AAA Northern California, Nevada & Utah

Consolidated Financial Statements
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Directors
of AAA Northern California, Nevada & Utah
Emeryville, CA

We have audited the accompanying consolidated financial statements of AAA Northern California, Nevada & Utah and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AAA Northern California, Nevada & Utah and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 29, 2013

AAA Northern California, Nevada & Utah
Consolidated Statements of Financial Position
December 31, 2012 and 2011

(in thousands)	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 36,036	$ 44,046
Equity securities (cost: 2012 - $81,716; 2011 - $79,724)	95,328	85,413
Bonds (cost: 2012 - $292,958; 2011 - $231,655)	306,397	240,284
Accounts receivable, net	39,058	34,448
Federal and state income tax recoverable	4,071	2,428
Deferred income tax asset current, net	4,047	-
Other current assets	28,446	16,156
Total current assets	513,383	422,775
Noncurrent assets		
Property, equipment and software, net	20,574	19,983
Deferred income tax asset noncurrent, net	-	3,284
Other noncurrent assets	15,312	9,983
Total noncurrent assets	35,886	33,250
Total assets	$ 549,269	$ 456,025
Liabilities and Members' Equity		
Current liabilities		
Unearned membership revenue and enrollment fees	$ 136,894	$ 132,310
Unpaid losses and loss adjustment expenses	18,561	23,806
Accounts payable, accrued expenses and other liabilities	79,357	81,332
Federal and state income taxes payable, net	4,042	7,438
Deferred income tax liability current, net	11,677	6,804
Total current liabilities	250,531	251,690
Noncurrent liabilities		
Unearned membership enrollment fees	12,836	12,679
Deferred income tax liability noncurrent, net	1,663	2,190
Other noncurrent liabilities	976	-
Total noncurrent liabilities	15,475	14,869
Total liabilities	266,006	266,559
Commitments and contingencies (Note 8)		
Members' equity	264,250	179,965
Accumulated other comprehensive income	18,337	9,501
Total AAA NCNU members' equity	282,587	189,466
Mandatory redeemable noncontrolling interest	676	-
Total members' equity	283,263	189,466
Total liabilities and members' equity	$ 549,269	$ 456,025

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Operations
Years Ended December 31, 2012 and 2011

(in thousands)	2012	2011
Revenues		
Membership	$ 279,746	$ 271,509
Insurance commissions	298,377	307,987
Travel services	20,622	22,350
Advertising, credit card fees and other income	20,534	21,455
Transition costs reimbursement (Note 4)	56,078	-
Investment income, including realized gains and losses on investments and real estate income	11,365	12,171
Insurance premiums earned	5,850	10,381
	692,572	645,853
Expenses		
Emergency road service	122,767	132,745
Sales and services	204,268	197,638
General and administrative expenses	235,284	226,558
Membership services	-	31,751
Other	1,620	15,452
	563,939	604,144
Income before federal and state income taxes	128,633	41,709
Provision for federal and state income taxes	44,489	16,044
Net income	84,144	25,665
Less: Net loss attributable to the mandatory redeemable noncontrolling interest	141	-
Net Income attributable to AAA NCNU	$ 84,285	$ 25,665

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

(in thousands)	2012	2011
Net Income	$ 84,144	$ 25,665
Unrealized holding gains on investments	13,730	4,930
Deferred income taxes arising on unrealized holding gains on investments	(4,894)	(5,359)
Comprehensive income	92,980	25,236
Less: Comprehensive loss attributable to the mandatory redeemable noncontrolling interest	141	-
Comprehensive income attributable to AAA NCNU	$ 93,121	$ 25,236

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2012 and 2011

(in thousands)	Members' Equity	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balances at December 31, 2010	$ 154,300	$ 9,930	$ -	$ 164,230
Net income	25,665	-	-	25,665
Other comprehensive income	-	(429)	-	(429)
Balances at December 31, 2011	179,965	9,501	-	189,466
Net income (loss)	84,285	-	(141)	84,144
Purchase of mandatory redeemable noncontrolling interest	-	-	817	817
Other comprehensive income	-	8,836	-	8,836
Balances at December 31, 2012	$ 264,250	$ 18,337	$ 676	$ 283,263

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(in thousands)	2012	2011
Cash flows from operating activities		
Net income	$ 84,144	$ 25,665
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization of property, equipment and software	5,260	5,602
Amortization of premium and discount on debt securities, net	3,413	1,035
Net (gain) loss on sale of investments	(719)	(4,980)
Net (gain) loss on sale of property, equipment and other assets	59	(9,737)
Interest and dividends on investments	(478)	-
Deferred income taxes	(1,311)	4,643
Provision for asset impairments	-	12,712
Changes in assets and liabilities		
Accounts receivable	(4,610)	(24,574)
Related party receivables, net of payables	-	(15,705)
Other assets	(7,011)	(494)
Unearned membership revenue and enrollment fees	4,741	2,363
Unpaid losses and loss adjustment expenses	(5,245)	697
Accounts payable, accrued expenses and other liabilities	(1,379)	56,370
Federal and state income taxes payable	(5,039)	1,842
Net cash and cash equivalents provided by operating activities	71,825	55,439
Cash flows from investing activities		
Proceeds from sales and maturities of bonds	59,466	56,566
Proceeds from sales of equity securities	-	112,717
Purchases of bonds	(130,463)	(211,946)
Purchases of equity securities	(1,862)	(2,864)
Proceeds from sales of property and equipment	331	22,998
Acquisition of companies	(1,914)	-
Capital expenditures	(5,393)	(4,170)
Net cash and cash equivalents used in investing activities	(79,835)	(26,699)
Net change in cash and cash equivalents	(8,010)	28,740
Cash		
Beginning of year	44,046	15,306
End of year	$ 36,036	$ 44,046
Supplemental disclosures		
Income taxes paid	$ 50,596	$ 9,522
Interest paid	-	124
Additions in accounts payable, accrued expenses and other liabilities	380	6,610

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

(in thousands)

1. Nature of Operations

The AAA Northern California, Nevada & Utah (the Club) is a C corporation, which operates as a not-for-profit mutual benefit automobile club and the American Automobile Association (AAA) organization member for Northern California, Nevada and Utah. Services provided to members include emergency road service (ERS) and a variety of vehicle and travel-related services.

The Club has the following wholly owned subsidiaries:

a. Pacific Lighthouse Reinsurance, Ltd. (Pacific Lighthouse), a Bermuda-domiciled insurance company, insures the Club for traditional business risks including workers compensation, errors and omissions, directors and officer's coverage, as well as commercial automobile, property and general coverage. In addition, Pacific Lighthouse acts as a reinsurer who writes products for certain Club member-related insurance products including, travel cancellation and trip interruption insurance.

b. Auto Partners Inc. (AUTO), a California corporation, provides a full line of towing and roadside assistance services to AAA members and to nonmember customers in markets not serviced by the Club, including corporate accounts, commercial businesses and municipalities.

c. Auto Partners Motor Club Inc. (APMC), a California corporation, is licensed as a motor club in the state of California. APMC fulfills the Club's emergency roadside service obligations under roadside assistance programs with AAA for nonmember customers and provides a full line of roadside assistance services for commercial businesses.

d. CSAA Life Insurance Agency of California (LIFE), a California corporation, produces life and annuity business in California and Nevada.

e. In March 2012, the Club transferred $1,500 in cash to create a wholly owned subsidiary AAA NCNU Car Care Plus Inc. (CCP). On April 1, 2012 CCP entered into an Asset Purchase agreement with D&M Car Care Inc., resulting in the transfer of D&M Car Care Inc.'s assets to CCP. CCP, a California corporation, provides auto repair services to AAA members and to nonmember customers.

On August 31, 2012 AAA NCNU entered into an agreement with the shareholders of AGCIS Inc. (Association and Group Captive Insurance Services Inc.) to purchase a majority share of AGCIS Inc. AGCIS Inc., a California corporation, formally Georgia, produces business for the club not covered under the IE producer agreement (Note 4). The Club owns 255 of the 500 shares outstanding, 51% ownership, and the Club has three of the five seats on the board of directors. AGCIS Inc. is majority owned by the Club and has a call/put option to purchase 100% of the company at fair value after five years.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Club, its wholly owned subsidiaries, and majority owned subsidiary and have been prepared in accordance with generally accepted accounting principles. All intercompany transactions have been eliminated.

(in thousands)

Use of Estimates and Assumptions
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Revenue Recognition
Membership
Membership dues are recognized as income on a pro rata basis over the 12 month membership period. Membership enrollment fees are recognized as income on a pro rata basis over the life of a membership, which is estimated to be 12 years. Membership dues and enrollment fees are recorded on the later of the effective date of membership or receipt. Membership dues and enrollment fees received prior to the effective date of membership are recorded as an advance payment received and included in unearned membership revenue and enrollment fees. The Club defers expenses relating to the acquisition of new members over the same estimated period of 12 years to ensure the enrollment fees correlate with the enrollment expenses. The total expense deferral for a year cannot exceed the unearned enrollment fees and is generally less.

Insurance Commissions
Insurance commissions represent revenue received from insurance companies, primarily from the AAA Northern California, Nevada & Utah Insurance Exchange (the IE) and its subsidiaries, for insurance services provided to members. Insurance commissions are based on a percentage of premiums written and are earned as those premiums are written.

Travel Services
Revenue from travel services provided to members represents commissions from travel service providers and fees from members. Revenue from these services is recognized as the services are provided.

Advertising
Advertising revenue represents sales of print ads in the Club's bi-monthly *VIA* magazine. Revenue is recognized with the publishing of the magazine containing the advertisement.

Credit Card Fees
Ending in 2011, revenue from sponsorship of an affinity credit card is recognized as income over the underlying affinity credit card agreement periods (up to four years). The income related to activation of new accounts, royalties and interchange, processing and brand fees are recorded monthly as earned based on the number of transactions rendered.

Insurance Premiums Earned
Insurance premiums written by Pacific Lighthouse are earned on a pro rata basis over the life of the underlying policies. The liability for unearned premiums is included in accounts payable, accrued expenses, and other liabilities which totaled $161 and $213 at December 31, 2012 and 2011, respectively.

(in thousands)

Cash and Cash Equivalents
Cash and cash equivalents include cash in banks, demand deposits, money market funds and highly liquid investments with original maturities of three months or less. The carrying amount approximates fair value due to the short maturity of these instruments.

Investments Held on Deposit or as Collateral
During 2002, Pacific Lighthouse set up Regulation 114 Trusts for the benefit of certain ceding insurance companies that place business with Pacific Lighthouse. The assets in the trust accounts are maintained at all times separate and distinct from all other assets. The total value of assets held in these trusts, included in investments on the statement of financial position, at December 31, 2012 and 2011 was $17,346 and $27,309, respectively.

Equity Securities and Bonds
Equity securities and bonds are categorized as available for sale. The estimated fair value of these securities is based on quoted market values as provided by independent pricing services and reviewed by management. These pricing services may apply matrix pricing for the same or similar debt securities where no price is observable. Unrealized gains and losses, net of income taxes, are included as a component of members' equity until realized. Declines in the fair value of equity securities deemed to be other than temporary are included in investment income as a realized loss. Subsequent recoveries in fair value are reflected as increases in unrealized gains and included as a component of members' equity. Declines in the fair value of bonds deemed to be other than temporary are included in investment income as a realized loss if the Club intends to sell the security or determines it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis. For bonds that are considered to have an other than temporary impairment and that the Club does not intend to sell and will not be required to sell the security prior to recovery of its amortized cost basis, the Club separates the amount of the impairment into the amount that is credit related and the amount due to all other factors. The component of the loss that is credit related is recognized in investment income as a realized loss and equates to the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of its expected future cash flows is due to factors that are not credit related and is recognized as a loss in other comprehensive income. Realized gains and losses on the sales of investments are included in income based on a specific identification basis. Changes to net unrealized gains or losses on securities sold are also identified on a specific identification basis and recorded as reclassification adjustments to other comprehensive income.

Fair Value Measurements
The Club records certain financial assets at fair value on a periodic basis. These financial assets consist of investment securities available for sale. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(in thousands)

The Club categorizes its financial assets and liabilities into the following fair value hierarchy:

Level 1 Financial assets and liabilities with values based on unadjusted quoted prices for identical assets or liabilities in an active market. Level 1 includes active exchange-traded equity securities, regulated investment companies and US treasury securities.

Level 2 Financial assets and liabilities with values based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Level 2 includes certain unlisted domestic equities, convertible securities, municipal bonds, US corporate bonds and international corporate bonds.

Level 3 Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed. Level 3 includes private investments in limited partnerships.

When determining the fair value measurements for financial assets carried at fair value on a recurring basis, the Club considers the principal or most advantageous market in which it would execute a transaction and considers assumptions that market participants would use when pricing the asset or liability. Whenever possible, active and observable markets are used to price identical assets. When identical assets are not traded in active markets, market observable data for similar assets is used. Nevertheless, certain assets are not actively traded in observable markets and alternative valuation techniques to derive fair value measurements are used.

Property, Equipment, and Software

Property and equipment are stated at historical cost. Property and equipment is depreciated on a straight line method over the estimated useful life, which for buildings is 40 years and for furniture and equipment is three to eight years. Amortization of leasehold improvements is based on the shorter of the term of the underlying lease or the estimated useful life. Upon retirement or disposition of fixed assets, any gain or loss is included in net income.

Internal and external costs which are directly associated with the development of internal-use software are capitalized. Once the software is ready for its intended use, these costs are amortized over the estimated useful life of the software (three to five years) on a straight-line basis.

The Club reviews long-lived assets for impairment whenever events or changes in circumstances indicate that carrying values may not be recoverable. Due to changes in circumstances, generally arising from a change in the estimated useful lives of assets, during 2012 and 2011 the Club identified $0 and $58,498 of assets required to be reviewed for impairment and recorded impairment charges of $0 and $12,712, respectively.

(in thousands)

Allowance for Doubtful Accounts
The Club maintains an allowance for doubtful accounts for estimated losses that result from the failure or inability of customers to make required payments. When determining the allowance, the Club considers the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. The analysis of receivables is performed quarterly, and the allowances are adjusted accordingly.

Insurance Operations
The liabilities for unpaid losses and loss adjustment expenses of Pacific Lighthouse are based on the estimated ultimate cost of settling claims, using past experience adjusted for current trends and any other factors which, in management's judgment, would modify this experience. Changes in estimates of losses resulting from the continuous review process and differences between estimates and payments for claims are included in operations of the period in which the estimates are changed.

Income Taxes
The Club accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Club utilizes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. This recognition threshold has been applied to all tax positions of the Club as of December 31, 2012 and 2011. Only tax positions that met the more-likely-than-not recognition threshold on December 31, 2012 and 2011 are recognized.

Interest expense and penalties associated with unrecognized tax benefits is classified as income tax expense in the statements of operations, when applicable. See Note 7 for a tabular reconciliation of the total amount of unrecognized tax benefits for the year.

(in thousands)

Variable Interest Entities
In accordance with Topic 810 *Consolidation,* effective January 1, 2010, the Club is deemed to have a controlling financial interest in, and is the primary beneficiary of, a variable interest entity (VIE) if it has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. On an ongoing basis, the Club will assess whether it has a controlling financial interest in and is the primary beneficiary of a VIE. The reassessment process considers whether the Club has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The assessment also considers whether the Club has acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which the Club is involved may change as a result of such assessments.

The IE was determined to be a VIE and due to its contractual agreements with the Club was reviewed under the updated accounting guidance in Topic 810. The IE is a reciprocal insurance exchange with approximately $3 billion in surplus, primarily offering personal lines insurance products to its policyholders for auto and homeowners protection. Through the analysis, the Club determined it was not the primary beneficiary of the IE's operating results, nor was it exposed to any loss from the IE as there were no contracts obligating the Club to absorb any portion of the IE's potential losses. Additionally, control of the IE does not rest with the Club. The Club does stand to benefit from the IE in years when it performs well as it is entitled to a variable portion of the IE's premium revenue (i.e., commissions) giving rise to its variable interests. As of December 31, 2012, the Club has not provided financial support to unconsolidated VIEs nor does it intend to do so. There were no other VIEs identified in which the Club has a variable interest or otherwise. As a result, there are no changes to the Club's consolidated results of operations or financial position after applying Topic 810.

Recent Accounting Pronouncements
In May 2011, the FASB issued ASU No. 2011–04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. This ASU includes the Boards' common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. The Club has prospectively adopted this standard in 2012 and noted that there was not a material impact on the Club's results of operations, financial condition or liquidity.

In June 2011, the FASB issued ASU No. 2011–05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," and in December 2011, the FASB issued ASU No. 2011—12, which amended ASU No. 2011-05 eliminating the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. All items of net income and other comprehensive income are required to be presented in either a single continuous statement of comprehensive income or in two separate, but consecutive, statements - a net income statement and a total comprehensive income statement. The Club has prospectively adopted this standard during 2012 using a two-statement approach.

(in thousands)

3. Related Parties

The Club has the following agreements with related parties:

a. The Club issued a corporate membership to AAA Club Partners, Inc. (ACP). ACP is a not-for-profit mutual benefit corporation. Its business purpose is to form a company structure in which the Club and other AAA member clubs could participate through the issuance of corporate memberships. AAA member clubs who have elected to become affiliated with ACP will issue a corporate membership in such member clubs to ACP. In exchange for these corporate memberships, ACP will grant an ACP participation interest to such member clubs.

b. In both 2012 and 2011 the access fee for and on behalf of the IE was collected and remitted to ACP by the Club.

c. Ending June 30, 2011 under a Services Agreement, the Club and the IE provided various operating and administrative services to each other and reimbursed each other for the cost of these services. The Club provided services to the IE including marketing, advertising and related services, real estate and other administrative services of conducting business. The Club received services from the IE including salaries and related benefit services, software and other information systems, advertising, marketing and related services, real estate and other administrative services of conducting business. The Services Agreement's allocation factors between the Club and the IE are determined annually by cost studies.

d. Ending June 30, 2011 the IE had various agreements with third-party vendors of information technology services, including Electronic Data Systems Corporation, Accenture, AT&T and IBM, to perform certain services for the IE and the Club. Business services associated with information, communication, and data processing were paid by the IE and costs were allocated to the Club.

The income statement impact of the above-detailed agreements for the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Access fee remitted to ACP		
(Included in General and administrative expenses)	$ 3,162	$ 3,096
Primary services agreement with the IE		
(included in various expense line items)		
Services provided by the IE (ended June 30, 2011)	-	57,112

(in thousands)

4. Significant Agreements

The Club has the following significant agreements:

a. At January 1, 2011 the Club and the IE and its subsidiaries entered into a new economic relationship, reflected in a new Producer Agreement, Marketing Channel Agreement and a number of other agreements. The Club and the IE have always been separate entities; however, prior to January 1, 2011 their operations were integrated. The Boards of the Club and the IE decided to separate operations, as described in Note 3 above; certain agreements continued, and the separation of operations was completed on June 30, 2011. The Club continues to be the primary seller of insurance for the IE and continues to partner with the IE in producing business, but is no longer a related party.

The income statement impact of the above agreements for the year ended December 31, 2012 was as follows:

	2012	2011
Insurance commissions	$ 275,373	$ 274,806
Marketing support fees	10,221	20,643
	$ 285,594	$ 295,449
IE supporting expenses	$ 29,648	$ 47,826

In 2012, the IE paid contractual amounts to the Club of $56,078 in relation to transition costs incurred by the Club during the operational separation in 2011. This revenue has been included in Transition costs reimbursement of the income statement.

The balance sheet impact of the above agreements for the year ended December 31, 2012 was as follows:

	2012	2011
Accounts receivable, net	$ 28,344	$ 23,430
Accounts payable (included in accounts payable, accrued expenses and other liabilities)	3,872	19,600

a. The Club had an available a line of credit with the IE totaling $75,000 through December 31, 2012. As discussed below, the Club entered into a line of credit with Bank of America which simultaneously discontinued this former line of credit as of the security agreement date.

b. The Club entered into a line of credit with Bank of America totaling $100,000. The current terms of the line of credit are contained in the credit agreement dated December 31, 2012. The related debt outstanding at the close of business on December 31, 2012 was $0.

(in thousands)

5. Investments

The cost or amortized cost and estimated fair value of bonds and equity securities were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
U.S. Government bonds	$ 31,444	$ 1,638	$ (1)	$ 33,081
Tax exempt municipal bonds	78,701	3,875	(91)	82,485
Corporate bonds	102,171	4,745	(105)	106,811
Foreign bonds	14,676	964	(7)	15,633
Asset-backed securities	2,016	50	-	2,066
Mortgage-backed securities	63,950	2,410	(39)	66,321
Total bonds	292,958	13,682	(243)	306,397
Equity securities	81,716	13,612	-	95,328
	$ 374,674	$ 27,294	$ (243)	$ 401,725

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011				
U.S. Government bonds	$ 36,877	$ 1,833	$ -	$ 38,710
Tax exempt municipal bonds	68,040	2,502	(14)	70,528
Corporate bonds	46,179	2,066	(241)	48,004
Foreign bonds	7,902	583	(6)	8,479
Asset-backed securities	2,491	28	(4)	2,515
Mortgage-backed securities	70,166	1,934	(52)	72,048
Total bonds	231,655	8,946	(317)	240,284
Equity securities	79,724	6,592	(903)	85,413
	$ 311,379	$ 15,538	$ (1,220)	$ 325,697

(in thousands)

The activities related to bonds and equity securities were as follows:

	2012	2011
Proceeds from sales of bonds	$ 58,181	$ 52,591
Proceeds from maturities of bonds	1,285	3,975
Gross gains realized on sales of bonds	760	1,578
Gross losses realized on sales of bonds	(41)	(295)
Proceeds from sales of preferred stock securities	-	135
Gross gains realized on sales of preferred stock securities	-	43
Proceeds from sales of equity securities	-	112,582
Gross gains realized on sales of equity securities	129	3,817
Gross losses realized on sales of equity stock securities	-	(75)

The gross unrealized losses and estimated fair values on investments aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position were as follows:

	12 Months or Greater		Less Than 12 Months	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2012				
U.S. Government bonds	$ -	$ -	$ (1)	$ 239
Tax exempt municipal bonds	-	-	(91)	5,615
Corporate bonds	-	-	(105)	7,307
Foreign bonds	-	-	(7)	1,322
Asset-backed securities	-	-	-	-
Mortgage-backed securities	(21)	882	(18)	3,068
Total bonds	(21)	882	(222)	17,551
Equity securities	-	-	-	-
	$ (21)	$ 882	$ (222)	$ 17,551

	12 Months or Greater		Less Than 12 Months	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2011				
U.S. Government bonds	$ -	$ -	$ -	$ -
Tax exempt municipal bonds	-	-	14	7,113
Corporate bonds	-	-	241	12,826
Foreign bonds	-	-	6	167
Asset-backed securities	-	-	4	743
Mortgage-backed securities	-	-	52	8,396
Total bonds	-	-	317	29,245
Equity securities	-	-	903	24,407
	$ -	$ -	$ 1,220	$ 53,652

(in thousands)

An investment is deemed impaired if the fair value of the investment is less than its carrying value. After the investment is deemed impaired, the Club evaluates whether the decline in value is other-than-temporary. When evaluating whether the impairment is other-than-temporary, the Club takes into consideration whether or not it will receive all of the investment's contractual cash flows based on factors that include, but are not limited to, the length of time and extent that the investment's fair value has been less than its amortized cost and the Club's ability and intent to hold the investment for a sufficient amount of time to recover the unrealized losses. On review of each individual investment in an unrealized loss position, management concluded that none of the investments with unrealized losses at December 31, 2012 or 2011 had experienced an other-than-temporary impairment.

As of December 31, 2012 and 2011 there were 43 and 90 securities in unrealized loss positions, respectively.

The cost or amortized cost and estimated fair value of bonds at December 31, 2012, by contractual maturity, were as follows:

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$ 7,938	$ 7,982
Due after one year through five years	89,536	91,632
Due after five years through ten years	112,111	118,922
Due after ten years	17,407	19,474
	226,992	238,010
Mortgage and asset-backed securities	65,966	68,387
	$ 292,958	$ 306,397

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

The Club's investment policy limits concentration of credit risk by diversifying its investment portfolio. Since the portfolio is diversified and issuers of securities are dispersed throughout many industries and geographies, management believes the concentration of credit risk is limited.

The Club also invests a limited amount in alternative investments including high yield limited partnerships, inflation-protected bond funds, bank loan funds, and private equity funds. These alternative investments are categorized as available for sale and included in other current assets. These investments are carried at estimated fair value as of December 31, 2012 and 2011 and the fund fair values are based on audited financial statements. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Such differences could be material to the investment.

(in thousands)

The cost and estimated fair value of the alternative investments were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
Alternative investments	$ 15,265	$ 2,962	$ -	$ 18,227
December 31, 2011				
Alternative investments	$ 7,917	$ 1,969	$ (3)	$ 9,883

The following tables present information with respect to financial assets carried at fair value in the consolidated balance sheets:

	Fair Value Measurements at December 31, 2012 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Government bonds	$ 33,081	$ -	$ -	$ 33,081
Tax exempt municipal bonds	-	82,485	-	82,485
Corporate bonds	-	106,811	-	106,811
Foreign bonds	-	15,633	-	15,633
Asset-backed securities	-	2,066	-	2,066
Mortgage-backed securities	-	66,321	-	66,321
Total bonds	33,081	273,316	-	306,397
Equity securities	95,328	-	-	95,328
Alternative investments	-	-	18,228	18,228
	$ 128,409	$ 273,316	$ 18,228	$ 419,953

(in thousands)

	Fair Value Measurements at December 31, 2011 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Government bonds	$ 31,641	$ 7,069	$ -	$ 38,710
Tax exempt municipal bonds	-	70,528	-	70,528
Corporate bonds	-	48,004	-	48,004
Foreign bonds	-	8,479	-	8,479
Asset-backed securities	-	2,515	-	2,515
Mortgage-backed securities	-	72,048	-	72,048
Total bonds	31,641	208,643	-	240,284
Equity securities	85,413	-	-	85,413
Alternative investments	-	-	9,883	9,883
	$ 117,054	$ 208,643	$ 9,883	$ 335,580

The following tables present activity related to financial assets categorized in Level 3 of the valuation hierarchy:

	Fair Value Measurements Using Significant Unobservable Inputs Year Ended December 31, 2012					
		Total Realized and Unrealized Gains (Losses)				
	Fair Value at January 1, 2012	Recorded in Income	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at December 31, 2012
Alternative investments	$ 9,883	$ -	$ 996	$ 7,349	$ -	$ 18,228

	Fair Value Measurements Using Significant Unobservable Inputs Year Ended December 31, 2011					
		Total Realized and Unrealized Gains (Losses)				
	Fair Value at January 1, 2011	Recorded in Income	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at December 31, 2011
Alternative investments	$ 9,936	$ -	$ (303)	$ 250	$ -	$ 9,883

(in thousands)

6. Property, Equipment and Software

Property, equipment and software at December 31 consists of the following:

	2012	2011
Furniture and equipment	$ 65,524	$ 67,079
Capitalized leases	948	-
Software	4,298	3,400
Buildings and leasehold improvements	29,340	27,959
	100,110	98,438
Accumulated depreciation and amortization	(79,536)	(78,455)
	$ 20,574	$ 19,983

Depreciation and amortization expenses are as follows:

	2012	2011
Software	$ 455	$ 1,603
Buildings and leasehold improvements	2,066	3,330
Capitalized leases	294	-
Furniture and equipment	2,445	669
	$ 5,260	$ 5,602

7. Income Taxes

The Club's consolidated income before provision for income taxes is $128,958 and $41,709 for the years ended December 31, 2012 and 2011, respectively. The Club recorded income tax expense of $44,489 and $16,044 for the years ended December 31, 2012 and 2011.

The provision for income taxes consists of the following:

	2012	2011
Current tax provision		
Federal	$ 45,345	$ 11,116
State	454	285
	45,799	11,401
Deferred tax (benefit) expense	(1,310)	4,643
Total provision for income taxes	$ 44,489	$ 16,044

(in thousands)

The provision for income taxes is different from that which would be computed by applying the statutory federal income tax rate to income before taxes as follows:

	2012	2011
Tax at federal statutory rate	35.0 %	35.0 %
Tax-exempt investments income	(0.5)	(1.7)
State tax rate	0.2	0.6
Settlements and releases from statute expirations, net	(0.2)	1.0
True up	(0.3)	3.7
Other	0.3	0.0
	34.5 %	38.6 %

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and tax liabilities at December 31, 2012 and 2011 are presented below:

	2012	2011
Deferred tax assets		
Accrued expense	$ 5,200	$ 524
Deferred income	4,466	4,118
NOL and other credit carryforward	116	-
Investment adjustments	1,690	1,886
Loss reserve discounting	835	971
State taxes net of federal tax benefit	75	203
Other	661	15
	13,043	7,717
Deferred tax liabilities		
Deferred membership expenses	4,912	3,703
Unrealized appreciation of investments	12,967	7,356
Depreciation	1,840	1,460
Printing supplies expensed for tax	544	38
Prepaid assets	1,892	772
State deferred taxes net of federal tax benefit	181	98
	22,336	13,427
Net deferred tax liability	$ (9,293)	$ (5,710)

The following is a reconciliation of the total amount of unrecognized tax benefits for the year:

Balance at January 1, 2012	$ 2,422
Increase related to current year tax positions	1,996
Increase for tax positions for prior years	-
Lapse in statute of limitations	(377)
Balance at December 31, 2012	$ 4,041

(in thousands)

Included in the unrecognized tax benefits of $4,041 at December 31, 2012 was $2,108 that, if recognized, would impact the Club's annual effective tax rate. The Club accrues interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of December 31, 2012, accruals for the payment of interest and penalties totaled $636.

Due to the potential lapse of statute of limitations, it is reasonably possible that the balance of gross unrecognized tax benefits could decrease within the next twelve months up to $176.

The Club files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. It is subject to U.S. federal income tax examinations for the tax years ended 2009 through 2011 and state and local tax examination for the tax returns filed for the years ended 2007 through 2011. The Club is currently under examination by the California Franchise Tax Board.

8. Commitments and Contingencies

Certain district offices are leased by the Club under long-term commitments. Some of the leases are noncancelable and others have renewal options for periods up to five years. The Club's total rental expense for leases was $14,085 and $11,359 in 2012 and 2011, respectively.

The Club's future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2012 are as follows:

Years Ending December 31,		
2013	$	8,877
2014		7,247
2015		5,892
2016		3,284
2017		3,106
Thereafter		3,647
Total minimum rental payments required	$	32,053

The Club is party to various claims and lawsuits arising in the normal course of business. It is the opinion of management, after consultation with legal counsel, that the disposition of these matters is not expected to have a material adverse effect on the financial position or results of operations of the Club.

9. Subsequent Events

On March 14, 2013 the Club's Board of Directors unanimously authorized the Club to commit up to $6,000 as the Club's participative contribution to the development and initial operating cost of an agreed upon amended service agreement model with the related party ACP (Note 3). In addition, the Club's Board of Directors unanimously authorized and directed the Club to compensate ACP for expenses incurred due to changes in the Club's use of the ACP call center and the reduction in the per call rate for 2013 in an amount not to exceed $8,000.