AAA Northern California, Nevada & Utah

Consolidated Financial Statements
December 31, 2011 and 2010

AAA Northern California, Nevada & Utah
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December 31, 2011 and 2010

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, changes in members' equity, and cash flows presents fairly, in all material respects, the financial position of the AAA Northern California, Nevada & Utah and its subsidiaries (the Company) at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 24, 2012

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AAA Northern California, Nevada & Utah
Consolidated Statements of Financial Position
December 31, 2011 and 2010

(in thousands)	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 44,046	$ 15,306
Equity securities (cost: 2011 - $79,724; 2010 - $186,042)	85,413	196,318
Bonds (cost: 2011 - $231,655; 2010 - $76,114)	240,284	79,294
Accounts receivable, net	34,448	9,874
Related party receivables	-	7,634
Federal and state income tax recoverable	2,428	-
Other current assets	16,156	19,455
Total current assets	422,775	327,881
Noncurrent assets		
Property, equipment and software, net	19,983	40,064
Deferred income tax asset noncurrent, net	3,284	6,528
Other noncurrent assets	9,983	6,244
Total noncurrent assets	33,250	52,836
Total assets	$ 456,025	$ 380,717
Liabilities and Members' Equity		
Current liabilities		
Unearned membership revenue and enrollment fees	$ 132,310	$ 130,790
Unpaid losses and loss adjustment expenses	23,806	23,108
Accounts payable, accrued expenses and other liabilities	81,332	16,491
Related party payables	-	14,650
Federal and state income taxes payable, net	7,438	3,168
Deferred income tax liability current, net	6,804	6,606
Total current liabilities	251,690	194,813
Noncurrent liabilities		
Unearned membership enrollment fees	12,679	11,836
Related party payables	-	8,689
Other noncurrent liabilities	2,190	1,149
Total noncurrent liabilities	14,869	21,674
Total liabilities	266,559	216,487
Commitments and contingencies (Note 8)		
Members' equity	179,965	154,300
Accumulated other comprehensive income	9,501	9,930
Total members' equity	189,466	164,230
Total liabilities and members' equity	$ 456,025	$ 380,717

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, 2011 and 2010

(in thousands)	2011	2010
Revenues		
Membership	$ 271,509	$ 261,499
Insurance commissions, royalties and brand name fees	307,987	101,354
Travel services	22,350	24,536
Advertising, credit card fees and other income	21,455	40,715
Investment income, including realized gains and losses on investments and real estate income	12,171	10,206
Insurance premiums earned	10,381	8,178
	645,853	446,488
Expenses		
Emergency road service	132,745	138,106
Sales and services	197,638	100,355
General and administrative expenses	226,558	148,352
Membership services	31,751	41,403
Other	15,452	10,322
	604,144	438,538
Income before federal and state income taxes	41,709	7,950
Provision (benefit) for federal and state income taxes	16,044	(218)
Net income	$ 25,665	$ 8,168

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, 2011 and 2010

(in thousands)	Members' Equity	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2009	$ 146,132	$ 3,238	$ 149,370
Comprehensive income			
Net income	8,168	-	8,168
Net unrealized gain on investments arising during the period (tax effect $3,655)	-	6,786	6,786
Less: Reclassification adjustment for net realized gain included in net income (tax effect $51)	-	(94)	(94)
Total comprehensive income			14,860
Balances at December 31, 2010	154,300	9,930	164,230
Comprehensive income			
Net income	25,665	-	25,665
Net unrealized gain on investments arising during the period (tax effect $611)	-	4,930	4,930
Less: Reclassification adjustment for net realized gain included in net income (tax effect $376)	-	(5,359)	(5,359)
Total comprehensive income			25,236
Balances at December 31, 2011	$ 179,965	$ 9,501	$ 189,466

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Cash Flow
Years Ended December 31, 2011 and 2010

(in thousands)	2011	2010
Cash flows from operating activities		
Net income	$ 25,665	$ 8,168
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization of property, equipment and software	5,602	24,309
Amortization of premium and discount on debt securities, net	1,035	(25)
Net (gain) loss on sale of investments	(4,980)	241
Net (gain) loss on sale of property, equipment and other assets	(9,737)	4,471
Deferred income taxes	4,643	(5,647)
Provision for asset impairments	12,712	998
Changes in assets and liabilities		
Accounts receivable	(24,574)	98
Related party receivables, net of payables	(15,705)	(23,551)
Other assets	(494)	(259)
Unearned membership revenue and enrollment fees	2,363	5,301
Unpaid losses and loss adjustment expenses	697	1,094
Accounts payable, accrued expenses and other liabilities	56,370	(3,354)
Federal and state income taxes payable	1,842	446
Net cash and cash equivalents provided by operating activities	55,439	12,290
Cash flows from investing activities		
Proceeds from sales and maturities of bonds	56,566	39,273
Proceeds from sales of equity securities	112,717	68,308
Purchases of bonds	(211,946)	(42,198)
Purchases of equity securities	(2,864)	(70,563)
Proceeds from sales of property and equipment	22,998	1,030
Capital expenditures	(4,170)	(11,945)
Net cash and cash equivalents used in investing activities	(26,699)	(16,095)
Net change in cash and cash equivalents	28,740	(3,805)
Cash		
Beginning of year	15,306	19,111
End of year	$ 44,046	$ 15,306
Supplemental disclosures		
Income taxes paid	$ 9,522	$ 4,982
Interest paid	124	583
Additions in accounts payable, accrued expenses and other liabilities	6,610	(183)

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 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., 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 some of the Club's emergency roadside service obligations under roadside assistance programs with AAA and provides a full line of roadside assistance services for commercial businesses.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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.

(in thousands)

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.

Insurance Commissions

Insurance commissions represent revenue received from insurance companies, primarily from the AAA Northern California, Nevada & Utah Insurance Exchange's ("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.

Royalties

Ending in 2010, royalties were derived from membership list sales to Club Marketing Services, LLC (CMKS), a subsidiary of the Bureau. The Club is the owner of a list of about 4.2 million AAA members in Northern California, Nevada and Utah. CMKS paid the Club royalties based on the number of members, types of membership and insurance products held by members.

Brand Name Fees

Ending in 2010, brand name fees represented revenue from the IE for the various intangible benefits flowing to the IE as a result of its relationship with the Club. Brand name fees were 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

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 $213 and $370 at December 31, 2011 and 2010, 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 because of the short maturity of these instruments.

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.

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.

(in thousands)

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 2011 and 2010 the Club identified $58,498 and $2,697 of assets required to be reviewed for impairment and recorded impairment charges of $12,712 and $998, respectively.

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.

(in thousands)

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, 2011. Only tax positions that met the more-likely-than-not recognition threshold on December 31, 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.

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, 2011, 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 an interest variable or otherwise. As a result, there are no changes to the Club's consolidated results of operations or financial position after applying Topic 810.

(in thousands)

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 will prospectively adopt this standard in 2012 and does not expect it to have 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, as amended, 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 expects to prospectively adopt this standard during 2012 using a two-statement approach.

Reclassification
Certain amounts from the prior year income statement have been reclassified to conform to the current year presentation. These reclassifications had no effect on the net income. The amounts reclassified better reflect the change in the nature of insurance commission relationship with the IE as defined below in notes three and four.

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 2010 the Club assisted in the collection and remittance of payments by and between the IE and to AAA Club Affiliates, Inc (ACA). The IE provided management services to ACA, including allocated salaries and related benefit services, and other administrative services of conducting business. The IE also paid ACA an access fee based on 0.25% of the IE's direct written premium. The access fee was collected and remitted to ACA by the Club.

c. In 2011 the access fee for and behalf of the IE was collected and remitted to ACP by the Club.

(in thousands)

d. In 2010 and ending June 30, 2011 under a Services Agreement, the Club and 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 were determined annually by cost studies.

e. In 2010 the IE funded all costs incurred related to the development of internal-use software and the Club recognized a liability due to the IE for the Club's portion of these costs as they were incurred. Interest on the liability was accrued monthly by the IE and was charged to the Club using an agreed upon interest rate (5% in 2010). The Club repaid its obligation to the IE over a period of five years from the date the software was placed in service, on a project by project basis. Any outstanding amounts were settled upon operational separation in July 2011.

f. For 2010 the IE entered into an agreement with its wholly owned subsidiary, Club Marketing Services, LLC ("CMKS"), under the terms of which CMKS agreed to perform marketing services on behalf of the IE. In order to perform such services, CMKS licensed certain intellectual property from the Club, including the Club's right to the use of the AAA brand and the Club's membership list. Royalty fees were paid monthly in arrears by CMKS to the Club based on the ending membership list and the fee was determined by the number and types of membership and insurance products sold to each Club primary member.

g. For 2010 the Club received from the IE a brand name fee in consideration of the various intangible benefits flowing to the IE as a result of the IE's relationship with the Club. The brand name fee was based on 1% of IE's direct premium written on most lines of business and was included in insurance commission and brand name fees.

h. For 2010 the Club acted as an agent for Western United Insurance Company (WUIC) and ACA Insurance Company (ACAIC), wholly owned subsidiaries of the IE. Insurance commissions from WUIC were 11% of direct written premiums for new policies and 8% of direct written premiums for renewals and from ACAIC were 9.5% of direct written premiums for new policies and renewals.

i. For 2010 and 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.

(in thousands)

The income statement impact of the above-detailed agreements for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Access fee remitted to ACP (2011)/ ACA (2010) (included in Membership services)	$ 3,096	$ 4,500
Management fee received from ACA on behalf of the IE	-	2,001
Royalty fees, brand name fees and insurance		
Royalty fees from CMKS	-	68,263
Brand name fees from the IE	-	18,002
Direct premium commission from WUIC	-	14,755
Direct premium commission from ACAIC	-	11,340
	$ -	$ 112,360
Primary services agreement with the IE (included in various expense line items)		
Services provided to the IE (ended 12/31/10)	$ -	$ 57,460
Services provided by the IE (ended 6/30/11)	57,112	175,857

Amounts relating to these agreements on the balance sheets at December 31, 2011 and 2010 were as follows:

	2011	2010
Payable to the IE and its affiliates	$ -	$ 23,339
Receivable from CMKS	$ -	$ 5,669
Receivable from WUIC	-	1,081
Receivable from ACAIC	-	836
Receivable from ACA	-	48
Total related party receivables	$ -	$ 7,634
Amounts relating to software development		
Capitalized costs in current year	$ -	$ 5,487
Included in payable to the IE	-	13,051
Interest capitalized/expensed in current year	-	722

(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, 2011 was as follows:

		2011
Insurance commissions (included in insurance commissions, royalties and brand name fees)	$	274,806
Marketing support fees (included in insurance commissions, royalties and brand name fees)		20,643
	$	295,449
IE supporting expenses (07/01/11 to 12/31/11)	$	47,826

The balance sheet impact of the above agreements for the year ended December 31, 2011 was as follows:

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

b. The Club has available a line of credit with the IE totaling $75,000,000. The current terms of the line of credit are contained in the Loan and Security Agreement dated May 19, 2011. The related debt outstanding at the close of business on December 31, 2011 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, 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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010				
U.S. Government bonds	$ 10,241	$ 565	$ (24)	$ 10,782
Tax Exempt Municipal bonds	23,702	898	(208)	24,392
Corporate bonds	13,596	1,029	(105)	14,520
Foreign bonds	2,986	274	(7)	3,253
Asset-backed securities	777	-	-	777
Mortgage-backed Securities	24,812	941	(183)	25,570
Total bonds	76,114	3,707	(527)	79,294
Preferred stock securities	93	40	-	133
Equity securities	185,949	11,029	(793)	196,185
	$ 262,156	$ 14,776	$ (1,320)	$ 275,612

(in thousands)

The activities related to bonds and equity securities inclusive of other than temporary impairments for 2011 and 2010 were as follows:

	2011	2010
Proceeds from sales of bonds	$ 52,591	$ 23,478
Proceeds from maturities of bonds	3,975	15,795
Gross gains realized on sales of bonds	1,578	850
Gross losses realized on sales of bonds	(295)	(49)
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	68,308
Gross gains realized on sales of equity securities	3,817	1,466
Gross losses realized on sales of equity stock securities	(75)	(2,509)

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, 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)

	12 months or greater		Less than 12 months	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2010				
U.S. Government bonds	$ -	$ -	$ 24	$ 2,184
Tax exempt municipal bonds	-	-	208	7,528
Corporate bonds	-	-	105	1,951
Foreign bonds	-	-	7	267
Asset-backed securities	-	-	-	300
Mortgage-backed securities	-	-	183	4,704
Total bonds	-	-	527	16,934
Equity securities	-	-	793	33,887
	$ -	$ -	$ 1,320	$ 50,821

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, 2011 or December 31, 2010 had experienced an other-than-temporary impairment.

As of December 31, 2011 and 2010 there were 90 and 59 securities in unrealized loss positions, respectively.

The cost or amortized cost and estimated fair value of bonds at December 31, 2011, by contractual maturity, were as follows:

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,235	$ 2,249
Due after one year through five years	59,251	60,087
Due after five years through ten years	85,602	89,408
Due after ten years	11,910	13,977
	158,998	165,721
Mortgage and asset-backed securities	72,657	74,563
	$ 231,655	$ 240,284

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

(in thousands)

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 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, 2011 and 2010 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.

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011				
Alternative investments	$ 7,917	$ 1,969	$ (3)	$ 9,883
December 31, 2010				
Alternative investments	$ 7,667	$ 2,269	$ -	$ 9,936

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, 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

(in thousands)

	Fair Value Measurements at December 31, 2010 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	$ 7,949	$ 2,833	$ -	$ 10,782
Tax exempt municipal bonds	-	24,392	-	24,392
Corporate bonds	-	14,520	-	14,520
Foreign bonds	742	2,511	-	3,253
Asset-backed securities	-	777	-	777
Mortgage-backed securities	-	25,570	-	25,570
Total bonds	8,691	70,603	-	79,294
Equity securities and preferred stock	196,318	-	-	196,318
Alternative investments	-	-	9,936	9,936
	$ 205,009	$ 70,603	$ 9,936	$ 285,548

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, 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

	Fair Value Measurements Using Significant Unobservable Inputs Year Ended December 31, 2010					
		Total Realized and Unrealized Gains (Losses)				
	Fair Value at January 1, 2010	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, 2010
Alternative investments	$ 9,582	$ -	$ 354	$ -	$ -	$ 9,936

(in thousands)

6. Property, Equipment and Software

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

	2011	2010
Furniture and equipment	$ 67,079	$ 73,532
Software	3,400	60,469
Buildings and leasehold improvements	27,959	57,689
	98,438	191,690
Accumulated depreciation and amortization	(78,455)	(156,682)
	19,983	35,008
Land, at cost	-	5,056
	$ 19,983	$ 40,064

Depreciation and amortization expenses are as follows:

	2011	2010
Software	$ 1,603	$ 16,310
Buildings and leasehold improvements	3,330	4,284
Furniture and equipment	668	3,715
	$ 5,601	$ 24,309

7. Income Taxes

The provision for income taxes consists of the following:

	2011	2010
Current tax provision		
Federal	$ 11,116	$ 4,452
State	285	976
	11,401	5,428
Deferred tax (benefit) expense	4,643	(5,646)
Total provision for income taxes	$ 16,044	$ (218)

(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:

	2011	2010
Pre-tax income (equity eliminated)	$ 41,709	$ 7,941
Tax at federal statutory rate	14,598	2,779
Tax-exempt investments income	(713)	(1,373)
State tax rate	238	659
Settlements and releases from statute expirations, net	416	(2,383)
True up	1,524	-
Other	(19)	100
	$ 16,044	$ (218)

	2011	2010
Tax at federal statutory rate	35.0 %	35.0 %
Tax-exempt investments income	(1.7)	(17.3)
State tax rate	0.6	8.3
Settlements and releases from statute expirations, net	1.0	(30.0)
True up	3.7	0.0
Other	0.0	1.2
	38.6 %	(2.8)%

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recorded for financial reporting purposes and such amounts as measured in accordance with tax laws. The sources and related tax (benefit) provision of those temporary differences are presented below:

	2011	2010
Deferred income	$ 315	$ (321)
Depreciation	7,302	(801)
NOL and other credit carryforward	250	14
Deferred membership expenses	254	236
Investment adjustments	(757)	(370)
Software amortization	(4,157)	(3,871)
State taxes net of federal tax benefit	705	(4)
Excess Capital Loss	351	(351)
Prepaid assets	62	-
Other	318	(178)
Deferred income (benefit) tax	$ 4,643	$ (5,646)

(in thousands)

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and tax liabilities at December 31, 2011 and 2010 are presented below:

	2011	2010
Deferred tax assets		
Accrued expense	$ 524	$ 744
Deferred income	4,118	4,432
Depreciation	(1,460)	5,843
NOL and other credit carryforward	-	250
Investment adjustments	1,886	1,129
Loss reserve discounting	971	1,099
Excess capital loss	-	351
State taxes net of federal tax benefit	203	908
Other	15	125
	6,257	14,881
Deferred tax liabilities		
Deferred membership expenses	3,703	3,450
Unrealized appreciation of investments	7,356	5,794
Software amortization	-	4,157
Printing supplies expensed for tax	38	329
Prepaid assets	772	710
State deferred taxes net of federal tax benefit	97	-
Other	-	519
	11,966	14,959
Net deferred tax liability	$ (5,709)	$ (78)

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

Balance at January 1, 2011	$ 2,006
Increase related to current year tax positions	-
Increase for tax positions for prior years	1,343
Lapse in statute of limitations	(927)
Balance at December 31, 2011	$ 2,422

Included in the unrecognized tax benefits of $2,422 at December 31, 2011 was $2,422 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, 2011, accruals for the payment of interest and penalties totaled $582.

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 by a range of $300 to $400.

(in thousands)

The Club files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Club is subject to U.S. federal income tax examinations for the tax years ended 2008 through 2010. The Club is subject to state and local tax examination for tax returns filed for the years ended 2007 through 2010. The Club is currently under examination by the California Franchise Tax Board.

The Club has an alternative minimum tax credit of $0 and $250 for the years ended 2011 and 2010, respectively.

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 $11,359 and $1,119 in 2011 and 2010, 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, 2011 are as follows:

Year Ending December 31,		
2012	$	13,110
2013		6,292
2014		5,646
2015		4,447
2016		3,092
Thereafter		6,562
Total minimum rental payments required	$	39,149

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 February 21, 2012, the IE paid a final contractual amount to the Club of $54,132 in relation to transition costs incurred by the Club during the operational separation.

On March 19, 2012, the Club purchased one physical location for a new business venture within AAA NCNU Car Care Plus, Inc., a wholly owned subsidiary for $1,050.

There were no other subsequent events through April 24, 2012, which is the date the financial statements were available to be issued, requiring recognition or disclosure in the financial statements for the year ended December 31, 2011.