan Parties party thereto.**
4.2	Registration Rights Agreement, dated June 4, 2010, among DriveTime Automotive Group, Inc., DT Acceptance Corporation, DriveTime Car Sales Company, LLC, DriveTime Sales and Finance Company, LLC, DT Credit Company, LLC, DT Jet Leasing, LLC, Jefferies & Company, Inc., RBS Securities Inc. and UBS Securities LLC**
10.1.1	Third Amended and Restated Loan and Security Agreement, dated as of August 10, 2009, by and among DriveTime Automotive Group, Inc., DriveTime Sales and Finance Corporation, DriveTime Car Sales, Inc., Manheim Automotive Financial Services, Inc., and Santander Consumer USA, Inc.**
10.1.2	Amendment No. 1, dated as of October 20, 2009, to Third Amended and Restated Loan and Security Agreement, dated as of August 10, 2009, by and among DriveTime Automotive Group, Inc., DriveTime Sales and Finance Corporation, DriveTime Car Sales, Inc., Manheim Automotive Financial Services, Inc., and Santander Consumer USA, Inc.**
10.1.3	Amendment No. 2, dated December 30, 2009, to Third Amended and Restated Loan and Security Agreement, dated as of August 10, 2009, by and among DriveTime Automotive Group, Inc., DriveTime Sales and Finance Corporation, DriveTime Car Sales, Inc., Manheim Automotive Financial Services, Inc., and Santander Consumer USA, Inc.**
10.1.4	Amendment No. 3, dated June 4, 2010, to Third Amended and Restated Loan and Security Agreement, dated as of August 10, 2009, by and among DriveTime Automotive Group, Inc., DriveTime Sales and Finance Company, LLC, as successor in interest to DriveTime Sales and Finance Corporation, DriveTime Car Sales Company, LLC, as successor in interest to DriveTime Car Sales, Inc., Manheim Automotive Financial Services, Inc., and Santander Consumer USA, Inc.**
10.1.5	Amendment No. 4, dated August 9, 2010, to Third Amended and Restated Loan and Security Agreement, dated as of August 10, 2009, by and among DriveTime Automotive Group, Inc., DriveTime Sales and Finance Company, LLC, as successor in interest to DriveTime Sales and Finance Corporation, DriveTime Car Sales Company, LLC, as successor in interest to DriveTime Car Sales, Inc., Manheim Automotive Financial Services, Inc., and Santander Consumer USA, Inc.**
10.1.6	Amendment No. 5, dated September 9, 2010, to Third Amended and Restated Loan and Security Agreement, dated as of August 10, 2009, by and among DriveTime Automotive Group, Inc., DriveTime Sales and Finance Company, LLC, as successor in interest to DriveTime Sales and Finance Corporation, DriveTime Car Sales Company, LLC, as successor in interest to DriveTime Car Sales, Inc., Manheim Automotive Financial Services, Inc., and Santander Consumer USA, Inc.**
10.1.7	Amendment No. 6, dated September 22, 2010, to the Third Amended and Restated Loan and Security Agreement, dated August 10, 2009, by and among DriveTime Automotive Group, Inc., a Delaware corporation, DriveTime Sales and Finance Company, LLC, an Arizona limited liability company, as successor in interest to DriveTime Sales and Finance Corporation, DriveTime Car Sales Company, LLC, an Arizona Limited liability company, as successor in interest to

DriveTime Car Sales Inc., Santander Consumer USA Inc., an Illinois corporation, as a lender, and as the agent for the lenders, and Manheim Automotive Financial Services, Inc., a Delaware corporation, as a lender.**

- 10.1.8 Amendment No. 7, dated October 20, 2010, to the Third Amended and Restated Loan and Security Agreement, dated August 10, 2009, by and among DriveTime Automotive Group, Inc., a Delaware corporation, DriveTime Sales and Finance Company, LLC, an Arizona limited liability company, as successor in interest to DriveTime Sales and Finance Corporation, DriveTime Car Sales Company, LLC, an Arizona limited liability company, as successor in interest to DriveTime Car Sales, Inc., Santander Consumer USA Inc., an Illinois corporation, as a lender, and as the agent for the lenders, and Manheim Automotive Financial Services, Inc., a Delaware corporation, as a lender.**
- 10.2 Third Amended and Restated Loan and Servicing Agreement, dated as of July 23, 2010, by and among DT Warehouse, LLC, DT Credit Company, LLC, Wells Fargo Bank, National Association, Deutsche Bank AG, New York Branch, and the other parties named therein**
- 10.3 Loan and Security Agreement, dated as of July 23, 2010, by and among DT Warehouse IV, LLC, DT Credit Company, LLC, Wells Fargo Bank, National Association, The Royal Bank of Scotland PLC, and other parties named therein**
- 10.4.1 Loan and Servicing Agreement, dated as of April 1, 2010, by and among DT Warehouse III, LLC, DT Credit Company, LLC, Wells Fargo Bank, National Association, UBS Real Estate Securities Inc., and the other parties named therein**
- 10.4.2 Amendment No. 1, dated as of July 28, 2010, to Loan and Servicing Agreement dated as of April 1, 2010 by and among DT Warehouse III, LLC, DT Credit Company, LLC, Wells Fargo Bank, National Association, UBS Real Estate Securities Inc., and the other parties named therein**
- 10.5.1 Loan and Servicing Agreement, dated as of May 10, 2010, by and among DT Warehouse II, LLC, DT Credit Company, LLC, Santander Consumer USA Inc. and Wells Fargo Bank, National Association**
- 10.5.2 Amendment No. 1, dated as of June 15, 2010, to Loan and Servicing Agreement, dated May 10, 2010, by and among DT Warehouse II, LLC, DT Credit Company, LLC, Santander Consumer USA Inc. and Wells Fargo Bank, National Association**
- 10.5.3 Amendment No. 2, dated as of July 23, 2010, to Loan and Servicing Agreement, dated as of May 10, 2010, by and among DT Warehouse II, LLC, DT Credit Company, LLC, Santander Consumer USA Inc. and Wells Fargo Bank, National Association**
- 10.6 Shareholders' Agreement, dated as of December 28, 2010, among DriveTime Automotive Group, Inc., Ernest C. Garcia II and Elizabeth Joanne Garcia, the Ernest C. Garcia III Multi-Generational Trust, the Brian Garcia Multi-Generational Trust, the Ernest Irrevocable 2004 Trust, and the Brian Irrevocable 2004 Trust, and Raymond C. Fidel.**
- 10.7 Shareholders' Agreement, dated as of December 28, 2010, among DT Acceptance Corporation, Ernest C. Garcia II and Elizabeth Joanne Garcia, the Ernest C. Garcia III Multi-Generational Trust, the Brian Garcia Multi-Generational Trust, the Ernest Irrevocable 2004 Trust, and the Brian Irrevocable 2004 Trust, and Raymond C. Fidel.**

* Certain confidential information contained in this exhibit was omitted by means of redacting a portion of the text and replacing it with an asterisk. This exhibit has been filed separately with the Secretary of the SEC without the redaction pursuant to a Confidential Treatment Request under Rule 406 of the Securities Act.

** Previously filed as exhibits to the Registration Statement on Form S-4 and amendments thereto.