

Primerica, Inc.  
Form 10-Q  
November 08, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-34680

Primerica, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 27-1204330  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3120 Breckinridge Boulevard 30099  
Duluth, Georgia  
(Address of principal executive offices) (ZIP Code)

(770) 381-1000  
(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                         | As of November 4, 2011 |
|-------------------------------|------------------------|
| Common Stock, \$.01 Par Value | 73,797,103 shares      |

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Balance Sheets

|   | September 30,<br>2011<br>(unaudited)<br>(In thousands, except per-share<br>amounts) | December 31,<br>2010 |
|---|---|----------------------|
| Assets  |   |                      |
| Investments:  |   |                      |
| Fixed-maturity securities available for sale, at fair value (amortized cost: \$1,949,100 in 2011 and \$1,929,757 in 2010)       | \$2,098,065   | \$2,081,361          |
| Equity securities available for sale, at fair value (cost: \$18,396 in 2011 and \$17,394 in 2010)                               | 22,102  | 23,213               |
| Trading securities, at fair value (cost: \$19,958 in 2011 and \$22,619 in 2010)   | 19,685  | 22,767               |
| Policy loans  | 25,979  | 26,229               |
| Other invested assets   | 14  | 14                   |
| Total investments   | 2,165,845   | 2,153,584            |
| Cash and cash equivalents   | 154,027   | 126,038              |
| Accrued investment income   | 24,372  | 22,328               |
| Due from reinsurers   | 3,819,738   | 3,731,634            |
| Deferred policy acquisition costs, net  | 1,004,545   | 853,211              |
| Premiums and other receivables  | 181,190   | 168,026              |
| Intangible assets   | 72,778  | 75,357               |
| Other assets  | 308,307   | 307,342              |
| Separate account assets   | 2,276,705   | 2,446,786            |
| Total assets  | \$ 10,007,507   | \$ 9,884,306         |
| Liabilities and Stockholders' Equity  |   |                      |
| Liabilities:  |   |                      |
| Future policy benefits  | \$4,557,535   | \$4,409,183          |
| Unearned premiums   | 6,477   | 5,563                |
| Policy claims and other benefits payable  | 242,363   | 229,895              |
| Other policyholders' funds  | 340,986   | 357,253              |
| Note payable  | 300,000   | 300,000              |
| Income taxes  | 136,028   | 136,226              |
| Other liabilities   | 390,297   | 386,182              |
| Payable under securities lending  | 185,483   | 181,726              |
| Separate account liabilities  | 2,276,705   | 2,446,786            |
| Total liabilities   | 8,435,874   | 8,452,814            |
| Stockholders' equity:   |   |                      |
| Common stock of \$.01 par value. Authorized 500,000 in 2011 and 2010 and issued 73,740 shares in 2011 and 72,843 shares in 2010 | 737   | 728                  |
| Paid-in capital   | 898,945   | 883,168              |
| Retained earnings   | 526,847   | 395,057              |
| Accumulated other comprehensive income, net of income tax:  |   |                      |
| Unrealized foreign currency translation gains   | 48,210  | 56,492               |
| Net unrealized investment gains (losses):   |   |                      |

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|   |               |   |              |   |
|---|---------------|---|--------------|---|
| Net unrealized investment gains not other-than-temporarily impaired | 99,257        |   | 98,322       |   |
| Net unrealized investment losses other-than-temporarily impaired    | (2,363        | ) | (2,275       | ) |
| Total stockholders' equity  | 1,571,633     |   | 1,431,492    |   |
| Total liabilities and stockholders' equity                          | \$ 10,007,507 |   | \$ 9,884,306 |   |

See accompanying notes to condensed financial statements.

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Condensed Statements of Income - Unaudited

|  | Three months ended                       |            | Nine months ended |              |     |
|--|--|------------|-------------------|--------------|-----|
|  | September 30,                            |            | September 30,     |              |     |
|  | 2011                                     | 2010       | 2011              | 2010         |     |
|  | (In thousands, except per-share amounts) |            |                   |              |     |
| Revenues:  |  |            |                   |              |     |
| Direct premiums  | \$560,739                                | \$547,444  | \$1,673,689       | \$1,632,744  |     |
| Ceded premiums   | (425,643                                 | ) (437,054 | ) (1,283,445      | ) (1,032,386 | )   |
| Net premiums   | 135,096                                  | 110,390    | 390,244           | 600,358      |     |
| Commissions and fees   | 100,883                                  | 89,737     | 315,697           | 274,652      |     |
| Net investment income  | 27,103                                   | 27,855     | 82,958            | 138,423      |     |
| Realized investment (losses) gains, including other-than-temporary impairment losses | (178                                     | ) 1,015    | 2,184             | 32,445       |     |
| Other, net   | 12,887                                   | 12,239     | 36,155            | 36,598       |     |
| Total revenues   | 275,791                                  | 241,236    | 827,238           | 1,082,476    |     |
| Benefits and expenses:   |  |            |                   |              |     |
| Benefits and claims  | 64,101                                   | 49,811     | 179,008           | 265,670      |     |
| Amortization of deferred policy acquisition costs                                    | 30,532                                   | 23,844     | 83,473            | 138,499      |     |
| Sales commissions  | 46,971                                   | 42,264     | 147,490           | 129,657      |     |
| Insurance expenses   | 15,465                                   | 11,999     | 44,171            | 59,616       |     |
| Insurance commissions  | 4,909                                    | 5,099      | 14,128            | 15,701       |     |
| Interest expense   | 7,000                                    | 6,968      | 20,995            | 13,896       |     |
| Other operating expenses   | 42,962                                   | 39,372     | 124,816           | 140,817      |     |
| Total benefits and expenses  | 211,940                                  | 179,357    | 614,081           | 763,856      |     |
| Income before income taxes   | 63,851                                   | 61,879     | 213,157           | 318,620      |     |
| Income taxes   | 23,250                                   | 22,284     | 76,066            | 113,731      |     |
| Net income   | \$40,601                                 | \$39,595   | \$137,091         | \$204,889    |     |
| Earnings per share:  |  |            |                   |              |     |
| Basic  | \$0.54                                   | \$0.53     | \$1.81            | \$2.73       | (1) |
| Diluted  | \$0.53                                   | \$0.52     | \$1.79            | \$2.70       | (1) |
| Weighted-average shares used in computing earnings per share:                        |  |            |                   |              |     |
| Basic  | 73,658                                   | 72,259     | 73,265            | 72,052       | (1) |
| Diluted  | 74,199                                   | 72,919     | 74,095            | 72,833       | (1) |

(1) Pro forma basis using weighted-average shares, including the shares issued or issuable upon lapse of restrictions following our April 1, 2010 corporate reorganization as though they had been issued and outstanding on January 1, 2010.

## Supplemental disclosures:

|  |          |           |            |             |   |
|--|----------|-----------|------------|-------------|---|
| Total impairment losses  | \$(1,117 | ) \$(268  | ) \$(1,450 | ) \$(12,637 | ) |
| Impairment losses recognized in other comprehensive income before income taxes       | 136      | —         | 136        | 553         |   |
| Net impairment losses recognized in earnings   | (981     | ) (268    | ) (1,314   | ) (12,084   | ) |
| Other net realized investment gains  | 803      | 1,283     | 3,498      | 44,529      |   |
| Realized investment (losses) gains, including other-than-temporary impairment losses | \$(178   | ) \$1,015 | \$2,184    | \$32,445    |   |

See accompanying notes to condensed financial statements.



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## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Statements of Stockholders' Equity - Unaudited

|   | Nine months ended<br>September 30,          |             |
|---|---|-------------|
|   | 2011  | 2010        |
|   | (In thousands, except per-share<br>amounts) |             |
| Common stock:   |   |             |
| Balance, beginning of period  | \$728                                       | \$—         |
| Net issuance of common stock  | 9   | 727         |
| Balance, end of period  | 737   | 727         |
| Paid-in capital:  |   |             |
| Balance, beginning of period  | 883,168                                     | 1,124,096   |
| Share-based compensation  | 19,302                                      | 39,376      |
| Net issuance of common stock  | (9  | ) (727      |
| Net capital contributed (to) from Citi  | (3,516                                      | ) 172,806   |
| Issuance of warrants to Citi  | —   | 18,464      |
| Issuance of note payable to Citi  | —   | (300,000    |
| Tax election under Section 338(h)(10) of the Internal Revenue Code  | —   | (171,339    |
| Balance, end of period  | 898,945                                     | 882,676     |
| Retained earnings:  |   |             |
| Balance, beginning of period  | 395,057                                     | 3,648,801   |
| Net income  | 137,091                                     | 204,889     |
| Dividends to stockholders (\$0.07 per share in 2011 and \$0.01 in 2010)   | (5,301                                      | ) (750      |
| Distributions of warrants to Citi   | —   | (18,464     |
| Distributions to Citi   | —   | (3,491,556  |
| Balance, end of period  | 526,847                                     | 342,920     |
| Accumulated other comprehensive income:   |   |             |
| Balance, beginning of period  | 152,539                                     | 170,876     |
| Change in foreign currency translation adjustment, net of income tax expense of \$0 in 2011 and \$4,630 in 2010   | (8,282                                      | ) 11,034    |
| Change in net unrealized investment gains (losses) during the period, net of income taxes:  |   |             |
| Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of \$710 in 2011 and \$(12,510) in 2010 | 935   | (25,156     |
| Change in net unrealized investment gains (losses) other-than-temporarily impaired, net of income tax expense of \$(48) in 2011 and \$6,973 in 2010                 | (88   | ) 13,237    |
| Balance, end of period  | 145,104                                     | 169,991     |
| Total stockholders' equity  | \$1,571,633                                 | \$1,396,314 |
| See accompanying notes to condensed financial statements.   |   |             |



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## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Statements of Comprehensive Income - Unaudited

|   | Three months ended<br>September 30,<br>2011 |   | 2010     |   | Nine months ended<br>September 30,<br>2011 |   | 2010      |   |
|---|---|---|----------|---|--|---|-----------|---|
|   | (In thousands)                              |   |          |   |  |   |           |   |
| Net income  | \$40,601                                    |   | \$39,595 |   | \$137,091                                  |   | \$204,889 |   |
| Other comprehensive (loss) income before income taxes:                                |   |   |          |   |  |   |           |   |
| Unrealized investment gains (losses):   |   |   |          |   |  |   |           |   |
| Change in unrealized gains on investment securities                                   | (9,839                                      | ) | 39,371   | ) | 2,604                                      | ) | 147,239   | ) |
| Reclassification adjustment for realized investment gains included in net income      | (125  | ) | (911     | ) | (2,419                                     | ) | (32,009   | ) |
| Reclassification adjustment for unrealized gains on investment securities transferred | —   | ) | —        | ) | —  | ) | (132,688  | ) |
| Foreign currency translation adjustments:   |   |   |          |   |  |   |           |   |
| Change in unrealized foreign currency translation gains                               | (12,106                                     | ) | 3,640    | ) | (8,282                                     | ) | 15,665    | ) |
| Total other comprehensive (loss) income before income taxes                           | (22,070                                     | ) | 42,100   | ) | (8,097                                     | ) | (1,793    | ) |
| Income tax (benefit) expense related to items of other comprehensive (loss) income    | (3,486                                      | ) | 14,196   | ) | (662                                       | ) | (908      | ) |
| Other comprehensive (loss) income, net of income taxes                                | (18,584                                     | ) | 27,904   | ) | (7,435                                     | ) | (885      | ) |
| Total comprehensive income  | \$22,017                                    |   | \$67,499 |   | \$129,656                                  |   | \$204,004 |   |
| See accompanying notes to condensed financial statements.                             |   |   |          |   |  |   |           |   |

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Condensed Statements of Cash Flows - Unaudited

|  | Nine months ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2011                               | 2010         |
|  | (In thousands)                     |              |
| Cash flows from operating activities:  |                                    |              |
| Net income   | \$ 137,091                         | \$ 204,889   |
| Adjustments to reconcile net income to cash provided by operating activities:        |                                    |              |
| Change in future policy benefits and other policy liabilities                        | 63,336                             | 72,142       |
| Deferral of policy acquisition costs   | (232,831 )                         | (228,620 )   |
| Amortization of deferred policy acquisition costs                                    | 83,473                             | 138,499      |
| Change in income taxes   | 523                                | (22,795 )    |
| Realized investment gains, including other-than-temporary impairments                | (2,184 )                           | (32,445 )    |
| Accretion and amortization of investments  | (2,330 )                           | (1,735 )     |
| Depreciation and amortization  | 7,856                              | 7,411        |
| Change in due from reinsurers  | (970 )                             | (26,617 )    |
| Change in due to/from affiliates   | —                                  | (44,012 )    |
| Change in premiums and other receivables   | (13,882 )                          | (33,010 )    |
| Trading securities acquired, net   | (6,388 )                           | (7,030 )     |
| Share-based compensation   | 7,724                              | 30,214       |
| Other, net   | (33,988 )                          | (35,405 )    |
| Net cash provided by operating activities  | 7,430                              | 21,486       |
| Cash flows from investing activities:  |                                    |              |
| Available-for-sale investments sold, matured or called:                              |                                    |              |
| Fixed-maturity securities - sold   | 53,445                             | 979,710      |
| Fixed-maturity securities - matured or called  | 299,112                            | 414,262      |
| Equity securities  | 3,026                              | 35,471       |
| Available-for-sale investments acquired:   |                                    |              |
| Fixed-maturity securities  | (329,145 )                         | (702,460 )   |
| Equity securities  | (110 )                             | (5,525 )     |
| Change in policy loans   | 250                                | 826          |
| Purchases of furniture and equipment, net  | (1,634 )                           | (6,577 )     |
| Cash collateral received (returned) on loaned securities, net                        | 3,757                              | (301,336 )   |
| (Purchases) sales of short-term investments using securities lending collateral, net | (3,757 )                           | 301,336      |
| Net cash provided by investing activities  | 24,944                             | 715,707      |
| Cash flows from financing activities:  |                                    |              |
| Dividends to stockholders  | (5,301 )                           | (750 )       |
| Net distributions to Citi  | —                                  | (1,288,391 ) |
| Net cash used in financing activities  | (5,301 )                           | (1,289,141 ) |
| Effect of foreign exchange rate changes on cash                                      | 916                                | 24,185       |
| Change in cash and cash equivalents  | 27,989                             | (527,763 )   |
| Cash and cash equivalents, beginning of period                                       | 126,038                            | 602,522      |
| Cash and cash equivalents, end of period   | \$ 154,027                         | \$ 74,759    |
| See accompanying notes to condensed financial statements.                            |                                    |              |

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PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Financial Statements—Unaudited

(1) Summary of Significant Accounting Policies

Description of Business. Primerica, Inc. (the Parent Company) together with its subsidiaries (collectively, we or the Company) is a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. Our primary subsidiaries include the following entities: Primerica Financial Services, Inc., a general agency and marketing company; Primerica Life Insurance Company (Primerica Life), our principal life insurance company; Primerica Financial Services (Canada) Ltd., a holding company for our Canadian operations, which includes Primerica Life Insurance Company of Canada (Primerica Life Canada); and PFS Investments, Inc., an investment products company and broker-dealer. Primerica Life, domiciled in Massachusetts, owns National Benefit Life Insurance Company (NBLIC), a New York life insurance company. Each of these entities was indirectly wholly owned by Citigroup Inc. (together with its non-Primerica affiliates, Citi) through March 31, 2010.

On March 31, 2010, Primerica Life, Primerica Life Canada and NBLIC entered into significant coinsurance transactions with Prime Reinsurance Company, Inc. (Prime Re) and two affiliates of Citi (collectively, the Citi reinsurers). In April 2010, Citi transferred the legal entities that comprise our business to us and we completed a series of transactions including the distribution of Prime Re to Citi and an initial public offering of our common stock by Citi pursuant to the Securities Act of 1933 (the Offering).

Basis of Presentation. We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect financial statement balances, revenues and expenses and cash flows as well as the disclosure of contingent assets and liabilities. Management considers available facts and knowledge of existing circumstances when establishing the estimates included in our financial statements.

The most significant items that involve a greater degree of accounting estimates and actuarial determinations subject to change in the future are the valuation of investments, deferred policy acquisition costs (DAC), future policy benefit reserves and income taxes. Estimates for these and other items are subject to change and are reassessed by management in accordance with GAAP. Actual results could differ from those estimates.

The accompanying unaudited condensed consolidated and combined financial statements include the accounts of the Company and those entities required to be consolidated or combined under applicable accounting standards. All material intercompany profits, transactions, and balances among the consolidated or combined entities have been eliminated. Financial statements for dates subsequent to or periods beginning after March 31, 2010 have been consolidated while financial statements for periods ended before April 1, 2010 have been combined. These financial statements include those assets, liabilities, revenues, and expenses directly attributable to the Company's operations.

The accompanying unaudited condensed consolidated and combined financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of September 30, 2011 and December 31, 2010, and the statements of income and comprehensive income for the three and nine months ended September 30, 2011 and 2010, and the statements of stockholders' equity and cash flows for the nine months ended September 30, 2011 and 2010. Results of operations for interim periods are not necessarily indicative of results for the entire year and, due to the transactions effected in connection with the Offering, are not necessarily indicative of the results to be expected in future periods.

These unaudited condensed financial statements have been prepared pursuant to the rules and the regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed financial statements should be read in conjunction with the consolidated and combined financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended

December 31, 2010 (the 2010 Annual Report).

Reclassifications. Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications. These reclassifications had no impact on net income or total stockholders' equity.

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Significant Accounting Policies. All significant accounting policies remain unchanged from the 2010 Annual Report.

### Future Application of Accounting Principles

Accounting for Deferred Policy Acquisition Costs. In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26). The update creates a more limited definition than the current guidance, which defines deferred policy acquisition costs as those that vary with, and primarily relate to, the acquisition of insurance contracts. Under the revised definition, deferred acquisition costs include incremental direct costs of successful contract acquisitions that result directly from and are essential to the contract transaction(s) and would not have been incurred had the contract transaction(s) not occurred. All other acquisition-related costs - including unsuccessful acquisition and renewal efforts - will be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and will be charged to expense as incurred. We anticipate retrospectively adopting ASU 2010-26 for our fiscal year beginning January 1, 2012.

Through the nine months ended September 30, 2011, we have deferred approximately \$239.7 million of acquisition costs. Approximately 81% of that amount, or \$193.3 million, relates to agent compensation. Following adoption of this update, we currently do not anticipate a significant change in the amount of agent compensation that we will defer. However, we are still analyzing the impact of this update on several past agent compensation programs, most of which are inactive. If any of these past programs do not meet the new deferral criteria, we will be required to reverse any remaining past deferrals by recognizing the related expenses in the prior periods in which they were incurred.

Through the nine months ended September 30, 2011, we have deferred approximately \$8.9 million of acquisition costs related to sales representative meetings and incentive trips. We believe that these costs will not meet the criteria for deferral following implementation of the update. Therefore, we expect to reverse any remaining prior deferrals and expense future costs in the periods incurred.

Through the nine months ended September 30, 2011, we have deferred approximately \$37.5 million of acquisition costs primarily related to underwriting and processing costs. We are still analyzing which of these costs directly relate to successful policy acquisitions. As such, we are currently unable to quantify the retrospective and prospective impact of this update on these costs.

We also continue to analyze the extent to which this update will reduce DAC and stockholders' equity, as well as the corresponding reduction in amortization of DAC resulting from a retrospective reduction of prior period deferrals. While we currently are unable to quantify the comprehensive impact of adopting this update, we expect that it will have a material adverse effect on our results of operations, as we will be required to accelerate the recognition of certain expenses associated with acquiring life insurance business. The update will have no impact on cash flows or required capital. The update will only impact the timing of expense recognition for certain acquisition costs. For additional information on new accounting pronouncements and their impact, if any, on our financial position or results of operations, see Note 1 of the notes to the consolidated and combined financial statements in our 2010 Annual Report.

### (2) Corporate Reorganization

We were incorporated in Delaware in 2009 by Citi to serve as a holding company for the life insurance and financial product distribution businesses that we have operated for more than 30 years. At such time, we issued 100 shares of common stock to Citi. These businesses, which prior to April 1, 2010 were wholly owned indirect subsidiaries of Citi, were transferred to us on April 1, 2010. In conjunction with our reorganization, we issued to a wholly owned subsidiary of Citi (i) 74,999,900 shares of our common stock (of which 24,564,000 shares of common stock were subsequently sold by Citi in the Offering; 16,412,440 shares of common stock were subsequently sold by Citi in April 2010 to certain private equity funds managed by Warburg Pincus LLC (Warburg Pincus) (the private sale); and 5,021,412 shares of common stock were immediately contributed back to us for equity awards granted to our employees and sales force leaders in connection with the Offering), (ii) warrants to purchase from us an aggregate of

4,103,110 shares of our common stock (which were subsequently transferred by Citi to Warburg Pincus pursuant to the private sale), and (iii) a \$300.0 million note payable due on March 31, 2015 bearing interest at an annual rate of 5.5% (the Citi note). Prior to our corporate reorganization, we had no material assets or liabilities. Upon completion of the corporate reorganization, we became a holding company with our primary asset being the capital stock of our operating subsidiaries and our primary liability being the Citi note.

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## Reinsurance Transactions

As part of the corporate reorganization and prior to completion of the Offering, we formed a new subsidiary, Prime Re, to which we made an initial capital contribution. On March 31, 2010, we entered into a series of coinsurance agreements with the Citi reinsurers. Under these agreements, we ceded between 80% and 90% of the risks and rewards of our term life insurance policies in force at year-end 2009. Because these agreements were part of a business reorganization among entities under common control, they did not generate any deferred gain or loss upon their execution. Concurrent with signing these agreements, we transferred the corresponding account balances in respect of the coinsured policies along with the assets to support the statutory liabilities assumed by the Citi reinsurers. On April 1, 2010, as part of our corporate reorganization, we transferred all of the issued and outstanding capital stock of Prime Re to Citi. Each of the transferred account balances, including the invested assets and the distribution of Prime Re, were transferred at book value with no gain or loss recorded in net income.

Three of the Citi coinsurance agreements satisfy GAAP risk transfer rules. Under these agreements, we ceded between 80% and 90% of our term life future policy benefit reserves, and we transferred a corresponding amount of assets to the Citi reinsurers. These transactions did not impact our future policy benefit reserves. As such, we have recorded an asset for the same amount of risk transferred in due from reinsurers. We also reduced DAC by a corresponding amount, which reduces future amortization expenses. In addition, we are transferring between 80% and 90% of all future premiums and benefits and claims associated with these policies to the corresponding reinsurance entities. We receive ongoing ceding allowances, which are reflected as a reduction to insurance expenses, to cover policy and claims administration expenses as well as certain corporate overhead charges under each of these reinsurance contracts.

A fourth coinsurance agreement relates to a 10% reinsurance transaction that includes an experience refund provision. This agreement does not satisfy GAAP risk transfer rules. As a result, we have accounted for this contract using deposit method accounting and have recognized a deposit asset in other assets on our balance sheet for assets backing the economic reserves. The deposit assets held in support of this agreement were \$52.4 million at September 30, 2011, with no associated liability. We make contributions to the deposit asset during the life of the agreement to fulfill our responsibility of funding the economic reserve. The market return on these deposit assets is reflected in net investment income during the life of the agreement. Prime Re is responsible for ensuring that there are sufficient assets to meet all statutory requirements. We pay Prime Re a 3% finance charge for any statutory reserves required above the economic reserves. This finance charge is reflected in interest expense in our statements of income.

The net impact of these transactions was reflected as an increase in paid-in capital. Because the agreements were executed on March 31, 2010, but transferred the economic impact of the agreements retroactive to January 1, 2010, we recognized the earnings attributable to the underlying policies through March 31, 2010 in our statement of income. The corresponding impact on retained earnings was equally offset by a return of capital to Citi.

## Tax Separation Agreement

During the first quarter of 2010, our federal income tax return was included as part of Citi's consolidated federal income tax return. In March 2010, in anticipation of our corporate reorganization, we entered into a tax separation agreement with Citi. In accordance with the tax separation agreement, Citi is responsible for and shall indemnify and hold the Company harmless from and against any consolidated, combined, affiliated, unitary or similar federal, state or local income tax liability with respect to the Company for any taxable period ending on or before April 2010. After the closing date of the Offering, the Company was no longer part of Citi's consolidated federal income tax return.

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## (3) Segment Information

We have two primary operating segments — Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment. Information regarding assets by segment follows:

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Assets:  |                       |                      |
| Term life insurance segment                      | \$6,068,228           | \$5,738,219          |
| Investment and savings products segment          | 2,456,177             | 2,615,916            |
| Corporate and other distributed products segment | 1,483,102             | 1,530,171            |
| Total assets                                     | \$10,007,507          | \$9,884,306          |

The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, Investment and Savings Products segment assets were as follows:

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Investment and savings products segment assets, excluding separate accounts | \$180,598             | \$170,326            |

Although we do not view our business in terms of geographic segmentation, our Canadian businesses' percentage of total assets were as follows:

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| Canadian assets as a percent of total assets                              | 29%                   | 31%                  |
| Canadian assets as a percent of total assets, excluding separate accounts | 9%                    | 9%                   |

Information regarding operations by segment follows:

|  | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-----------|------------------------------------|-------------|
|  | 2011                                | 2010      | 2011                               | 2010        |
|  | (In thousands)                      |           |                                    |             |
| Revenues:  |                                     |           |                                    |             |
| Term life insurance segment                      | \$141,713                           | \$115,933 | \$410,316                          | \$671,500   |
| Investment and savings products segment          | 97,486                              | 83,874    | 302,918                            | 258,785     |
| Corporate and other distributed products segment | 36,592                              | 41,429    | 114,004                            | 152,191     |
| Total revenues                                   | \$275,791                           | \$241,236 | \$827,238                          | \$1,082,476 |
| Income (loss) before income taxes:               |                                     |           |                                    |             |
| Term life insurance segment                      | \$48,088                            | \$42,582  | \$151,517                          | \$247,044   |
| Investment and savings products segment          | 26,746                              | 26,578    | 88,255                             | 78,760      |
| Corporate and other distributed products segment | (10,983)                            | (7,281)   | (26,615)                           | (7,184)     |
| Total income before income taxes                 | \$63,851                            | \$61,879  | \$213,157                          | \$318,620   |

The increase in total revenues and total income before income taxes for the three months ended September 30, 2011 largely reflects the growth in our Term Life Insurance segment following the Citi reinsurance transactions and growth in our Investment and Savings Products segment. The decline in total revenues and total income before income taxes for the nine months ended September 30, 2011 primarily reflects the effects of the reinsurance and reorganization transactions on the Term Life Insurance and Corporate and Other Distributed Products segments as discussed in Note 2.



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Information regarding operations by country follows:

|  | Three months ended    |           | Nine months ended     |             |
|--|-----------------------|-----------|-----------------------|-------------|
|  | September 30,<br>2011 | 2010      | September 30,<br>2011 | 2010        |
|  | (In thousands)        |           |                       |             |
| Revenues by country:                   |                       |           |                       |             |
| United States                          | \$224,559             | \$200,361 | \$669,871             | \$904,408   |
| Canada                                 | 51,232                | 40,875    | 157,367               | 178,068     |
| Total revenues                         | \$275,791             | \$241,236 | \$827,238             | \$1,082,476 |
| Income before income taxes by country: |                       |           |                       |             |
| United States                          | \$47,769              | \$46,099  | \$163,247             | \$249,951   |
| Canada                                 | 16,082                | 15,780    | 49,910                | 68,669      |
| Total income before income taxes       | \$63,851              | \$61,879  | \$213,157             | \$318,620   |

The contribution to results of operations by our Canadian businesses were as follows:

|  | Three months ended    |      | Nine months ended     |      |
|--|-----------------------|------|-----------------------|------|
|  | September 30,<br>2011 | 2010 | September 30,<br>2011 | 2010 |
| Canadian revenues as a percent of total revenues                                     | 19%                   | 17%  | 19%                   | 16%  |
| Canadian income before income taxes as a percent of total income before income taxes | 25%                   | 26%  | 23%                   | 22%  |

For the nine months ended September 30, 2010, total revenues and total income before income taxes reflected three months of operations prior to the Citi reinsurance and reorganization transactions, a substantial portion of which were recognized by our U.S. operations. As a result, Canadian revenues and income before income taxes accounted for a smaller percentage of total revenues and total income before income taxes in the first nine months of 2010 than in periods following the Citi reinsurance and reorganization transactions.

**(4) Investments**

The period-end cost or amortized cost, gross unrealized gains and losses, and fair value of fixed-maturity and equity securities in our available-for-sale portfolio follow:

|   | September 30, 2011           |                              |                               |               |
|---|------------------------------|------------------------------|-------------------------------|---------------|
|   | Cost or<br>amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value    |
|   | (In thousands)               |                              |                               |               |
| Securities available for sale, carried at fair value: |                              |                              |                               |               |
| Fixed-maturity securities:                            |                              |                              |                               |               |
| U.S. government and agencies                          | \$16,489                     | \$1,104                      | \$—                           | \$17,593      |
| Foreign government                                    | 88,390                       | 11,966                       | (389)                         | ) 99,967      |
| States and political subdivisions                     | 27,283                       | 2,654                        | —                             | ) 29,937      |
| Corporates (1)  | 1,338,339                    | 114,068                      | (8,631)                       | ) 1,443,776   |
| Mortgage- and asset-backed securities                 | 478,599                      | 31,895                       | (3,702)                       | ) 506,792     |
| Total fixed-maturity securities                       | 1,949,100                    | 161,687                      | (12,722)                      | ) 2,098,065   |
| Equity securities                                     | 18,396                       | 4,262                        | (556)                         | ) 22,102      |
| Total fixed-maturity and equity securities            | \$1,967,496                  | \$165,949                    | \$(13,278)                    | ) \$2,120,167 |

(1) Includes \$3.6 million of other-than-temporary impairment losses recognized in AOCI.



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|   | December 31, 2010                              |                              |                               |               |
|---|--|------------------------------|-------------------------------|---------------|
|   | Cost or<br>amortized<br>cost<br>(In thousands) | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value    |
| Securities available for sale, carried at fair value: |  |                              |                               |               |
| Fixed-maturity securities:                            |  |                              |                               |               |
| U.S. government and agencies                          | \$21,596                                       | \$667                        | \$(61)                        | ) \$22,202    |
| Foreign government                                    | 81,367   | 13,182                       | (8)                           | ) 94,541      |
| States and political subdivisions                     | 26,758   | 754                          | (293)                         | ) 27,219      |
| Corporates (1)  | 1,276,906                                      | 112,821                      | (3,806)                       | ) 1,385,921   |
| Mortgage- and asset-backed securities                 | 523,130  | 31,366                       | (3,018)                       | ) 551,478     |
| Total fixed-maturity securities                       | 1,929,757                                      | 158,790                      | (7,186)                       | ) 2,081,361   |
| Equity securities                                     | 17,394   | 5,826                        | (7)                           | ) 23,213      |
| Total fixed-maturity and equity securities            | \$1,947,151                                    | \$164,616                    | \$(7,193)                     | ) \$2,104,574 |

(1) Includes \$3.5 million of other-than-temporary impairment losses recognized in AOCI.

We also maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying value of these securities was as follows:

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Fixed-maturity securities classified as trading, carried at fair value | \$19,685              | \$22,767             |

During the three months ended September 30, 2011, we transferred approximately \$8.9 million of securities from the trading portfolio to the available-for-sale portfolio. Because the securities were transferred at fair value, no gain or loss was recognized.

All of our available-for-sale mortgage- and asset-backed securities represent variable interests in variable interest entities (VIEs). We are not the primary beneficiary of these VIEs, because we do not have the power to direct the activities that most significantly impact the entities' economic performance. The maximum exposure to loss as a result of our involvement in these VIEs equals the carrying value of the securities.

As required by law, the Company has investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were as follows:

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Fair value of investments on deposit with governmental authorities | \$19,113              | \$18,984             |

We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our balance sheet. We also accept collateral in the form of cash, all of which we reinvest. We primarily invest the cash collateral in short-term, highly rated securities. The cash collateral received is reflected as a payable under securities lending on our balance sheet with an offsetting asset in other assets on our balance sheet. Cash collateral received and reinvested was as follows:

|                               | September 30,<br>2011 | December 31,<br>2010 |
|-------------------------------|-----------------------|----------------------|
|                               | (In thousands)        |                      |
| Securities lending collateral | \$185,483             | \$181,726            |



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The scheduled maturity distribution of the available-for-sale fixed-maturity portfolio at September 30, 2011 follows.

|                                       | Amortized cost<br>(In thousands) | Fair value  |
|---------------------------------------|----------------------------------|-------------|
| Due in one year or less               | \$158,718                        | \$161,897   |
| Due after one year through five years | 679,626                          | 722,812     |
| Due after five years through 10 years | 580,943                          | 648,869     |
| Due after 10 years                    | 51,214                           | 57,695      |
|                                       | 1,470,501                        | 1,591,273   |
| Mortgage- and asset-backed securities | 478,599                          | 506,792     |
| Total fixed-maturity securities       | \$1,949,100                      | \$2,098,065 |

Expected maturities may differ from scheduled contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

Investments in fixed-maturity and equity securities with a cost basis in excess of their fair values were as follows:

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Fixed-maturity and equity security investments with cost basis in excess of fair value | \$340,171             | \$258,947            |

The following tables summarize, for all securities in an unrealized loss position, the aggregate fair value and the gross unrealized loss by length of time such securities have continuously been in an unrealized loss position:

|  | September 30, 2011     |                   |                      | 12 months or longer |                   |                      |
|--|------------------------|-------------------|----------------------|---------------------|-------------------|----------------------|
|  | Fair value             | Unrealized losses | Number of securities | Fair value          | Unrealized losses | Number of securities |
|  | (Dollars in thousands) |                   |                      |                     |                   |                      |
| Fixed-maturity securities:                 |                        |                   |                      |                     |                   |                      |
| U.S. government and agencies               | \$—                    | \$—               | —                    | \$—                 | \$—               | —                    |
| Foreign government                         | 10,050                 | (389              | ) 16                 | —                   | —                 | —                    |
| States and political subdivisions          | 338                    | —                 | 1                    | —                   | —                 | —                    |
| Corporates                                 | 219,419                | (8,012            | ) 159                | 2,901               | (619              | ) 4                  |
| Mortgage- and asset-backed securities      | 61,651                 | (1,003            | ) 42                 | 30,274              | (2,699            | ) 20                 |
| Total fixed-maturity securities            | 291,458                | (9,404            | )                    | 33,175              | (3,318            | )                    |
| Equity securities                          | 2,228                  | (551              | ) 9                  | 32                  | (5                | ) 2                  |
| Total fixed-maturity and equity securities | \$293,686              | \$(9,955          | )                    | \$33,207            | \$(3,323          | )                    |

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|  | December 31, 2010      |           |                            | 12 months or longer |                      |                            |
|--|------------------------|-----------|----------------------------|---------------------|----------------------|----------------------------|
|  | Less than 12 months    |           | Number<br>of<br>securities | 12 months or longer |                      | Number<br>of<br>securities |
| Fair value                                 | Unrealized<br>losses   |           |                            | Fair value          | Unrealized<br>losses |                            |
|  | (Dollars in thousands) |           |                            |                     |                      |                            |
| Fixed-maturity securities:                 |                        |           |                            |                     |                      |                            |
| U.S. government and agencies               | \$6,350                | \$(61)    | ) 2                        | \$—                 | \$—                  | —                          |
| Foreign government                         | 2,478                  | (8)       | ) 1                        | —                   | —                    | —                          |
| States and political subdivisions          | 11,015                 | (293)     | ) 29                       | —                   | —                    | —                          |
| Corporates                                 | 151,291                | (2,961)   | ) 104                      | 12,690              | (845)                | ) 14                       |
| Mortgage- and asset-backed securities      | 30,685                 | (365)     | ) 25                       | 37,215              | (2,653)              | ) 20                       |
| Total fixed-maturity securities            | 201,819                | (3,688)   | )                          | 49,905              | (3,498)              | )                          |
| Equity securities                          | —                      | —         | —                          | 30                  | (7)                  | ) 2                        |
| Total fixed-maturity and equity securities | \$201,819              | \$(3,688) | )                          | \$49,935            | \$(3,505)            | )                          |

The net effect on stockholders' equity of unrealized gains and losses from investment securities was as follows:

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Net unrealized investment gains including foreign currency translation adjustment and other-than-temporary impairments:            |                       |                      |
| Fixed-maturity and equity securities   | \$152,671             | \$157,423            |
| Currency swaps   | 40                    | 1,059                |
| Less foreign currency translation adjustment   | (3,644)               | ) (9,600)            |
| Other-than-temporary impairments   | 3,636                 | 3,500                |
| Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments             | 152,703               | 152,382              |
| Less deferred income taxes   | 53,446                | 54,060               |
| Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax | \$99,257              | \$98,322             |
| Investment Income  |                       |                      |

The components of net investment income were as follows:

|   | Three months ended |          | Nine months ended |           |
|---|--------------------|----------|-------------------|-----------|
|   | September 30,      |          | September 30,     |           |
|   | 2011               | 2010     | 2011              | 2010      |
|   | (In thousands)     |          |                   |           |
| Fixed-maturity securities   | \$27,413           | \$28,350 | \$83,888          | \$139,960 |
| Equity securities   | 170                | 189      | 523               | 1,591     |
| Policy loans and other invested assets                              | 441                | 326      | 1,088             | 1,041     |
| Cash and cash equivalents   | 63                 | 103      | 198               | 489       |
| Market return on deposit asset underlying 10% reinsurance agreement | 449                | 624      | 1,608             | 2,175     |
| Gross investment income   | 28,536             | 29,592   | 87,305            | 145,256   |
| Investment expenses   | 1,433              | 1,737    | 4,347             | 6,833     |
| Net investment income   | \$27,103           | \$27,855 | \$82,958          | \$138,423 |



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The components of net realized investment gains (losses) as well as details on gross realized investment gains and losses and proceeds from sales or other redemptions were as follows:

|  | Three months ended |            | Nine months ended |              |
|--|--------------------|------------|-------------------|--------------|
|  | September 30,      |            | September 30,     |              |
|  | 2011               | 2010       | 2011              | 2010         |
|  | (In thousands)     |            |                   |              |
| Gross realized investment gains (losses):  |                    |            |                   |              |
| Gains from sales   | \$ 1,172           | \$ 1,486   | \$ 4,127          | \$ 46,312    |
| Losses from sales  | (66 )              | (307 )     | (394 )            | (2,219 )     |
| Other-than-temporary impairment losses   | (981 )             | (268 )     | (1,314 )          | (12,084 )    |
| (Losses) gains from bifurcated options   | (303 )             | 104        | (235 )            | 436          |
| Net realized investment (losses) gains   | \$(178 )           | \$ 1,015   | \$ 2,184          | \$ 32,445    |
| Gross realized investment gains reclassified from accumulated other comprehensive income | \$ 125             | \$ 911     | \$ 2,419          | \$ 32,009    |
| Proceeds from sales or other redemptions   | \$ 84,975          | \$ 150,427 | \$ 355,583        | \$ 1,429,443 |

**Other-Than-Temporary Impairment**

We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment (OTTI). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity.

Our review for other-than-temporary impairment generally entails:

- Analysis of individual investments that have fair values less than a pre-defined percentage of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position;
- Analysis of corporate fixed-maturity securities by reviewing the issuer's most recent performance to date, including analyst reviews, analyst outlooks and rating agency information;
- Analysis of commercial mortgage-backed securities based on an assessment of performance to date, credit enhancement, risk analytics and outlook, underlying collateral, loss projections, rating agency information and available third-party reviews and analytics;
- Analysis of residential mortgage-backed securities based on loss projections provided by models compared to current credit enhancement levels;
- Analysis of our other fixed-maturity and equity security investments, as required based on the type of investment; and
- Analysis of downward credit migrations that occurred during the quarter.

The amortized cost and fair value of available-for-sale fixed-maturity securities in default were as follows:

|                                      | September 30, 2011 |            | December 31, 2010 |            |
|--------------------------------------|--------------------|------------|-------------------|------------|
|                                      | Amortized cost     | Fair value | Amortized cost    | Fair value |
|                                      | (In thousands)     |            |                   |            |
| Fixed-maturity securities in default | \$ 420             | \$ 870     | \$ 970            | \$ 1,558   |



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Impairment charges recognized in earnings on available-for-sale securities were as follows:

|   | Three months ended    |       | Nine months ended     |          |
|---|-----------------------|-------|-----------------------|----------|
|   | September 30,<br>2011 | 2010  | September 30,<br>2011 | 2010     |
|   | (In thousands)        |       |                       |          |
| Impairments on fixed-maturity securities in default     | \$173                 | \$21  | \$177                 | \$22     |
| Impairments on fixed-maturity securities not in default | 808                   | 137   | 1,132                 | 11,800   |
| Impairments on equity securities                        | —                     | 110   | 5                     | 262      |
| Total impairment charges                                | \$981                 | \$268 | \$1,314               | \$12,084 |

The fixed-maturity and equity securities noted above were considered to be other-than-temporarily impaired due to adverse credit events, such as news of an impending filing for bankruptcy; analyses of the issuer's most recent financial statements or other information in which liquidity deficiencies, significant losses and large declines in capitalization were evident; and analyses of rating agency information for issuances with severe ratings downgrades that indicated a significant increase in the possibility of default. During the nine months ended September 30, 2011, we recognized impairment charges primarily as a result of further declines in the fair value of previously impaired corporate and mortgage-backed securities. During the nine months ended September 30, 2010, we recognized impairments primarily as a result of our intent to sell certain corporate and mortgage-backed securities in anticipation of the reinsurance and reorganization transactions discussed in Note 2.

As of September 30, 2011, the unrealized losses on our invested asset portfolio were largely caused by interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by interest rate movement have little bearing on the recoverability of our investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because we have the ability to hold these investments until a market price recovery or maturity as well as no present intention to dispose of them, we do not consider these investments to be other-than-temporarily impaired.

Net impairment losses recognized in earnings were as follows:

|  | Three months ended    |       | Nine months ended     |          |
|--|-----------------------|-------|-----------------------|----------|
|  | September 30,<br>2011 | 2010  | September 30,<br>2011 | 2010     |
|  | (In thousands)        |       |                       |          |
| Impairment losses related to securities which the Company does not intend to sell or is more-likely-than-not that it will not be required to sell:                                   |                       |       |                       |          |
| Total OTTI losses recognized   | \$360                 | \$—   | \$362                 | \$1,402  |
| Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)  | (136                  | ) —   | (136                  | ) (553   |
| Net impairment losses recognized in earnings for securities that the Company does not intend to sell or is more-likely-than-not that it will not be required to sell before recovery | 224                   | —     | 226                   | 849      |
| OTTI losses recognized in earnings for securities that the Company intends to sell or more-likely-than-not will be required to sell before recovery                                  | 757                   | 268   | 1,088                 | 11,235   |
| Net impairment losses recognized in earnings   | \$981                 | \$268 | \$1,314               | \$12,084 |

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The roll-forward of the credit-related losses recognized in income for all fixed-maturity securities still held at September 30, 2011 follows.

|   | Three months ended    |          | Nine months ended     |           |
|---|-----------------------|----------|-----------------------|-----------|
|   | September 30,<br>2011 | 2010     | September 30,<br>2011 | 2010      |
|   | (In thousands)        |          |                       |           |
| Cumulative OTTI credit losses recognized for securities still held, beginning of period                     | \$39,890              | \$42,611 | \$41,129              | \$98,528  |
| Additions for OTTI securities where no credit losses were recognized prior to the beginning of the period   | 133                   | 123      | 137                   | 9,844     |
| Additions for OTTI securities where credit losses have been recognized prior to the beginning of the period | 848                   | 35       | 1,172                 | 1,978     |
| Reductions due to sales, maturities or calls of credit impaired securities                                  | (119                  | ) (1,350 | ) (1,686              | ) (68,931 |
| Cumulative OTTI credit losses recognized for securities still held, end of period                           | \$40,752              | \$41,419 | \$40,752              | \$41,419  |

**Fair Value**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. All invested assets carried at fair value are classified and disclosed in one of the following three categories:

Level 1. Quoted prices for identical instruments in active markets. Level 1 primarily consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments.

Level 2. Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. Various inputs are considered in deriving the fair value of the underlying financial instrument, including interest rate, credit spread, and foreign exchange rates. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and certain non-exchange-traded derivatives, such as currency swaps and forwards.

Level 3. Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 consists of financial instruments whose fair value is estimated based on industry-standard pricing methodologies and models using significant inputs not based on, nor corroborated by, readily available market information. Valuations for this category primarily consist of non-binding broker quotes. Financial instruments in this category primarily include less liquid fixed-maturity corporate securities.

As of each reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input (level 3 being the lowest) that is significant to the fair value measurement. Significant levels of estimation and judgment are required to determine the fair value of certain of our investments. The factors influencing these estimations and judgments are subject to change in subsequent reporting periods.

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The estimated fair value and hierarchy classifications were as follows:

|                                       | September 30, 2011 |             |          |             |
|---------------------------------------|--------------------|-------------|----------|-------------|
|                                       | Level 1            | Level 2     | Level 3  | Total       |
|                                       | (In thousands)     |             |          |             |
| Fair value assets:                    |                    |             |          |             |
| Fixed-maturity securities:            |                    |             |          |             |
| U.S. government and agencies          | \$—                | \$17,593    | \$—      | \$17,593    |
| Foreign government                    | —                  | 99,967      | —        | 99,967      |
| States and political subdivisions     | —                  | 29,937      | —        | 29,937      |
| Corporates                            | —                  | 1,436,435   | 7,341    | 1,443,776   |
| Mortgage- and asset-backed securities | —                  | 493,126     | 13,666   | 506,792     |
| Total fixed-maturity securities       | —                  | 2,077,058   | 21,007   | 2,098,065   |
| Equity securities                     | 16,382             | 5,669       | 51       | 22,102      |
| Trading securities                    | —                  | 19,685      | —        | 19,685      |
| Separate accounts                     | —                  | 2,276,705   | —        | 2,276,705   |
| Total fair value assets               | \$16,382           | \$4,379,117 | \$21,058 | \$4,416,557 |
| Fair value liabilities:               |                    |             |          |             |
| Currency swaps                        | \$—                | \$2,343     | \$—      | \$2,343     |
| Separate accounts                     | —                  | 2,276,705   | —        | 2,276,705   |
| Total fair value liabilities          | \$—                | \$2,279,048 | \$—      | \$2,279,048 |
|                                       | December 31, 2010  |             |          |             |
|                                       | Level 1            | Level 2     | Level 3  | Total       |
|                                       | (In thousands)     |             |          |             |
| Fair value assets:                    |                    |             |          |             |
| Fixed-maturity securities:            |                    |             |          |             |
| U.S. government and agencies          | \$—                | \$22,202    | \$—      | \$22,202    |
| Foreign government                    | —                  | 94,541      | —        | 94,541      |
| States and political subdivisions     | —                  | 27,219      | —        | 27,219      |
| Corporates                            | —                  | 1,366,774   | 19,147   | 1,385,921   |
| Mortgage- and asset-backed securities | —                  | 549,188     | 2,290    | 551,478     |
| Total fixed-maturity securities       | —                  | 2,059,924   | 21,437   | 2,081,361   |
| Equity securities                     | 15,110             | 4,542       | 3,561    | 23,213      |
| Trading securities                    | —                  | 22,767      | —        | 22,767      |
| Separate accounts                     | —                  | 2,446,786   | —        | 2,446,786   |
| Total fair value assets               | \$15,110           | \$4,534,019 | \$24,998 | \$4,574,127 |
| Fair value liabilities:               |                    |             |          |             |
| Currency swaps                        | \$—                | \$2,228     | \$—      | \$2,228     |
| Separate accounts                     | —                  | 2,446,786   | —        | 2,446,786   |
| Total fair value liabilities          | \$—                | \$2,449,014 | \$—      | \$2,449,014 |

In assessing fair value of our investments, we use a third-party pricing service for approximately 95% of our securities. The remaining securities are primarily thinly traded securities valued using models based on observable inputs on public corporate spreads having similar tenors (e.g., sector, average life and quality rating) and liquidity and yield based on quality rating, average life and treasury yields. All observable data inputs are corroborated by independent third-party data. In the absence of sufficient observable inputs, we utilize non-binding broker quotes, which are reflected in our Level 3 classification.

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We perform reasonableness assessments on fair value determinations within our portfolio. If a fair value appears unusual, we will re-examine the inputs and may challenge a fair value assessment made by the pricing service. If there is a known pricing error, we will request a reassessment by the pricing service. If the pricing service is unable to perform the reassessment on a timely basis, we will determine the appropriate price by requesting a reassessment from an alternative pricing service or other qualified source as necessary. We do not adjust quotes or prices except in a rare circumstance to resolve a known error.

Because many fixed-maturity securities do not trade on a daily basis, fair value is determined using industry-standard methodologies by applying available market information through processes such as U.S. Treasury curves, benchmarking of similar securities, sector groupings, quotes from market participants and matrix pricing. Observable information is compiled and integrates relevant credit information, perceived market movements and sector news. Additionally, security prices are periodically back-tested to validate and/or refine models as conditions warrant. Market indicators and industry and economic events are also monitored as triggers to obtain additional data. For certain structured securities with limited trading activity, industry-standard pricing methodologies use adjusted market information, such as index prices or discounting expected future cash flows, to estimate fair value. If these measures are not deemed observable for a particular security, the security will be classified as Level 3 in the fair value hierarchy.

Where specific market information is unavailable for certain securities, pricing models produce estimates of fair value primarily using Level 2 inputs along with certain Level 3 inputs. These models include matrix pricing. The pricing matrix uses current treasury rates and credit spreads received from third-party sources to estimate fair value. The credit spreads incorporate the issuer's industry- or issuer-specific credit characteristics and the security's time to maturity, if warranted. Remaining un-priced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of non-binding broker quotes.

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. There were no significant transfers between Level 1 and Level 2 during the three- and nine-month periods ended September 30, 2011 and 2010. The roll-forward of the Level 3 asset category was as follows:

|   | Three months ended<br>September 30,<br>2011 |          | Nine months ended<br>September 30,<br>2010 |            |
|---|---|----------|--|------------|
|   | 2011  | 2010     | 2011                                       | 2010       |
|   | (In thousands)                              |          |  |            |
| Level 3 assets, beginning of period   | \$12,265                                    | \$25,555 | \$24,998                                   | \$771,271  |
| Net unrealized losses through other comprehensive income                      | (454  | ) 1,295  | (735                                       | ) (1,891   |
| Net realized gains (losses) through realized investment gains, including OTTI | 158   | (955     | ) 1,624                                    | (145       |
| Purchases   | 13,609                                      | 5,203    | 17,609                                     | 7,573      |
| Sales   | —   | (4,007   | ) (3,823                                   | ) (36,932  |
| Settlements   | (193  | ) —      | (1,655                                     | ) —        |
| Transfers into level 3  | 488   | 728      | 4,991                                      | 41,518     |
| Transfers out of level 3  | (4,815                                      | ) (3,761 | ) (21,951                                  | ) (234,964 |
| Transfers due to funding of reinsurance transactions                          | —   | —        | —  | (522,372   |
| Level 3 assets, end of period   | \$21,058                                    | \$24,058 | \$21,058                                   | \$24,058   |

Level 3 purchases in the third quarter of 2011 reflect newly issued securities for which we were unable to obtain an independent pricing quote as of September 30, 2011. These securities were subsequently priced early in the fourth quarter of 2011 using Level 2 inputs. They will be transferred to Level 2 in the fourth quarter of 2011.



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Invested assets included in the transfer from Level 2 to Level 3 in both the three and nine month periods ended September 30, 2011 and 2010 primarily were fixed-maturity investments for which we were unable to corroborate independent broker quotes with observable market data. Invested assets included in the transfer from Level 3 to Level 2 in the three months ended September 30, 2011 and 2010 primarily were fixed-maturity investments for which we were able to corroborate independent broker quotes with observable market data. Invested assets included in the transfer from Level 3 to Level 2 during the nine months ended September 30, 2011 primarily were fixed-maturity investments with embedded options for which we were able to obtain independent pricing quotes based on observable inputs. Invested assets included in the transfer from Level 3 to Level 2 during the nine months ended September 30, 2010 primarily were non-agency mortgage-backed securities. There were no significant transfers between Level 1 and Level 3 during the three- and nine-month periods ended September 30, 2011 and 2010.

**Derivatives**

We use foreign currency swaps to reduce our foreign exchange risk due to direct investment in foreign currency-denominated debt securities. The aggregate notional balance and fair value of these currency swaps follow.

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Aggregate notional balance of currency swaps | \$5,878               | \$5,878              |
| Aggregate fair value of currency swaps       | (2,343                | ) (2,228 )           |

The change in fair value of these currency swaps is reflected in other comprehensive income as they effectively hedge the variability in cash flows from these foreign currency-denominated debt securities.

The embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains, including OTTI losses. The fair value of these bifurcated options follows.

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Aggregate fair value of embedded conversion options | \$5,665               | \$3,269              |

We have a deferred loss related to closed forward contracts that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was as follows:

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Deferred loss related to closed forward contracts | \$26,385              | \$26,385             |

While we have no current intention to do so, these deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations.

**Fair Value Option**

In connection with our corporate reorganization, in the first quarter of 2010, we transferred to Citi or sold to third parties all of the securities that had previously been accounted for using the fair value option. On January 1, 2010, these securities had a fair value of approximately \$7.7 million. Fair value gains included in net investment income for the nine months ended September 30, 2010 were approximately \$667,000.

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## (5) Financial Instruments

The carrying values and estimated fair values of our financial instruments were as follows:

|  | September 30, 2011 |                      | December 31, 2010 |                      |
|--|--------------------|----------------------|-------------------|----------------------|
|  | Carrying value     | Estimated fair value | Carrying value    | Estimated fair value |
|  | (In thousands)     |                      |                   |                      |
| Assets:  |                    |                      |                   |                      |
| Fixed-maturity securities                          | \$2,098,065        | \$2,098,065          | \$2,081,361       | \$2,081,361          |
| Equity securities                                  | 22,102             | 22,102               | 23,213            | 23,213               |
| Trading securities                                 | 19,685             | 19,685               | 22,767            | 22,767               |
| Policy loans                                       | 25,979             | 25,979               | 26,229            | 26,229               |
| Other invested assets                              | 14                 | 14                   | 14                | 14                   |
| Deposit asset underlying 10% reinsurance agreement | 52,446             | 52,446               | 50,099            | 50,099               |
| Separate accounts                                  | 2,276,705          | 2,276,705            | 2,446,786         | 2,446,786            |
| Liabilities:                                       |                    |                      |                   |                      |
| Note payable                                       | \$300,000          | \$324,818            | \$300,000         | \$323,670            |
| Currency swaps                                     | 2,343              | 2,343                | 2,228             | 2,228                |
| Separate accounts                                  | 2,276,705          | 2,276,705            | 2,446,786         | 2,446,786            |

The fair values of financial instruments presented above are estimates of the fair values at a specific point in time using various sources and methods, including market quotations and a complex matrix system that takes into account issuer sector, quality, and spreads in the current marketplace.

Estimated fair values of investments in fixed-maturity securities are principally a function of current spreads and interest rates that are corroborated by independent third-party data. Therefore, the fair values presented are indicative of amounts we could realize or settle at the respective balance sheet date. We do not necessarily intend to dispose of or liquidate such instruments prior to maturity. Trading securities, which primarily consist of fixed-maturity securities, are carried at fair value. Equity securities, including common and non-redeemable preferred stocks, are carried at fair value. The carrying value of policy loans and other invested assets approximates fair value. The fair value of our note payable is based on prevailing interest rates and an estimated spread based on notes of comparable issuers and maturity. Currency swaps are stated at fair value. Segregated funds in separate accounts are carried at the underlying value of the variable insurance contracts, which is fair value.

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximate their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the above table.

## (6) Reinsurance

Reinsurance ceded arrangements do not relieve the Company of its primary obligation to the policyholder. We monitor the concentration of credit risk we have with any reinsurer, as well as the financial condition of the reinsurers. Details on in-force life insurance follow.

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
|   | (Dollars in millions) |                      |
| Direct life insurance in force                  | \$671,429             | \$662,135            |
| Amounts ceded to other companies                | (600,306)             | (600,807)            |
| Net life insurance in force                     | \$71,123              | \$61,328             |
| Percentage of reinsured life insurance in force | 89                    | % 91                 |

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Due from reinsurers includes ceded reserve balances and ceded claim liabilities. Reinsurance receivable and financial strength ratings by reinsurer were as follows:

|  | September 30, 2011                         |                     | December 31, 2010         |                     |
|--|--|---------------------|---------------------------|---------------------|
|  | Reinsurance<br>receivable<br>(In millions) | A.M. Best<br>rating | Reinsurance<br>receivable | A.M. Best<br>rating |
| Prime Reinsurance Company (1)                  | \$2,420                                    | NR                  | \$2,353                   | NR                  |
| Financial Reassurance Company 2010, Ltd. (1)   | 326  | NR                  | 333                       | NR                  |
| American Health and Life Insurance Company (1) | 163  | A                   | 156                       | A                   |
| Due from related party reinsurers              | 2,909                                      |                     | 2,842                     |                     |
| Swiss Re Life & Health America Inc.            | 246  | A                   | 242                       | A                   |
| SCOR Global Life Reinsurance Companies         | 143  | A                   | 139                       | A                   |
| Generali USA Life Reassurance Company          | 115  | A                   | 112                       | A                   |
| Transamerica Reinsurance Companies             | 103  | A+                  | 103                       | A+                  |
| Munich American Reassurance Company            | 99   | A+                  | 97                        | A+                  |
| Korean Reinsurance Company                     | 85   | A                   | 83                        | A-                  |
| RGA Reinsurance Company                        | 68   | A+                  | 64                        | A+                  |
| All other reinsurers                           | 52   | —                   | 50                        | —                   |
| Due from reinsurers (2)                        | \$3,820                                    |                     | \$3,732                   |                     |

NR – not rated

(1) Amounts shown are net of their share of the reinsurance recoverable from other reinsurers.

(2) Totals may not add due to rounding.

In October 2010, a routine reinsurance audit identified payments to reinsurers that exceeded our obligations under our reinsurance agreements. We were uncertain of our ability to recover past ceded premiums, but in the fourth quarter of 2010, we approached our reinsurers and reached agreements to recover certain of these past ceded premiums for post-issue underwriting class upgrades. As a result, in the first quarter of 2011 we reduced ceded premiums by approximately \$8.7 million related to agreements obtained with certain reinsurers to recover ceded premiums. The \$8.7 million of recoveries recognized during the nine months ended September 30, 2011 reflects the agreements signed in 2011. Further recoveries, if any, are not expected to be significant.

(7) Note Payable

In April 2010, we issued to Citi a \$300.0 million note as part of our corporate reorganization in which Citi transferred to us the businesses that comprise our operations. Prior to the issuance of the Citi note, we had no outstanding debt. The Citi note bears interest at an annual rate of 5.5%, payable semi-annually in arrears on January 15 and July 15, and matures March 31, 2015. We have the option to redeem the Citi note in whole or in part at a redemption price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest to the date of redemption. In the event of a change in control, the holder of the Citi note has the right to require us to repurchase it at a price equal to 101% of the outstanding principal amount plus accrued and unpaid interest.

The Citi note also requires us to use our commercially reasonable efforts to arrange and consummate an offering of investment-grade debt securities, trust preferred securities, surplus notes, hybrid securities or convertible debt that generates sufficient net cash proceeds to repay the note in full at certain mutually agreeable dates, based on certain conditions.

We were in compliance with all of the covenants of the Citi note at September 30, 2011. No events of default or defaults occurred during the nine months ended September 30, 2011.



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## (8) Stockholders' Equity

Prior to April 1, 2010, we had 100 shares of outstanding common stock. In the second quarter of 2010, we issued common stock as part of our corporate reorganization (see Note 2). A reconciliation of the number of shares of our common stock follows.

|   | Nine months ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2011                               | 2010 (1) |
|   | (In thousands)                     |          |
| Common stock, beginning of period   | 72,843                             | —        |
| Shares issued to Citi in connection with the Offering                     | —                                  | 75,000   |
| New shares of common stock issued, net                                    | 348                                | 9        |
| Shares of common stock issued upon lapse of restricted stock units (RSUs) | 718                                | 8        |
| Common stock retired  | (169                               | ) —      |
| Treasury stock retired  | —                                  | (2,290   |
| Common stock, end of period   | 73,740                             | 72,727   |

(1) Period following our corporate reorganization and initial public offering on April 1, 2010

The above reconciliation excludes RSUs which do not have voting rights and are subject to sale restrictions. As the restrictions lapse during the three years following the issuance of the RSUs, we will issue common shares with voting rights. As of September 30, 2011, we had a total of approximately 3.1 million RSUs outstanding, including approximately 418,600 RSUs granted during the nine months ended September 30, 2011.

As of September 30, 2011, Citi owned approximately 23% of our outstanding common stock and Warburg Pincus owned approximately 22% of our outstanding common stock.

## (9) Earnings Per Share (EPS)

Primerica has outstanding common shares, warrants, and equity awards. Both the vested and unvested equity awards maintain non-forfeitable dividend rights that result in dividend payment obligations on a one-to-one ratio with common shares for any future dividend declarations. These equity awards are deemed participating securities for purposes of calculating EPS. As a result, we calculate EPS using the two-class method. Under the two-class method, we allocate earnings to common shares and to fully vested equity awards. Earnings attributable to unvested equity awards, along with the corresponding share counts, are excluded from EPS as reflected in our consolidated statements of income.

In calculating basic EPS, we deduct any dividends and undistributed earnings allocated to unvested equity awards from net income and then divide the result by the weighted-average number of common shares and fully vested equity awards outstanding for the period. We determine the potential dilutive effect of warrants on EPS using the treasury-stock method. Under this method, we utilize the exercise price to determine the amount of cash that would be available to repurchase shares if the warrants were exercised. We then use the average market price of our common shares during the reporting period to determine how many shares we could repurchase with the cash raised from the exercise. The net incremental share count issued represents the potential dilutive securities. We then reallocate earnings to common shares and fully vested equity awards incorporating the increased, fully diluted share count to determine diluted EPS.

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The calculation of basic and diluted EPS follows.

|  | Three months ended<br>September 30,<br>2011 |          | 2010      |           | Nine months ended<br>September 30,<br>2011 |   | 2010 (1) |   |
|--|---|----------|-----------|-----------|--|---|----------|---|
|  | (In thousands, except per-share amounts)    |          |           |           |  |   |          |   |
| Basic EPS:   |   |          |           |           |  |   |          |   |
| Numerator:   |   |          |           |           |  |   |          |   |
| Net income   | \$40,601                                    | \$39,595 | \$137,091 | \$204,889 |  |   |          |   |
| Income attributable to unvested participating securities | (1,144)                                     | (1,540)  | (4,341)   | (8,305)   | )  | ) | )        | ) |
| Net income used in calculating basic EPS                 | \$39,457                                    | \$38,055 | \$132,750 | \$196,584 |  |   |          |   |
| Denominator:   |   |          |           |           |  |   |          |   |
| Weighted-average vested shares                           | 73,658                                      | 72,259   | 73,265    | 72,052    |  |   |          |   |
| Basic EPS  | \$0.54                                      | \$0.53   | \$1.81    | \$2.73    |  |   |          |   |
| Diluted EPS:   |   |          |           |           |  |   |          |   |
| Numerator:   |   |          |           |           |  |   |          |   |
| Net income   | \$40,601                                    | \$39,595 | \$137,091 | \$204,889 |  |   |          |   |
| Income attributable to unvested participating securities | (1,136)                                     | (1,527)  | (4,295)   | (8,219)   | )  | ) | )        | ) |
| Net income used in calculating diluted EPS               | \$39,465                                    | \$38,068 | \$132,796 | \$196,670 |  |   |          |   |
| Denominator:   |   |          |           |           |  |   |          |   |
| Weighted-average vested shares                           | 74,199                                      | 72,919   | 74,095    | 72,833    |  |   |          |   |
| Diluted EPS  | \$0.53                                      | \$0.52   | \$1.79    | \$2.70    |  |   |          |   |

(1) Pro forma basis using weighted-average shares, including the shares issued or issuable upon lapse of restrictions following our April 1, 2010 corporate reorganization as though they had been issued and outstanding on January 1, 2010.

(10) Share-Based Transactions

As of September 30, 2011, the Company had outstanding equity awards under its Omnibus Incentive Plan (OIP). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, unrestricted stock as well as cash-based awards. In addition to time-based vesting requirements, awards granted under the OIP also may be subject to specified performance criteria. As of September 30, 2011, we had 4.6 million shares available for future grants under this plan.

All outstanding management awards have time-based vesting requirements, vesting over three years. In connection with our granting of management equity awards, we recognized expense and tax benefit offsets as follows:

|  | Three months ended<br>September 30,<br>2011 |         | 2010     |         | Nine months ended<br>September 30,<br>2011 |  | 2010 |  |
|--|---|---------|----------|---------|--|--|------|--|
|  | (In thousands)                              |         |          |         |  |  |      |  |
| Management equity award expense                      | \$4,129                                     | \$3,076 | \$11,762 | \$6,155 |  |  |      |  |
| Tax benefit associated with management equity awards | 1,413                                       | 1,059   | 4,052    | 2,118   |  |  |      |  |

Management equity award expense reflects vesting activity related to management IPO shares granted on April 1, 2010 as well as vesting activity for approximately 354,500 shares granted on February 22, 2011 at \$25.80, less a nominal forfeiture adjustment. As of September 30, 2011, total compensation cost not yet recognized in our financial statements related to management equity awards was \$27.0 million, all of which was related to equity awards with time-based vesting conditions yet to be reached. We expect to recognize these amounts over a weighted-average period of approximately 1.8 years.

Additionally, for the nine months ended September 30, 2010, we recognized approximately \$22.4 million of expense in connection with the IPO shares granted to certain of our sales force leaders in April 2010. This expense was

partially offset by a tax benefit of approximately \$7.1 million.

Certain quarterly incentive awards to our sales force leaders have performance-based vesting requirements for

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which the granting and the service period occur within the same calendar quarter. These awards are granted in the form of RSUs which vest upon the conclusion of the quarterly contest and are subject to sale restrictions expiring over the three years subsequent to vesting. Because the awards are subject to sale restrictions following their vesting, their fair value is discounted to reflect a corresponding illiquidity discount. These awards vary with and primarily relate to acquiring life insurance policies and therefore are deferred and amortized in the same manner as other deferred policy acquisition costs. We deferred the following amounts in connection with these awards thereby increasing DAC on our balance sheet.

|   | Three months ended<br>September 30,<br>2011 |         | Nine months ended<br>September 30,<br>2011 |         |
|---|---|---------|--|---------|
|   | 2010  | 2010    | 2011                                       | 2010    |
|   | (In thousands)                              |         |  |         |
| Quarterly incentive awards expense deferred | \$2,480                                     | \$2,893 | \$6,765                                    | \$8,682 |

All of our outstanding equity awards are eligible for dividends or dividend equivalents regardless of vesting status.

**(11) Commitments and Contingent Liabilities**

In September 2011, we signed an agreement to lease a new build-to-suit facility which will replace and consolidate substantially all of our existing Duluth, Georgia-based executive and home office (EHO) operations. We expect the building to be complete and ready for occupancy in the second quarter of 2013. The initial lease term will be 15 years with estimated minimum annual rental payments ranging from approximately \$4.5 million at inception to approximately \$5.6 million in year 15. The leases covering our existing Duluth, Georgia-based EHO operations will terminate in the second quarter of 2013. As such, we do not expect a material increase in our annual operating lease expenditures.

The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. As such, the Company is unable to estimate the possible loss or range of loss that may result from these matters. While it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's financial position, based on information currently known by the Company's management, in management's opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect.

**(12) Related Party Transaction**

In April 2011, we entered into an agreement with Citi relating to an underwritten public offering of 12,000,000 shares of our common stock sold by Citi. We did not receive any proceeds from the sale of these shares. The shares were issued and sold pursuant to our shelf registration statement on Form S-3. As required by the registration rights agreement that we executed with Citi at the time of our initial public offering, we incurred approximately \$1.2 million of expenses on behalf of Citi in connection with this public offering.

**(13) Subsequent Events**

In September 2011, Primerica Life requested approval for an extraordinary dividend in the amount of \$200.0 million from the Massachusetts Division of Insurance (MDOI). In October 2011, we received notification that the MDOI had approved Primerica Life's request to pay a \$200.0 million dividend to the Parent Company. On November 8, 2011, Primerica Life paid the \$200.0 million cash dividend to the Parent Company. The dividend was funded via sales of invested assets and available cash.

On November 1, 2011, we executed an agreement with Citi to repurchase approximately 8.9 million shares of our common stock at a price of \$22.42 per share, for a total purchase price of approximately \$200.0 million (the repurchase transaction). The per-share purchase price was determined based on the volume-weighted average price per share of Primerica common stock since October 24, 2011. The repurchase transaction is expected to be completed on November 15, 2011 and, in connection therewith, Citi has agreed to a 30-day lockup of its remaining shares (subject to certain limited exceptions). Following the repurchase transaction, Citi will own approximately 12% of Primerica's outstanding common stock. We expect to fund the repurchase transaction with the funds made available by Primerica Life's dividend to the Parent Company.



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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the "Parent Company") and its subsidiaries (collectively, "we" or the "Company") for the period from December 31, 2010 to September 30, 2011. As a result, the following discussion should be read in conjunction with MD&A and the consolidated and combined financial statements and notes that are included in our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Annual Report"). This discussion contains forward-looking statements that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to those discussed under the heading "Risk Factors" in the preliminary prospectus supplement dated April 12, 2011 filed as an exhibit to our Current Report on Form 8-K dated April 12, 2011, as supplemented by this Quarterly Report on Form 10-Q. Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

• The Transactions

• Business Overview

• Regulatory Environment

• Critical Accounting Estimates

• Factors Affecting Our Results

• Results of Operations

• Financial Condition

• Liquidity and Capital Resources

The Transactions

We refer to the corporate reorganization, the reinsurance transactions, the concurrent transactions and the private sale collectively as the "Transactions." For additional information, see the section of MD&A entitled "The Transactions" included in our 2010 Annual Report.

Business Overview

We are a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We have two primary operating segments, Term Life Insurance and Investment and Savings Products, and a third segment, Corporate and Other Distributed Products.

Term Life Insurance. We distribute the term life insurance products that we originate through our three life insurance company subsidiaries: Primerica Life Insurance Company ("Primerica Life"); National Benefit Life Insurance Company ("NBLIC"); and Primerica Life Insurance Company of Canada ("Primerica Life Canada"). Our in-force term insurance policies have level premiums for the stated term period. As such, the policyholder pays the same amount each year. Initial policy term periods are between 10 and 35 years. Policies with 20-year terms or more accounted for approximately 84% of the face amount of the policies we issued during the nine months ended September 30, 2011. The average face amount of our policies issued during the nine months ended September 30, 2011 was approximately \$249,800. While premiums are guaranteed to remain level during the initial term period (up to a maximum of 20 years in the United States), our claim obligations generally increase as our policyholders age. In addition, we incur significant upfront costs in acquiring new insurance business. Our deferral and amortization of policy acquisition costs and reserving methodology are designed to match the recognition of premium revenues with the timing of upfront acquisition costs and the payment of claims obligations, such that profits are realized ratably with the level premiums of the underlying policies.

Our Term Life Insurance segment results are primarily driven by sales and policies in force, accuracy of our pricing assumptions, terms and use of reinsurance, investment income, and expenses. As a result of the Citi reinsurance transactions, following the first quarter of 2010, the revenues and earnings of our Term Life Insurance segment



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initially declined in proportion to the amount of revenues and earnings historically associated with the book of term life insurance policies that we ceded to the Citi reinsurers. As we have added new in-force business, revenues and earnings of our Term Life Insurance segment have grown from these initial levels. We expect the rate of revenue and earnings growth in periods following the Citi reinsurance transactions to decelerate with each successive financial period as the size of our in-force book grows and incremental sales have a reduced marginal effect on the size of the then-existing in-force book.

**Investment and Savings Products.** We distribute mutual funds, annuities and segregated funds. In the United States, we distribute mutual fund products of several third-party companies and variable and fixed annuity products of MetLife, Inc., and its affiliates. In Canada, we offer our own Primerica-branded mutual funds, as well as mutual funds of other companies, and segregated funds, which are underwritten by Primerica Life Canada. Revenues associated with these products consist of commissions and fees earned at the time of sale, fees based on the asset values of client accounts and recordkeeping and custodial fees charged on a per-account basis.

Results in our Investment and Savings Products segment are driven by sales of mutual funds and annuities, the value of assets in client accounts for which we earn ongoing service and distribution fees and the number of fee generating accounts for which we provide administration functions or retirement plan custodial services. While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period are affected by changes in the overall mix of products within these broad categories.

**Corporate and Other Distributed Products.** Our Corporate and Other Distributed Products segment consists primarily of revenues and expenses related to other distributed products, including loans, various insurance products, prepaid legal services and a credit information product. These products are distributed pursuant to distribution arrangements with third parties, except for certain life and disability insurance products underwritten by our New York life insurance subsidiary, NBLIC, that are not distributed through our sales force. In addition, our Corporate and Other Distributed Products segment includes corporate income (including net investment income) and expenses not allocated to other segments, interest expense on the Citi note and realized gains and losses on our invested asset portfolio.

### **Regulatory Environment**

In October 2010, the Department of Labor (the "DOL") published a proposed rule (the "DOL Proposed Rule") that would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of Internal Revenue Code Section 4975 ("IRC Section 4975"). Under IRC Section 4975, certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including IRAs, may be prohibited. In September 2011, the DOL withdrew the DOL Proposed Rule, but has indicated that it will re-propose a similar fiduciary rule in early 2012. If PFS Investments Inc. and its securities-licensed representatives are deemed to be fiduciaries under a rule similar to the DOL Proposed Rule, our ability to receive and retain certain types of compensation paid by third parties with respect to both new and existing assets in qualified accounts could be significantly limited. Furthermore, our licensed representatives could be required to obtain additional securities licenses, which they may not be willing or able to obtain. Due to the uncertainty of present facts and circumstances, we currently are unable to determine the impact, if any, on our business, financial position or results of operations.

In July, 2011, the New York State Insurance Department (the "NYSID") sent industry-wide inquiries to insurers, including NBLIC, instructing them to cross-check the U.S. Social Security Administration's Death Master File against the insurer's records and report findings to the NYSID. NBLIC has filed its first report in response to the inquiry. Other jurisdictions have or may issue similar industry-wide inquiries. Due to the uncertainty of present facts and circumstances, we currently are unable to determine the impact, if any, on our business, financial position or results of operations.

### **Critical Accounting Estimates**

We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting



policies are described in Note 1 to our consolidated and combined financial statements included in our 2010 Annual Report. The most significant items on the balance sheet are based on fair value determinations, accounting estimates and actuarial determinations which are susceptible to changes in future periods and which affect our results of operations and financial position.

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The estimates that we deem to be most critical to an understanding of our results of operations and financial position are those related to the valuation of investments, reinsurance, deferred policy acquisition costs, future policy benefit reserves, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. Subsequent experience or use of other assumptions could produce significantly different results.

During the nine months ended September 30, 2011, there have been no changes in the items that we have identified as critical accounting estimates. For additional information, see the Critical Accounting Estimates section of MD&A included in our 2010 Annual Report.

**Accounting for Deferred Policy Acquisition Costs.** In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26). ASU 2010-26 creates a more limited definition than the current guidance, which defines deferred policy acquisition costs as those that vary with, and primarily relate to, the acquisition of insurance contracts. Under the revised definition, deferred acquisition costs include incremental direct costs of successful contract acquisitions that result directly from and are essential to the contract transaction(s) and would not have been incurred had the contract transaction(s) not occurred. All other acquisition-related costs - including unsuccessful acquisition and renewal efforts - will be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and will be charged to expense as incurred. We anticipate retrospectively adopting ASU 2010-26 for our fiscal year beginning January 1, 2012. For additional information, see Note 1 of the notes to our financial statements.

### Factors Affecting Our Results

#### Economic Environment

The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits' perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels remain under pressure, as consumers take a more conservative financial posture including reevaluating their savings and debt management plans. As overall market and economic conditions have improved in recent periods, sales and the value of consumer investment products across a wide spectrum of asset classes have improved. The effects of these trends and conditions are discussed in the Segment Results section below.

#### Recruiting and Sales Representatives

Our ability to increase the size of our sales force is largely based on the success of our recruiting efforts and our ability to train and motivate recruits to obtain licenses to sell life insurance. We believe that recruitment levels are an important advance indicator of sales force trends, and growth in recruiting is usually indicative of future growth in the overall size of the sales force. However, because new recruits may not obtain the requisite licenses, recruiting results do not always result in proportionate increases in the size of our licensed sales force.

For the three months ended September 30, 2011, recruiting increased by 43% to 83,074 new recruits, compared with 58,178 for the three months ended September 30, 2010. This recruiting surge was driven by momentum generated at and following our June 2011 convention. We believe that this performance measure also benefited from the promotion lowering the Independent Business Application ("IBA") licensing fee charged to new recruits from \$99 to \$50 through the end of July 2011 and new product and field technology initiatives. For the nine months ended September 30, 2011, new recruits increased to 201,025 from 181,508 in the first nine months of 2010.

The size of our life-licensed sales force declined to 91,970 sales representatives as of September 30, 2011 from 96,872 as of December 31, 2010, but increased from 90,519 as of June 30, 2011. New life license growth lagged recruiting growth primarily due to a reduction in the licensing pull-through rate, consistent with historical trends following a recruiting surge.



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## Term Life Insurance Segment

Our Term Life Insurance segment results are primarily driven by sales, accuracy of our pricing assumptions, terms and use of reinsurance, investment income and expenses.

Sales and policies in force. Sales of new term policies and the size and characteristics of our in-force book of policies are vital to our results over the long term. Premium revenue is recognized as it is earned over the term of the policy and acquisition expenses are generally deferred and amortized ratably with the level premiums of the underlying policies. However, because we incur significant cash outflows at or about the time policies are issued, including the payment of sales commissions and underwriting costs, changes in life insurance sales volume will have a more immediate effect on our cash flows.

Historically, we have found that while sales volume of term life insurance products between any given fiscal periods may vary based on a variety of factors, the productivity of our individual sales representatives remains within a relatively narrow range and, consequently, our sales volume over the longer term generally correlates to the size of our sales force.

The average number of life-licensed sales representatives and the number of term life insurance policies issued, as well as the average monthly rate of new policies issued per life-licensed sales representative, were as follows:

|  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |         |
|--|-------------------------------------|--------|------------------------------------|---------|
|  | 2011                                | 2010   | 2011                               | 2010    |
| Average number of life-licensed sales representatives                              | 91,302                              | 96,611 | 92,031                             | 97,221  |
| Number of new policies issued  | 65,067                              | 54,373 | 176,174                            | 167,224 |
| Average monthly rate of new policies issued per life-licensed sales representative | .24x                                | .19x   | .21x                               | .19x    |

During the three and nine months ended September 30, 2011, the increased productivity of our individual sales representatives was driven by the post-convention recruiting surge discussed above in Recruiting and Sales Representatives and strong sales of our new TermNow product. The elevated level of new recruits generated more warm market referrals and sales opportunities as new recruits set appointments with their field trainers to begin the sales training process. Our new TermNow product uses prescription databases rather than oral fluid to begin the underwriting process so TermNow policies are issued faster than previous products, which has led to an increase in and acceleration of issued policies since the introduction of TermNow in June 2011. As a result of these two factors, productivity for the three and nine months ended September 30, 2011 was higher than our historical range.

Productivity is expected to return to the historical range going forward.

Pricing assumptions. Our pricing methodology is intended to provide us with appropriate profit margins for the risks we assume. We determine pricing classifications based on the coverage sought, such as the size and term of the policy, and certain policyholder attributes, such as age and health. In addition, we utilize unisex rates for our term life insurance policies. The pricing assumptions that underlie our rates are based upon our best estimates of mortality, persistency and investment yields at the time of issuance, sales force commission rates, issue and underwriting expenses, operating expenses and the characteristics of the insureds, including sex, age, underwriting class, product and amount of coverage. Our results will be affected to the extent there is a variance between our pricing assumptions and actual experience.

Persistency. We use historical experience to estimate pricing assumptions for persistency rates. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When persistency is lower than our pricing assumptions, we must accelerate the amortization of deferred policy acquisition costs ("DAC"). The resultant increase in amortization expense is offset by a corresponding release of reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The reserves associated with any given policy will change over the term of such policy. As a general matter, reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and

claims expense may be greater or less than the increase in amortization expense and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels

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are meaningful to our results to the extent actual experience deviates from the persistency assumptions used to price our products.

**Mortality.** We use historical experience to estimate pricing assumptions for mortality. Our profitability is affected to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance. Variances between actual mortality experience and the assumptions and estimates used by our reinsurers affect the cost and potentially the availability of reinsurance.

**Investment Yields.** We generally use a level investment yield rate which reflects yields currently available. For 2011 and 2010 new issues, we are using an increasing interest rate assumption to reflect the historically low interest rate environment. Both the DAC asset and the reserve liability increase with the assumed investment yield rate. Since the DAC asset is higher than the reserve liability in the early years of a policy, a lower assumed investment yield generally will result in lower profits. In the later years, when the reserve liability is higher than the DAC asset, a lower assumed investment yield generally will result in higher profits. Actual investment yields will impact the net investment income allocated to the Term Life Insurance segment, but will not impact the DAC asset or reserve liability.

**Reinsurance.** We use reinsurance extensively, which has a significant effect on our results of operations. Since the mid-1990s, we have reinsured between 60% and 90% of the mortality risk on our U.S. term life insurance policies on a yearly renewable term (“YRT”) basis. We have not generally reinsured the mortality risk on Canadian term life insurance policies. YRT reinsurance permits us to fix future mortality exposure at contractual rates by policy class. To the extent actual mortality experience is more or less favorable than the contractual rate, the reinsurer will earn incremental profits or bear the incremental cost, as applicable. In contrast to coinsurance, which is intended to eliminate all risks (other than counterparty risk of the reinsurer) and rewards associated with a specified percentage of the block of policies subject to the reinsurance arrangement, the YRT reinsurance arrangements we enter into are intended only to reduce volatility associated with variances between estimated and actual mortality rates.

On March 31, 2010, we entered into various coinsurance agreements with the Citi reinsurers to cede between 80% and 90% of our term life insurance policies that were in force at year-end 2009 as part of our corporate reorganization. The effect of our reinsurance arrangements on ceded premiums and benefits and expenses on our statement of income follows:

**Ceded premiums.** Ceded premiums are the premiums we pay to reinsurers. These amounts are deducted from the direct premiums we earn to calculate our net premium revenues. Similar to direct premium revenues, ceded coinsurance premiums remain level over the initial term of the insurance policy. Ceded YRT premiums increase over the period that the policy has been in force. Accordingly, ceded YRT premiums generally constitute an increasing percentage of direct premiums over the policy term.

**Benefits and claims.** Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded.

**Amortization of DAC.** Amortization of DAC is reduced on a pro-rata basis for the business reinsured with Citi. There is no impact on amortization of DAC associated with our YRT contracts.

**Insurance expenses.** Insurance expenses are reduced by the allowances received from coinsurance, including the business reinsured with Citi.

We may alter our reinsurance practices at any time due to the unavailability of YRT reinsurance at attractive rates or the availability of alternatives to reduce our risk exposure. We presently intend to continue ceding approximately 90% of our U.S. mortality risk on new business issued subsequent to the Citi reinsurance transactions.

**Net investment income.** Term Life Insurance segment net investment income is composed of two elements: allocated net investment income and the market return associated with the deposit asset underlying the 10% reinsurance agreement we executed in connection with the Transactions. We allocate net investment income by applying the ratio of (i) the book value of the invested assets allocated to the Term Life Insurance segment to the book value of the Company’s total invested assets to (ii) total net investment income, net of the income associated with the 10% reinsurance agreement. Invested assets are allocated to the Term Life segment based on the book value of the invested assets necessary to meet statutory reserve requirements and our targeted capital objectives. Net investment income is also impacted by the performance of our invested asset portfolio and the market return on the deposit asset which can

be affected by interest rates, credit spreads and the mix of invested assets.

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Expenses. Results are also affected by variances in client acquisition, maintenance and administration expense levels.

### Investment and Savings Products Segment

Our Investment and Savings Products segment results are primarily driven by sales, the value of assets in client accounts for which we earn ongoing service and distribution fees and the number of fee generating accounts we administer.

**Sales.** We earn commissions and fees, such as dealer re-allowances, and marketing and support fees, based on sales of mutual fund products and annuities. Sales of investment and savings products are influenced by the overall demand for investment products in the United States and Canada, as well as by the size and productivity of our sales force. We generally experience seasonality in our Investment and Savings Products segment results due to our high concentration of sales of retirement account products. These accounts are typically funded in February through April, coincident with our clients' tax return preparation season. While we believe the size of our sales force is a factor in driving sales volume in this segment, there are a number of other variables, such as economic and market conditions, that may have a significantly greater effect on sales volume in any given fiscal period.

**Asset values in client accounts.** We earn marketing and distribution fees (trail commissions or, with respect to U.S. mutual funds, 12b-1 fees) on mutual fund, annuity and segregated funds products based on asset values in client accounts. Our investment and savings products primarily consist of funds composed of equity securities. Asset values are influenced by new product sales, ongoing contributions to existing accounts, redemptions and changes in equity markets, net of expenses.

**Accounts.** We earn recordkeeping fees for administrative functions we perform on behalf of several of our mutual fund providers and custodial fees for services as a non-bank custodian for certain of our mutual fund clients' retirement plan accounts.

**Sales Mix.** While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period will be affected by changes in the overall mix of products within these broad categories.

Examples of changes in the sales mix that influence our results include the following:

- sales of a higher proportion of mutual fund products of the several mutual fund families for which we act as recordkeeper will generally increase our earnings because we are entitled to recordkeeping fees on these accounts;
- sales of variable annuity products in the United States will generate higher revenues in the period such sales occur than sales of other investment products that either generate lower upfront revenues or, in the case of segregated funds, no upfront revenues;
- sales and administration of a higher proportion of mutual funds that enable us to earn marketing and support fees will increase our revenues and profitability; and
- sales of a higher proportion of retirement products of several mutual fund families will tend to result in higher revenue generation due to our ability to earn custodial fees on these accounts.

### Corporate and Other Distributed Products Segment

We earn revenues and pay commissions and referral fees from the distribution of loan products, various other insurance products, prepaid legal services and other products, all of which are originated by third parties. NBLIC, our New York life insurance subsidiary, also underwrites a mail-order student life policy and a short-term disability benefit policy, neither of which is distributed by our sales force, and has in-force policies from several discontinued lines of insurance.

The Corporate and Other Distributed Products segment is affected by corporate income and expenses not allocated to our other segments, net investment income (other than net investment income allocated to our Term Life Insurance segment), general and administrative expenses (other than expenses that are allocated to our Term Life Insurance or Investment and Savings Products segments), management equity awards, equity awards granted to our sales force leaders at the time of our initial public offering, interest expense on the Citi note and realized gains and losses on our invested asset portfolio.





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## Results of Operations

## Primerica, Inc. and Subsidiaries Results

Our results of operations for the three and nine months ended September 30 were as follows:

|  | Three months ended    |            | Change   |       | Nine months ended     |              | Change       |             |      |   |
|--|-----------------------|------------|----------|-------|-----------------------|--------------|--------------|-------------|------|---|
|  | September 30,<br>2011 | 2010       | \$       | %     | September 30,<br>2011 | 2010         | \$           | %           |      |   |
| (Dollars in thousands)                             |                       |            |          |       |                       |              |              |             |      |   |
| Revenues:  |                       |            |          |       |                       |              |              |             |      |   |
| Direct premiums                                    | \$560,739             | \$547,444  | \$13,295 | 2     | %                     | \$1,673,689  | \$1,632,744  | \$40,945    | 3    | % |
| Ceded premiums                                     | (425,643 )            | (437,054 ) | 11,411   | (3)   | %                     | (1,283,445 ) | (1,032,386 ) | (251,059 )  | 24   | % |
| Net premiums                                       | 135,096               | 110,390    | 24,706   | 22    | %                     | 390,244      | 600,358      | (210,114 )  | (35) | % |
| Commissions and fees                               | 100,883               | 89,737     | 11,146   | 12    | %                     | 315,697      | 274,652      | 41,045      | 15   | % |
| Net investment income                              | 27,103                | 27,855     | (752 )   | (3)   | %                     | 82,958       | 138,423      | (55,465 )   | (40) | % |
| Realized investment (losses) gains, including OTTI | (178 )                | 1,015      | (1,193 ) | (118) | %                     | 2,184        | 32,445       | (30,261 )   | (93) | % |
| Other, net   | 12,887                | 12,239     | 648      | 5     | %                     | 36,155       | 36,598       | (443 )      | (1)  | % |
| Total revenues                                     | 275,791               | 241,236    | 34,555   | 14    | %                     | 827,238      | 1,082,476    | (255,238 )  | (24) | % |
| Benefits and expenses:                             |                       |            |          |       |                       |              |              |             |      |   |
| Benefits and claims                                | 64,101                | 49,811     | 14,290   | 29    | %                     | 179,008      | 265,670      | (86,662 )   | (33) | % |
| Amortization of DAC                                | 30,532                | 23,844     | 6,688    | 28    | %                     | 83,473       | 138,499      | (55,026 )   | (40) | % |
| Sales commissions                                  | 46,971                | 42,264     | 4,707    | 11    | %                     | 147,490      | 129,657      | 17,833      | 14   | % |
| Insurance expenses                                 | 15,465                | 11,999     | 3,466    | 29    | %                     | 44,171       | 59,616       | (15,445 )   | (26) | % |
| Insurance commissions                              | 4,909                 | 5,099      | (190 )   | (4)   | %                     | 14,128       | 15,701       | (1,573 )    | (10) | % |
| Interest expense                                   | 7,000                 | 6,968      | 32       | *     |                       | 20,995       | 13,896       | 7,099       | 51   | % |
| Other operating expenses                           | 42,962                | 39,372     | 3,590    | 9     | %                     | 124,816      | 140,817      | (16,001 )   | (11) | % |
| Total benefits and expenses                        | 211,940               | 179,357    | 32,583   | 18    | %                     | 614,081      | 763,856      | (149,775 )  | (20) | % |
| Income before income taxes                         | 63,851                | 61,879     | 1,972    | 3     | %                     | 213,157      | 318,620      | (105,463 )  | (33) | % |
| Income taxes                                       | 23,250                | 22,284     | 966      | 4     | %                     | 76,066       | 113,731      | (37,665 )   | (33) | % |
| Net income   | \$40,601              | \$39,595   | \$1,006  | 3     | %                     | \$137,091    | \$204,889    | \$(67,798 ) | (33) | % |

\* Less than 1%

We entered into the Citi reinsurance and reorganization transactions during March and April of 2010. As such, results for the nine months ended September 30, 2010 include three months of operations prior to the Citi reinsurance and reorganization transactions. Results for the nine months ended September 30, 2010 include income attributable to the underlying policies that were reinsured to Citi on March 31, 2010 as well as net investment income earned on the invested assets backing the reinsurance balances transferred to the Citi reinsurers and a portion of the distributions to Citi made as part of our corporate reorganization. The Citi reinsurance transaction impacted the Term Life Insurance segment, while the reorganization transactions impacted both the Term Life Insurance and Corporate and Other Distributed Products segments, with the larger impact on the latter segment. For additional information on the effect of the Transactions, see the Segment Results discussions below and the sections of MD&A entitled "The

Transactions" and "Results of Operations -- Primerica, Inc. Pro Forma Results" included in our 2010 Annual Report. Results for the Three Months Ended September 30, 2011 and 2010

Total revenues. Total revenues were primarily driven by growth in net premiums and commissions and fees. The growth in net premiums primarily reflects incremental premiums on New Term policies issued subsequent to the Citi reinsurance transactions ("New Term"). The increase in commissions and fees was largely driven by increased sales of variable annuities in our Investment and Savings Product segment.

Total benefits and expenses. Total benefits and expenses were higher primarily as a result of the growth in our Term Life and Investment and Savings Products businesses and higher overall operating expenses. Benefits and claims

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and amortization of DAC increased as a result of the continued growth in our Term Life business following the Citi reinsurance transactions. Sales commissions were higher consistent with the increase in commission and fee revenue noted in total revenues above. Expenses increased primarily as a result of initiatives announced at our June 2011 convention, higher premium taxes and lower expense allowances due to the continued run-off in the block of business ceded to Citi.

Income taxes. Our effective income tax rate was 36.4% for the three months ended September 30, 2011, compared with 36.0% for the three months ended September 30, 2010.

For additional information, see the Segment Results discussions below.

Results for the Nine Months Ended September 30, 2011 and 2010

Total revenues. The decline in total revenues largely reflects the impact of the Citi reinsurance and reorganization transactions and lower realized investment gains, partially offset by the growth in New Term premium and in our Investment and Savings Product business. Excluding approximately \$351.1 million of revenues that would not have been recognized in 2010 had the Citi reinsurance and reorganization transactions been effected on January 1, 2010, total revenues would have increased approximately \$95.8 million, or 13%.

Total benefits and expenses. The decrease in total benefits and expenses was primarily driven by the impact of the Citi reinsurance and reorganization transactions noted in the three month comparison above, partially offset by growth in New Term business and an increase in sales commissions on products in our Investment and Savings Product segment. Excluding approximately \$217.3 million of expenses that would not have been recognized in 2010 had the Citi reinsurance and reorganization transactions been effected three months earlier on January 1, 2010, total benefits and expenses would have increased approximately \$67.6 million, or 12%.

Income taxes. Our effective income tax rates were 35.7% for both the nine months ended September 30, 2011 and 2010.

For additional information, see the Segment Results discussions below.

## Segment Results

## Term Life Insurance Segment Results

Term Life Insurance segment results were as follows:

|                                 | Three months ended     |            |          |        | Nine months ended |              |            |        |
|---------------------------------|------------------------|------------|----------|--------|-------------------|--------------|------------|--------|
|                                 | September 30,          |            | Change   |        | September 30,     |              | Change     |        |
|                                 | 2011                   | 2010       | \$       | %      | 2011              | 2010         | \$         | %      |
|                                 | (Dollars in thousands) |            |          |        |                   |              |            |        |
| <b>Revenues:</b>                |                        |            |          |        |                   |              |            |        |
| Direct premiums                 | \$539,693              | \$525,644  | \$14,049 | 3 %    | \$1,612,143       | \$1,571,368  | \$40,775   | 3 %    |
| Ceded premiums                  | (421,933 )             | (433,234 ) | 11,301   | (3 )%  | (1,272,477 )      | (1,021,612 ) | (250,865 ) | 25 %   |
| Net premiums                    | 117,760                | 92,410     | 25,350   | 27 %   | 339,666           | 549,756      | (210,090 ) | (38 )% |
| Allocated net investment income | 15,664                 | 15,595     | 69       | *      | 47,127            | 96,391       | (49,264 )  | (51 )% |
| Other, net                      | 8,289                  | 7,928      | 361      | 5 %    | 23,523            | 25,353       | (1,830 )   | (7 )%  |
| Total revenues                  | 141,713                | 115,933    | 25,780   | 22 %   | 410,316           | 671,500      | (261,184 ) | (39 )% |
| <b>Benefits and expenses:</b>   |                        |            |          |        |                   |              |            |        |
| Benefits and claims             | 52,067                 | 39,084     | 12,983   | 33 %   | 143,339           | 235,327      | (91,988 )  | (39 )% |
| Amortization of DAC             | 25,868                 | 21,900     | 3,968    | 18 %   | 71,009            | 129,835      | (58,826 )  | (45 )% |
| Insurance commissions           | 267                    | 330        | (63 )    | (19 )% | 862               | 2,858        | (1,996 )   | (70 )% |
| Insurance expenses              | 12,548                 | 9,194      | 3,354    | 36 %   | 34,969            | 50,790       | (15,821 )  | (31 )% |
| Interest expense                | 2,875                  | 2,843      | 32       | 1 %    | 8,620             | 5,646        | 2,974      | 53 %   |
|                                 | 93,625                 | 73,351     | 20,274   | 28 %   | 258,799           | 424,456      | (165,657 ) | (39 )% |

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Total benefits and  
expenses

|                               |          |          |         |    |   |           |           |             |        |
|-------------------------------|----------|----------|---------|----|---|-----------|-----------|-------------|--------|
| Income before<br>income taxes | \$48,088 | \$42,582 | \$5,506 | 13 | % | \$151,517 | \$247,044 | \$(95,527 ) | (39 )% |
|-------------------------------|----------|----------|---------|----|---|-----------|-----------|-------------|--------|

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\* Less than 1%

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We entered into the Citi reinsurance and reorganization transactions during March and April of 2010. As such, results for the nine months ended September 30, 2010 include three months of operations prior to the Citi reinsurance and reorganization transactions. Results for the nine months ended September 30, 2010 include income attributable to the underlying policies that were reinsured to Citi on March 31, 2010 as well as net investment income earned on the invested assets backing the reinsurance balances transferred to the Citi reinsurers and a portion of the distributions to Citi made as part of our corporate reorganization. From a statement of income perspective, these transactions impacted ceded premiums, net premiums, allocated net investment income, benefits and claims, amortization of DAC, insurance commissions, insurance expenses and interest expense. For additional information on the effect of the Transactions, see the sections of MD&A entitled "The Transactions" and "Segment Results -- Term Life Insurance Segment" included in our 2010 Annual Report.

Results for the Three Months Ended September 30, 2011 and 2010

**Net premiums.** Direct premiums grew consistent with the growth in face amount in force. The decline in ceded premiums primarily reflects the run-off of the business subject to the Citi reinsurance transactions. The growth in net premiums primarily reflects incremental New Term premiums as well as the decrease in ceded premiums. Net premiums also benefited from continued improvements in persistency.

**Benefits and claims.** The increase in benefits and claims was largely driven by growth in the business noted in net premiums above and slightly unfavorable mortality experience.

**Amortization of DAC.** The growth in amortization of DAC was lower than the growth in net premiums primarily as a result of higher DAC amortization in the third quarter of 2010 due to a reduction in the DAC interest rate assumption used for 2010 new business and slightly favorable persistency.

**Insurance expenses.** The growth in insurance expenses primarily reflects the impact of premium-related increases in taxes, licenses and fees and the run-off of expense allowances received under the terms of the Citi reinsurance agreements as well as the inclusion of approximately \$1.7 million of expenses associated with the \$50 IBA fee promotion which ended July 31, 2011.

Results for the Nine Months Ended September 30, 2011 and 2010

**Direct premiums.** Direct premiums grew consistent with the growth in face amount in force.

**Ceded premiums.** The increase in ceded premiums primarily reflects the impact of the Citi reinsurance transactions, partially offset by the ceded premium recoveries discussed in Note 6 of the notes to our financial statements.

Adjusting for approximately \$296.3 million of additional premiums that would have been ceded to Citi in 2010 had the Citi reinsurance transactions been effected on January 1, 2010 and approximately \$8.7 million of additional ceded premium recoveries in 2011, ceded premium would have decreased approximately \$36.7 million, or 3%, reflecting the continued run-off of the business ceded to Citi.

**Net premiums.** The decline in net premiums primarily reflects the impact on ceded premium of the Citi reinsurance transactions, partially offset by the ceded premium recoveries discussed in ceded premiums above. Excluding approximately \$296.3 million of premiums that would have been ceded to Citi in 2010 had the transactions been effected on January 1, 2010, net premiums would have increased approximately \$77.5 million, or 31%, reflecting incremental premium growth subsequent to the Citi reinsurance transactions and the ceded premium recoveries. Net premiums also benefited from continued improvements in persistency.

**Allocated net investment income.** The decrease in allocated net investment income was largely attributable to the Citi reinsurance and reorganization transactions. Excluding approximately \$48.3 million of income earned in 2010 on assets that were transferred to Citi in connection with the reinsurance and reorganization transactions, allocated net investment income would have decreased approximately \$1.0 million, or 2%.

**Benefits and claims.** Excluding approximately \$128.2 million of expenses that would have been recognized by the Citi reinsurers in 2010 had the Citi reinsurance transactions been effected on January 1, 2010 and the effect on net premiums of the 2011 ceded premium recoveries discussed in ceded premiums above, benefits and claims would have grown consistent with the growth in premiums.

**Amortization of DAC.** Excluding approximately \$71.4 million of DAC amortization that would have been recognized by the Citi reinsurers in 2010 had the Citi reinsurance transactions been effected on January 1, 2010, DAC amortization would have increased approximately \$12.6 million, or 21%, over the nine months ended September



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30, 2010. The growth in DAC amortization was lower than the growth in net premiums primarily due to the inclusion of a one-time DAC adjustment of approximately \$2.2 million in the first quarter of 2011 largely related to in-force business ceded to the Citi reinsurers. Favorable persistency also impacted the rate of DAC amortization as noted in the three month comparison above.

Insurance expenses. Insurance expenses decreased largely as a result of the Citi reinsurance transactions. Excluding approximately \$26.1 million of expenses that would not have been recognized in 2010 had the transactions been effected on January 1, 2010, insurance expenses would have increased approximately \$10.3 million, or 42%. This increase in insurance expenses largely reflects the impact of a full year of the taxes, licenses and fees growth and expense allowance run-off noted in the three month comparison above, expenses associated with convention initiatives, including the \$50 IBA fee promotion and the write-off of medical testing materials, build out of management compensation and benefits expense post-IPO, partially offset by the release of management incentive compensation accruals for compensation earned in 2010 but paid in 2011 at a lower rate than had been anticipated.

**Term Life Insurance Product Sales**

For the nine months ended September 30, 2011, we issued 176,174 new policies, compared with 167,224 new policies for the same period in 2010. Sales of our term life insurance products have experienced strong growth following our June convention and reflect the popularity of our newly introduced TermNow product as well as the surge in new recruits which increased our warm markets leads and sales opportunities as new recruits set appointments with their field trainers to begin the sales training process.

**Term Life Insurance Face Amount In Force**

The changes in the face amount of our in-force book of term life insurance policies were as follows:

|   | Three months ended |           |          |       | Nine months ended |           |          |       |
|---|--------------------|-----------|----------|-------|-------------------|-----------|----------|-------|
|   | September 30,      |           | Change   |       | September 30,     |           | Change   |       |
|   | 2011               | 2010      | \$       | %     | 2011              | 2010      | \$       | %     |
| Face amount in force, beginning of period | \$663,617          | \$653,530 | \$10,087 | 2 %   | \$656,791         | \$650,195 | \$6,596  | 1 %   |
| Issued face amount                        | 18,885             | 18,113    | 772      | 4 %   | 54,594            | 56,152    | (1,558 ) | (3 )% |
| Terminations                              | (16,221 )          | (17,836 ) | 1,615    | (9 )% | (48,192 )         | (52,859 ) | 4,667    | (9 )% |
| Foreign currency                          | (98 )              | 826       | (924 )   | *     | 2,989             | 1,145     | 1,844    | *     |
| Face amount in force, end of period (1)   | \$666,182          | \$654,633 | \$11,549 | 2 %   | \$666,182         | \$654,633 | \$11,549 | 2 %   |

\* Not meaningful

(1) Totals may not add due to rounding.

Issued face amount improved during the three months ended September 30, 2011 largely benefiting from the surge in recruiting as well as reflecting strong policy sales of our new TermNow product which we launched at our June convention. The effect of higher policy sales was partially offset by lower average size of policies issued. The lower average size of policies issued during the three months ended September 30, 2011 primarily reflects the June 2011 introduction of TermNow policies which are sold at lower face amounts. While issued face amount decreased 3% during the nine months ended September 30, 2011, it benefited from both the growth in our sales force and new recruits and the introduction of TermNow. The decrease in terminations resulted from persistency that, while remaining below historical norms, has continued to improve.



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## Investment and Savings Product Segment Results

Investment and Savings Products segment results were as follows:

|                            | Three months ended |          |         |       | Nine months ended |           |          |      |
|----------------------------|--------------------|----------|---------|-------|-------------------|-----------|----------|------|
|                            | September 30,      |          | Change  |       | September 30,     |           | Change   |      |
|                            | 2011               | 2010     | \$      | %     | 2011              | 2010      | \$       | %    |
| (Dollars in thousands)     |                    |          |         |       |                   |           |          |      |
| Revenues:                  |                    |          |         |       |                   |           |          |      |
| Commissions and fees:      |                    |          |         |       |                   |           |          |      |
| Sales-based revenues       | \$42,244           | \$32,941 | \$9,303 | 28 %  | \$130,276         | \$105,605 | \$24,671 | 23 % |
| Asset-based revenues       | 41,996             | 37,602   | 4,394   | 12 %  | 132,169           | 115,061   | 17,108   | 15 % |
| Account-based revenues     | 10,140             | 10,620   | (480 )  | (5 )% | 32,383            | 31,145    | 1,238    | 4 %  |
| Other, net                 | 3,106              | 2,711    | 395     | 15 %  | 8,090             | 6,974     | 1,116    | 16 % |
| Total revenues             | 97,486             | 83,874   | 13,612  | 16 %  | 302,918           | 258,785   | 44,133   | 17 % |
| Expenses:                  |                    |          |         |       |                   |           |          |      |
| Amortization of DAC        | 4,034              | 1,361    | 2,673   | *     | 10,570            | 6,938     | 3,632    | 52 % |
| Insurance commissions      | 2,277              | 1,963    | 314     | 16 %  | 6,761             | 5,763     | 998      | 17 % |
| Sales commissions:         |                    |          |         |       |                   |           |          |      |
| Sales-based                | 29,627             | 23,474   | 6,153   | 26 %  | 91,552            | 75,674    | 15,878   | 21 % |
| Asset-based                | 13,805             | 12,232   | 1,573   | 13 %  | 44,367            | 37,858    | 6,509    | 17 % |
| Other operating expenses   | 20,997             | 18,266   | 2,731   | 15 %  | 61,413            | 53,792    | 7,621    | 14 % |
| Total expenses             | 70,740             | 57,296   | 13,444  | 23 %  | 214,663           | 180,025   | 34,638   | 19 % |
| Income before income taxes | \$26,746           | \$26,578 | \$168   | *     | \$88,255          | \$78,760  | \$9,495  | 12 % |

\* Less than 1% or not meaningful

Supplemental information on the underlying metrics that drove results follows.

|  | Three months ended |          |         |      | Nine months ended |          |         |      |
|--|--------------------|----------|---------|------|-------------------|----------|---------|------|
|  | September 30,      |          | Change  |      | September 30,     |          | Change  |      |
|  | 2011               | 2010     | \$      | %    | 2011              | 2010     | \$      | %    |
| (Dollars in millions and accounts in thousands)        |                    |          |         |      |                   |          |         |      |
| Product sales:   |                    |          |         |      |                   |          |         |      |
| Retail mutual funds                                    | \$498              | \$475    | \$23    | 5 %  | \$1,747           | \$1,621  | \$126   | 8 %  |
| Annuities and other                                    | 483                | 288      | 195     | 68 % | 1,286             | 863      | 423     | 49 % |
| Total sales-based revenue generating product sales (1) | 982                | 762      | 220     | 29 % | 3,033             | 2,484    | 549     | 22 % |
| Segregated funds and other                             | 78                 | 62       | 16      | 26 % | 276               | 237      | 39      | 16 % |
| Total product sales (1)                                | \$1,060            | \$824    | \$236   | 29 % | \$3,309           | \$2,721  | \$588   | 22 % |
| Average client asset values:                           |                    |          |         |      |                   |          |         |      |
| Retail mutual funds                                    | \$23,521           | \$21,919 | \$1,602 | 7 %  | \$24,578          | \$22,265 | \$2,313 | 10 % |
| Annuities and other                                    | 8,192              | 6,954    | 1,238   | 18 % | 8,341             | 6,918    | 1,423   | 21 % |
| Segregated funds                                       | 2,479              | 2,184    | 295     | 14 % | 2,501             | 2,157    | 344     | 16 % |
| Total average asset values in client                   | \$34,192           | \$31,056 | \$3,136 | 10 % | \$35,419          | \$31,341 | \$4,078 | 13 % |

accounts (1)

Average number of  
fee-generating  
accounts:

|                           |       |       |     |      |    |       |       |      |      |    |
|---------------------------|-------|-------|-----|------|----|-------|-------|------|------|----|
| Recordkeeping<br>accounts | 2,626 | 2,715 | (89 | ) (3 | )% | 2,633 | 2,739 | (106 | ) (4 | )% |
| Custodial accounts        | 1,959 | 1,983 | (24 | ) (1 | )% | 1,955 | 1,996 | (41  | ) (2 | )% |

(1) Totals may not add due to rounding.

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The Citi reinsurance and reorganization transactions had no impact on the Investment and Savings Products segment.

Results for the Three Months Ended September 30, 2011 and 2010

Commissions and fees. Commissions and fees increased primarily as a result of economic and market trends and client demand. Sales-based revenues primarily grew as a result of demand, but also reflect the impact of internal exchanges for the variable annuity products we offer. Asset-based revenues were driven by higher average client asset values in the third quarter of 2011.

Amortization of DAC. The increase in DAC amortization was primarily driven by the impact on amortization rates of lower investment returns on our Canadian Segregated Funds products.

Sales commissions. The increase in sales- and asset-based commissions was primarily driven by the increases in sales and assets noted above. Sales-based commission expense growth was slightly lower than sales-based commission and fees revenue growth largely reflecting the dynamic between revenues and expenses that occurs with internal exchanges of variable annuities. While the commissions that we receive and then pay to our sales representatives in internal exchange transactions are proportionately lower than those paid for a new sale, sales-related marketing and support fees from internal exchanges are received in full with no associated impact on sales commissions expense.

Other operating expenses. Other operating expenses increased largely as a result of growth in the business as well as costs to launch our new managed accounts product and various government relations efforts.

Product sales. Investment and savings products sales were higher in the three months ended September 30, 2011 largely reflecting the impact of internal exchanges of variable annuities.

Results for the Nine Months Ended September 30, 2011 and 2010

Commissions and fees. Commissions and fees increased primarily as a result of economic and market trends and client demand as noted in the three month comparison above.

Amortization of DAC. The increase in DAC amortization was primarily driven by the impact of lower investment returns on our Canadian Segregated Funds products. Growth in account values also led to higher DAC amortization.

Sales commissions. The increase in sales- and asset-based commissions was primarily driven by the increases in sales and assets noted in the three month comparison above.

Other operating expenses. Other operating expenses increased primarily as a result of growth in the business, expenses related to new product introductions and the recordkeeping fee structure change we recognized in the second quarter of 2011, partially offset by the release of management incentive compensation accruals earned in 2010 but paid in 2011 at a lower rate than had been anticipated.

Product sales. Investment and savings products sales were higher in the nine months ended September 30, 2011 largely reflecting the impact of internal exchanges of variable annuities.

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## Asset Values in Client Accounts

Changes in asset values in client accounts were as follows:

|                                       | Three months ended    |          |          |       | Nine months ended |          |          |       |
|---------------------------------------|-----------------------|----------|----------|-------|-------------------|----------|----------|-------|
|                                       | September 30,         |          | Change   |       | September 30,     |          | Change   |       |
|                                       | 2011                  | 2010     | \$       | %     | 2011              | 2010     | \$       | %     |
|                                       | (Dollars in millions) |          |          |       |                   |          |          |       |
| Asset values, beginning of period     | \$36,020              | \$29,723 | \$6,297  | 21 %  | \$34,869          | \$31,303 | \$3,566  | 11 %  |
| Inflows                               | 1,060                 | 824      | 236      | 29 %  | 3,309             | 2,721    | 588      | 22 %  |
| Redemptions                           | (1,024 )              | (887 )   | (137 )   | 15 %  | (3,225 )          | (2,746 ) | (479 )   | 17 %  |
| Change in market value, net and other | (4,433 )              | 2,940    | (7,373 ) | *     | (3,331 )          | 1,322    | (4,653 ) | *     |
| Asset values, end of period (1)       | \$31,623              | \$32,600 | \$(977 ) | (3 )% | \$31,623          | \$32,600 | \$(977 ) | (3 )% |

\* Not meaningful

(1) Totals may not add due to rounding.

The assets in our clients' accounts are invested in diversified funds composed mainly of U.S. and Canadian equity and fixed-income securities. Inflows increased consistent with the increase in sales volume. The amount of redemptions also increased reflecting the year-over-year increase in average assets under management, even though actual redemption rates were relatively level as a percent of average assets under management for both the 2011 and 2010 periods. The market return on assets under management in the 2011 and 2010 periods reflects general market value trends. Because a large portion of the revenues in our Investment and Savings Products segment are derived from commission and fee revenues that are based on the asset values in clients' accounts, we have also seen an increase in our asset-based commission and fee revenues and expenses.

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## Corporate and Other Distributed Products Segment Results

Corporate and Other Distributed Products segment results were as follows:

|  | Three months ended |                    | Change    |        | Nine months ended  |                    | Change     |      |   |
|--|--------------------|--------------------|-----------|--------|--------------------|--------------------|------------|------|---|
|  | September 30, 2011 | September 30, 2010 | \$        | %      | September 30, 2011 | September 30, 2010 | \$         | %    |   |
| (Dollars in thousands)                             |                    |                    |           |        |                    |                    |            |      |   |
| Revenues:  |                    |                    |           |        |                    |                    |            |      |   |
| Direct premiums                                    | \$21,046           | \$21,800           | \$(754)   | (3)%   | \$61,545           | \$61,376           | \$169      | *    |   |
| Ceded premiums                                     | (3,710)            | (3,820)            | 110       | (3)%   | (10,969)           | (10,774)           | (195)      | 2    | % |
| Net premiums                                       | 17,336             | 17,980             | (644)     | (4)%   | 50,576             | 50,602             | (26)       | *    |   |
| Commissions and fees                               | 6,502              | 8,574              | (2,072)   | (24)%  | 20,868             | 22,841             | (1,973)    | (9)  | % |
| Allocated net investment income                    | 11,439             | 12,260             | (821)     | (7)%   | 35,831             | 42,031             | (6,200)    | (15) | % |
| Realized investment (losses) gains, including OTTI | (178)              | 1,015              | (1,193)   | (118)% | 2,184              | 32,446             | (30,262)   | (93) | % |
| Other, net   | 1,493              | 1,600              | (107)     | (7)%   | 4,545              | 4,271              | 274        | 6    | % |
| Total revenues                                     | 36,592             | 41,429             | (4,837)   | (12)%  | 114,004            | 152,191            | (38,187)   | (25) | % |
| Benefits and expenses:                             |                    |                    |           |        |                    |                    |            |      |   |
| Benefits and claims                                | 12,034             | 10,727             | 1,307     | 12%    | 35,670             | 30,344             | 5,326      | 18   | % |
| Amortization of DAC                                | 631                | 583                | 48        | 8%     | 1,895              | 1,725              | 170        | 10   | % |
| Insurance commissions                              | 2,365              | 2,807              | (442)     | (16)%  | 6,505              | 7,083              | (578)      | (8)  | % |
| Insurance expenses                                 | 2,916              | 2,805              | 111       | 4%     | 9,200              | 8,823              | 377        | 4    | % |
| Sales commissions                                  | 3,538              | 6,558              | (3,020)   | (46)%  | 11,570             | 16,124             | (4,554)    | (28) | % |
| Interest expense                                   | 4,125              | 4,125              | —         | *      | 12,375             | 8,250              | 4,125      | 50   | % |
| Other operating expenses                           | 21,966             | 21,105             | 861       | 4%     | 63,404             | 87,026             | (23,622)   | (27) | % |
| Total benefits and expenses                        | 47,575             | 48,710             | (1,135)   | (2)%   | 140,619            | 159,375            | (18,756)   | (12) | % |
| (Loss) income before income taxes                  | \$(10,983)         | \$(7,281)          | \$(3,702) | 51%    | \$(26,615)         | \$(7,184)          | \$(19,431) | *    |   |

\* Less than 1% or not meaningful

We entered into the reorganization transactions during March and April of 2010. As such, results for the nine months ended September 30, 2010 include three months of operations prior to the reorganization transactions. Results for the nine months ended September 30, 2010 include net investment income earned on the invested assets backing the distributions to Citi made as part of our corporate reorganization. From a statement of income perspective, these transactions impacted net investment income, interest expense and other operating expenses. For additional information on the effect of the Transactions, see the sections of MD&A entitled "The Transactions" and "Segment Results -- Corporate and Other Distributed Products Segment" included in our 2010 Annual Report.

Results for the Three Months Ended September 30, 2011 and 2010

Total revenues were lower during the three months ended September 30, 2011 due in part to a decline in commissions and fees as a result of the ongoing decline in our loan business. A decrease in realized investment gains from the third quarter of 2010 also contributed to the decline in total revenues. We recognized approximately \$981,000 of OTTI

during the third quarter of 2011, compared with approximately \$268,000 of OTTI in the third quarter of 2010. Benefits and claims were higher primarily due to the impact of adverse morbidity experienced by the short-term disability line and adverse claims in various run-off blocks of insurance products, all of which were underwritten by NBLIC, our New York insurance subsidiary.

Other operating expenses were higher during the three months ended September 30, 2011 largely as a result of a \$2.7 million charge for the elimination of print inventories as the materials we produce are now predominantly used for internal consumption, partially offset by a decline in Citi expense allocations and other 2010 expenses related to

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our IPO.

Results for the Nine Months Ended September 30, 2011 and 2010

Total revenues were lower in the nine months ended September 30, 2011 primarily as a result of the realized investment gains recognized in the first quarter of 2010 in anticipation of our corporate reorganization and lower allocated net investment income. Excluding approximately \$6.4 million of allocated net investment income that would not have been earned in 2010 had the reorganization transactions been effected January 1, 2010, allocated net investment income would have increased approximately \$196,000, or less than 1%. Realized investment gains included \$1.3 million of OTTI in the first nine months of 2011, compared with \$12.1 million of OTTI in the first nine months of 2010.

Benefits and claims increased primarily as a result of the adverse morbidity and claims experience noted in the three month comparison above.

Interest expense for the nine months ended September 30, 2010 reflects only six months of expense due to the April 1, 2010 issuance date of the Citi note.

Other operating expenses were lower in the nine months ended September 30, 2011 primarily as a result of approximately \$22.4 million of expense associated with our IPO-related equity awards recognized in the second quarter of 2010. Excluding the impact of this IPO-related expense, other operating expenses would have declined by \$1.2 million, or 2%. Other items contributing to the decline include those noted in the three month comparison above, partially offset by costs associated with our 2011 capital structure initiatives.

Financial Condition

Investments

We have an investment committee composed of members of our senior management team that is responsible for establishing and maintaining our investment guidelines and supervising our investment activity. Our investment committee regularly monitors our overall investment results and our compliance with our investment objectives and guidelines. We use a third-party investment adviser to manage our investing activities. Our investment adviser reports to and is supervised by our investment committee.

We follow a conservative investment strategy designed to emphasize the preservation of our invested assets and provide adequate liquidity for the prompt payment of claims. In an effort to meet business needs and mitigate risks, our investment guidelines provide restrictions on our portfolio's composition, including limits on asset type, sector limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types. We may also direct our investment managers to invest some of our invested asset portfolio in currencies other than the U.S. dollar. For example, a portion of our portfolio is invested in assets denominated in Canadian dollars which, at minimum, would equal our reserves for policies denominated in Canadian dollars. Additionally, to help ensure adequate liquidity for payment of claims, we take into account the maturity and duration of our invested asset portfolio and our general liability profile.

Our invested asset portfolio is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. Investment guideline restrictions have been established to minimize the effect of these risks but may not always be effective due to factors beyond our control. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A significant increase in interest rates could result in significant losses, realized or unrealized, in the value of our invested asset portfolio. Additionally, with respect to some of our investments, we are subject to prepayment and, therefore, reinvestment risk.

The composition and duration of our portfolio will vary depending on several factors, including the yield curve and our opinion of the relative value among various asset classes. At September 30, 2011, the average rating of our fixed-maturity portfolio was A, with an average duration of approximately 3.5 years, compared with an average rating of A and an average duration of 3.6 years at December 31, 2010.

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The distribution of our investments in fixed-maturity securities by rating follows.

|                        | September 30, 2011     |      | December 31, 2010 |      |
|------------------------|------------------------|------|-------------------|------|
|                        | Amortized<br>cost      | %    | Amortized<br>cost | %    |
|                        | (Dollars in thousands) |      |                   |      |
| AAA                    | \$489,560              | 25%  | \$521,615         | 27%  |
| AA                     | 194,975                | 10%  | 176,947           | 9%   |
| A                      | 445,430                | 23%  | 426,658           | 22%  |
| BBB                    | 707,322                | 36%  | 694,884           | 36%  |
| Below investment grade | 130,576                | 7%   | 130,080           | 7%   |
| Not rated              | 922                    | *    | 2,340             | *    |
| Total (1)              | \$1,968,785            | 100% | \$1,952,524       | 100% |

\* Less than 1%

(1) Totals may not add due to rounding.

The ten largest holdings within our invested asset portfolio were as follows:

| Issuer   | September 30, 2011           |             | Unrealized<br>gain (loss) | Credit<br>rating |
|--|------------------------------|-------------|---------------------------|------------------|
|  | Cost or<br>amortized<br>cost | Fair value  |                           |                  |
|  | (Dollars in thousands)       |             |                           |                  |
| Government of Canada   | \$36,269                     | \$39,016    | \$2,747                   | AAA              |
| National Rural Utilities Cooperative                               | 12,022                       | 15,235      | 3,213                     | A+               |
| General Electric Co.   | 11,490                       | 13,210      | 1,720                     | A-               |
| Bank of America Corporation  | 12,716                       | 12,698      | (18)                      | A                |
| Verizon Communications Inc   | 10,932                       | 12,272      | 1,340                     | AA+              |
| ProLogis Inc.  | 11,743                       | 12,067      | 324                       | BBB-             |
| Enel SpA   | 9,063                        | 10,746      | 1,683                     | A                |
| Edison International   | 8,797                        | 10,063      | 1,266                     | A-               |
| ConocoPhillips   | 10,543                       | 10,049      | (494)                     | A-               |
| Banco Santander SA   | 9,981                        | 10,010      | 29                        | B+               |
| Total – ten largest holdings                                       | \$133,556                    | \$145,366   | \$11,810                  |                  |
| Total – fixed-maturity and equity securities                       | \$1,987,454                  | \$2,139,852 |                           |                  |
| Percent of total fixed-maturity and equity securities <sup>7</sup> |                              | % 7         | %                         |                  |

On November 1, 2011, we executed an agreement with Citi to repurchase approximately 8.9 million shares of our common stock for a total purchase price of approximately \$200.0 million (the "repurchase transaction"). The repurchase transaction is expected to be completed on November 15, 2011 (see Note 13 of the notes to our financial statements). We are funding the repurchase transaction with the proceeds from a dividend paid by Primerica Life on November 8, 2011. The dividend from Primerica Life to the Parent Company was funded through sales of investments and available cash. The changes to asset mix, duration and overall credit quality of our invested asset portfolio were not meaningful. However, with the reduction in our consolidated cash and invested assets as a result of the repurchase transaction, we expect net investment income to decline. We also expect our average book yield to increase modestly, as the investments sold to fund the dividend generally had yields that were lower than the average book yield on the pre-dividend invested assets portfolio.

For additional information on our invested asset portfolio, see Note 4 of the notes to our financial statements.

#### Off-balance sheet arrangements

We have no off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission (the "SEC"), that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or



capital resources that would be material to investors.

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### Liquidity and Capital Resources

Dividends and other payments to us from our subsidiaries are our principal sources of cash. Our primary uses of funds by the Parent Company include the payment of general operating expenses, the payment of dividends and the payment of principal and interest to Citi under the Citi note. In the future, we may enter into other debt financing arrangements that will require the payment of principal and interest, or, at the discretion of our Board of Directors, use excess capital to repurchase outstanding shares of our common stock in open market purchases or in privately negotiated transactions with one or more of our existing stockholders.

The liquidity requirements of our subsidiaries principally relate to the liabilities associated with their distribution and underwriting of insurance products (including the payment of claims), distribution of investment and savings products, operating expenses, income taxes and the payment of dividends. Historically, our insurance subsidiaries have used cash flow from operations associated with our in-force book of term life insurance to fund their liquidity requirements. Our insurance subsidiaries' principal cash inflows from operating activities are derived from policyholder premiums and investment income earned on invested assets that support our statutory capital and reserves. We also derive cash inflows from the distribution of investment and savings products and other products. Our principal outflows relate to payments for ceded premiums and benefits and claims. The principal cash inflows from investment activities result from repayments of principal and investment income, while the principal outflows relate to purchases of fixed-maturity securities. We typically hold cash sufficient to fund operating flows, and invest any excess cash.

Our distribution and underwriting of term life insurance place significant demands on our liquidity, particularly when we experience growth. We pay a substantial majority of the sales commission during the first year following the sale of a policy. Our underwriting activities also require significant cash outflows at the inception of a policy's term. Following and as a result of the Citi reinsurance transactions (without giving effect to any other factors), the cash flows from our retained in-force book of term life insurance policies were significantly lower. This has reduced our operating cash flows for the near to intermediate term; however, we anticipate that cash flows from our businesses, including our existing block of policies and our investment and savings products, will continue to provide us with sufficient liquidity to meet our operating requirements. Over the next few years, we expect our growing premium revenue base from policies issued after the Citi reinsurance transactions to increase operating cash flows.

In April 2011, we filed with the Securities and Exchange Commission a shelf registration statement that enables us to offer and sell to the public our equity and debt securities from time to time as we may determine and enables certain of our stockholders to resell our shares of common stock held by them. Pursuant to this registration statement, Citi sold 12 million shares of our common stock in the open market in April 2011, which significantly increased the public float of our common stock.

In September 2011, Primerica Life requested approval for an extraordinary dividend in the amount of \$200.0 million from the Massachusetts Division of Insurance (the "MDOI"). In October 2011, we received notification that the MDOI had approved Primerica Life's request to pay a \$200.0 million dividend to the Parent Company. On November 8, 2011, Primerica Life paid the \$200.0 million cash dividend to the Parent Company. The dividend was funded via sales of invested assets and available cash.

On November 1, 2011, we executed an agreement with Citi to repurchase approximately 8.9 million shares of our common stock at a price of \$22.42 per share, for a total purchase price of approximately \$200.0 million. The per-share purchase price was determined based on the volume-weighted average price per share of Primerica common stock since October 24, 2011. The repurchase transaction is expected to be completed on November 15, 2011 and, in connection therewith, Citi has agreed to a 30-day lockup of its remaining shares (subject to certain limited exceptions). We expect to fund the repurchase transaction with the funds made available by Primerica Life's dividend to the Parent Company.

We may seek to enhance our liquidity position or capital structure through borrowings from third-party sources, sales of debt or equity securities, reserve financing or some combination of these sources. The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers to carry statutory

reserves for term life insurance policies with long-term premium guarantees which are often significantly in excess of the reserves that insurers deem necessary to satisfy claim obligations. Accordingly, many insurance companies have sought ways to reduce their capital needs by financing these excess reserves through bank financing, reinsurance arrangements and other financing transactions. We have completed a substantial amount of

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the preliminary work necessary to execute a XXX redundant reserve financing that could generate statutory capital for distribution to the Parent Company.

We are continuing to work on and evaluate a XXX redundant reserve financing transaction as well as how other capital options may fit into our capital strategy. As a result, no assurance can be given whether such a transaction will be executed and if executed, the structure, timing, and amount of any such transaction.

**Cash Flows**

Cash flows from operating activities are affected primarily by the timing of premiums received, commissions and fees received, benefits paid, commissions paid to sales representatives, administrative and selling expenses, investment income, and cash taxes. Our principal source of cash historically has been premiums received on term life insurance policies in force.

We typically generate positive cash flows from operating activities, as premiums, net investment income, commissions and fees collected from our insurance and investment and savings products exceed benefits, commissions and operating expenses paid, and we invest the excess. Net cash used in financing activities primarily represents dividends paid to stockholders, which prior to April 1, 2010 were only paid to Citi as our sole stockholder. The components of the change in cash were as follows:

|   | Nine months ended |              | Change      |
|---|-------------------|--------------|-------------|
|   | September 30,     |              |             |
|   | 2011              | 2010         | \$          |
|   | (In thousands)    |              |             |
| Net cash provided by operating activities       | \$7,430           | \$21,486     | \$(14,056 ) |
| Net cash provided by investing activities       | 24,944            | 715,707      | (690,763 )  |
| Net cash used in financing activities           | (5,301 )          | (1,289,141 ) | 1,283,840   |
| Effect of foreign exchange rate changes on cash | 916               | 24,185       | (23,269 )   |
| Change in cash and cash equivalents             | \$27,989          | \$(527,763 ) | \$555,752   |

**Operating Activities.** The change in operating cash flows compared with the prior-year period was primarily the result of lower net cash flow from our term life insurance business and lower net investment income, both of which were significantly impacted by the Citi reinsurance transactions and our corporate reorganization. Net cash used in operating activities for the nine months ended September 30, 2011 also reflects approximately \$6.4 million of net purchases of trading securities held by our broker-dealer subsidiary.

**Investing Activities.** The decline in cash provided by investing activities was primarily the result of sales of securities during the first quarter of 2010 as we increased our cash position to fund distributions to Citi in connection with the Transactions. Net cash provided by investing activities during the nine months ended September 30, 2011 reflects approximately \$33.5 million of investment purchases that traded prior to the end of the quarter but didn't settle until after the end of the quarter. If these investment purchases had settled prior to the end of the quarter, net cash used by investing activities would have been approximately \$8.6 million. Additionally, we would have reported a decrease in cash and cash equivalents of approximately \$5.5 million instead of an increase of approximately \$28.0 million, and period-end cash and cash equivalents would have been approximately \$120.5 million.

**Financing Activities.** The decrease in net cash used in financing activities was primarily due to the 2010 distributions paid to Citi in connection with the Transactions as well as the first quarter of 2010 payment of the 2009 dividend declared to Citi.

**Citi Note**

In April 2010, we issued a \$300.0 million note to Citi as part of our corporate reorganization. Prior to the issuance of the Citi note, we had no outstanding debt. The Citi note bears interest at an annual rate of 5.5%, payable semi-annually in arrears on January 15 and July 15, and matures March 31, 2015.

We have the option to redeem the Citi note in whole or in part at a redemption price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest to the date of redemption. The terms of the Citi note also require us to use our commercially reasonable efforts to arrange and consummate an offering of investment-grade debt securities, trust preferred securities, surplus notes, hybrid securities or convertible debt that generates sufficient net cash proceeds to repay the note in full at certain mutually agreeable dates, based on certain



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conditions.

We were in compliance with all of the covenants of the Citi note at September 30, 2011. No events of default or defaults occurred during the nine months ended September 30, 2011.

We calculate our debt-to-capital ratio by dividing total long-term debt by the sum of stockholders' equity and total long-term debt. As of September 30, 2011, our debt-to-capital ratio was 16.0%.

#### Rating Agencies

As of September 30, 2011, Primerica, Inc.'s senior debt ratings were as follows:

|                   |                      |
|-------------------|----------------------|
| Agency            | Senior debt rating   |
| Moody's           | Baa2, stable outlook |
| Standard & Poor's | A-, stable outlook   |
| A.M. Best Company | a-, stable outlook   |

As of September 30, 2011, Primerica Life's financial strength ratings were as follows:

|                   |                           |
|-------------------|---------------------------|
| Agency            | Financial strength rating |
| Moody's           | A2, stable outlook        |
| Standard & Poor's | AA-, stable outlook       |
| A.M. Best Company | A+, stable outlook        |
| Fitch             | A+, stable outlook        |

#### Risk-Based Capital

The NAIC has established risk-based capital ("RBC") standards for U.S. life insurers, as well as a risk-based capital model act (the "RBC Model Act") that has been adopted by the insurance regulatory authorities. The RBC Model Act requires that life insurers annually submit a report to state regulators regarding their RBC based upon four categories of risk: asset risk; insurance risk; interest rate risk and business risk. The capital requirement for each is determined by applying factors that vary based upon the degree of risk to various asset, premiums and reserve items. The formula is an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action.

As of September 30, 2011, our U.S. life insurance subsidiaries had statutory capital substantially in excess of the applicable statutory requirements to support existing operations and to fund future growth. Following the \$200.0 million dividend from Primerica Life to the Parent Company, which we expect to pay in November 2011, Primerica Life's RBC ratio will remain well positioned to support existing operations and fund future growth.

In Canada, an insurer's minimum capital requirement is overseen by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and determined as the sum of the capital requirements for five categories of risk: asset default risk; mortality/morbidity/lapse risks; changes in interest rate environment risk; segregated funds risk and foreign exchange risk. Primerica Life Canada is in compliance with Canada's minimum capital requirements as of September 30, 2011, as determined by OSFI.

#### Short-term Borrowings

We had no short-term borrowings as of or during the nine months ended September 30, 2011.

#### Contractual Obligations Update

In September 2011, we signed an agreement to lease a new build-to-suit facility which will replace and consolidate substantially all of our existing Duluth, Georgia-based executive and home office ("EHO") operations. We expect the building to be complete and ready for occupancy in the second quarter of 2013. The initial lease term will be 15 years with estimated minimum annual rental payments ranging from approximately \$4.5 million at inception to approximately \$5.6 million in year 15. The leases covering our existing Duluth, Georgia-based EHO operations will terminate in the second quarter of 2013. As such, we do not expect a material increase in our operating lease expenditures, however the period over which we are contractually obligated for the EHO lease will extend to 2028.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this document as well as some statements in periodic press releases and some oral statements made by our officials and their respective subsidiaries during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will be,” “will continue,” “will likely result,” and similar expressions, or future conditional verbs such as “may,” “will,” “should,” “would,” and “could.” In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries are also forward-looking statements. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described under the heading “Risk Factors” in the preliminary prospectus supplement dated April 12, 2011 filed as an exhibit to our Current Report on Form 8-K dated April 12, 2011, as supplemented by this Quarterly Report on Form 10-Q.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this document and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these risks and uncertainties. These risks and uncertainties include, among others:

- our failure to continue to attract and license new recruits, retain sales representatives, or maintain the licensing of our sales representatives;
- changes to the independent contractor status of our sales representatives;
- our or our sales representatives’ violation of or non-compliance with laws and regulations;
- our or our sales representatives’ failure to protect the confidentiality of client information;
- differences between our actual experience and our expectations regarding mortality, persistency, expenses and investment yields as reflected in the pricing for our insurance policies;
- the occurrence of a catastrophic event that causes a large number of premature deaths of our insureds;
- changes in, or non-compliance with, federal and state legislation and regulation, including the Dodd-Frank Act and other legislation or regulation that affects our insurance, investment product and loan businesses;
- our failure to meet RBC standards or other minimum capital and surplus requirements;
- a downgrade or potential downgrade in our insurance subsidiaries’ financial strength ratings;
- the effects of credit deterioration and interest rate fluctuations on our invested asset portfolio;
- incorrectly valuing our investments;
- inadequate or unaffordable reinsurance or the failure of our reinsurers to perform their obligations;
- changes in accounting for DAC of insurance entities and other changes in accounting standards;
- the failure of our investment products to remain competitive with other investment options;
- heightened standards of conduct or more stringent licensing requirements for our sales representatives;
- inadequate policies and procedures regarding suitability review of client transactions;
- the failure of, or legal challenges to, the support tools we provide to our sales force;
- the inability of our subsidiaries to pay dividends or make distributions;
- the effects of a delay in the recovery of the U.S. and Canadian economies;
- our ability to generate and maintain a sufficient amount of capital;
- our non-compliance with the covenants of the Citi note;
- legal and regulatory investigations and actions concerning us or our sales representatives;
- the competitive environment;
- the loss of key personnel;
- the failure of our information technology systems, breach of our information security or failure of our business continuity plan;
- fluctuations in Canadian currency exchange rates;
- conflicts of interests due to Citi’s significant interest in us, Warburg Pincus’ significant interest in us and the limited liability of Citi’s directors and officers for breach of fiduciary duty;





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engagement by Citi in the same type of businesses that we conduct; and  
substantial fluctuation in the price of our common stock, the future sale of our common stock or the perception that such a sale could occur.

Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common stock.

The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this document may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest rate risk

The fair value of the fixed-maturity securities in our invested asset portfolio as of September 30, 2011 was \$2.12 billion. The primary market risk for this portion of our invested asset portfolio is interest rate risk. One means of assessing the exposure of our fixed-maturity securities portfolios to interest rate changes is a duration-based analysis that measures the potential changes in market value resulting from a hypothetical change in interest rates of 100 basis points across all maturities. This model is sometimes referred to as a parallel shift in the yield curve. Under this model, with all other factors constant and assuming no offsetting change in the value of our liabilities, we estimated that such an increase in interest rates would cause the market value of our fixed-maturity securities portfolios to decline by approximately \$66.2 million, or 3%, based on our actual securities positions as of September 30, 2011.

Canadian currency risk

We also have exposure to foreign currency exchange risk to the extent we conduct business in Canada. For the nine months ended September 30, 2011, 19% of our revenues from operations, excluding realized investment gains, were generated by our Canadian operations. A strong Canadian dollar relative to the U.S. dollar results in higher levels of reported revenues, expenses, net income, assets, liabilities and accumulated other comprehensive income (loss) in our U.S. dollar financial statements and a weaker Canadian dollar has the opposite effect. Historically, we have not hedged this exposure, although we may elect to do so in future periods.

One means of assessing exposure to changes in Canadian currency exchange rates is to model the effects on reported income using a sensitivity analysis. We analyzed our Canadian currency exposure for the nine months ended September 30, 2011. Net exposure was measured assuming a 10% decrease in Canadian currency exchange rates compared to the U.S. dollar. We estimated that such a decrease would decrease our net income before income taxes for the nine months ended September 30, 2011 by approximately \$5.0 million.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, the Company's Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. As such, the Company is unable to estimate the possible loss or range of loss that may result from these matters. While it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's financial position, based on information currently known by the Company's management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect.

Item 1A. Risk Factors.

The Risk Factors contained in the 2010 Annual Report are incorporated herein by reference except to the extent they have changed materially as described in Item 8.01 to the Current Report on Form 8-K dated April 12, 2011 and as disclosed under the heading "Risk Factors" in Exhibit 99.1 thereto, which disclosure is incorporated herein by reference or as set forth below.

If heightened standards of conduct or more stringent licensing requirements, such as those recently proposed by the Securities and Exchange Commission (the "SEC") and proposed and withdrawn by the Department of Labor (the "DOL"), are imposed on us or our sales representatives or selling compensation is reduced as a result of new legislation or regulations, it could have a material adverse effect on our business, financial condition and results of operations.

Our sales representatives are subject to federal and state regulation as well as state licensing requirements. PFS Investments, which is regulated as a broker-dealer, and our U.S. sales representatives are currently subject to general anti-fraud limitations under the Exchange Act and SEC rules and regulations, as well as other conduct standards prescribed by FINRA. These standards generally require that broker-dealers and their sales representatives disclose conflicts of interest that might affect the advice or recommendations they provide and require them to make suitable investment recommendations to their customers. The Dodd-Frank Act, which gives the SEC the power to impose on broker-dealers a heightened standard of conduct that is currently applicable only to investment advisers, requires the SEC to conduct a study to evaluate the effectiveness of the current legal standards of conduct for those that provide personalized investment advice regarding securities to retail customers. The SEC staff recently submitted a report to Congress in which it recommends that the SEC adopt a uniform fiduciary standard of conduct.

In October 2010, the DOL published a proposed rule (the "DOL Proposed Rule") that would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of Internal Revenue Code Section 4975 ("IRC Section 4975"). Under IRC Section 4975, certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including IRAs, may be prohibited. In September 2011, the DOL withdrew the proposed DOL Proposed Rule, but announced that it will re-propose a similar fiduciary rule in early 2012. If PFS Investments and its securities-licensed representatives are deemed to be fiduciaries under a rule similar to the DOL Proposed Rule, our ability to receive and retain certain types of compensation paid by third parties with respect to both new and existing assets in qualified accounts could be significantly limited. Furthermore, our licensed representatives could be required to obtain additional securities licenses, which they may not be willing or able to obtain.

IRAs and other qualified accounts are a core component of the Investment and Savings Products segment of our business and accounted for a significant portion of the total revenue of this segment for the year ended December 31, 2010. Thus, if a fiduciary rule similar to the DOL Proposed Rule is re-proposed and adopted, we would expect to substantially restructure our current business model for qualified accounts. Such restructuring could make it

significantly more difficult for us and our representatives to profitably serve the middle-income market and could result in a significant reduction in the number of IRAs and qualified accounts that we serve, which could materially adversely affect the amount of revenue that we generate from this line of business and ultimately could result in a decline in the number of our securities-licensed representatives.

The DOL Proposed Rule was withdrawn in connection with substantial public comment, including significant opposition from participants in the securities industry, and, as a result, the form, substance and timing of any re-

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proposed or final rule are unknown at this time. It is also possible that a rule could be adopted in a form that does not materially adversely affect us. If re-proposed and adopted in the form initially proposed, however, the DOL Proposed Rule could have a materially adverse affect on our business, financial condition and results of operations.

Heightened standards of conduct as a result of either of the above proposals or another similar proposed rule or regulation could also increase the compliance and regulatory burdens on our representatives, lead to increased litigation and regulatory risks, changes to our business model, a decrease in the number of our securities-licensed representatives and a reduction in the products we offer to our clients, which could have a material adverse effect on our business, financial condition and results of operations.

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

During the quarter ended September 30, 2011, we repurchased shares of our common stock as follows.

| Period                 | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publically announced plans or programs | Maximun number of share that may yet be purchased under the plans or programs |
|------------------------|--------------------------------------|------------------------------|--|---|
| July 1 - 31, 2011      | —                                    | \$—                          | —  | —   |
| August 1 - 31, 2011    | —                                    | —                            | —  | —   |
| September 1 - 30, 2011 | 120                                  | 19.81                        | —  | —   |
| Total                  | 120                                  | \$19.81                      | —  | —   |

(1) The total number of shares purchased consists of shares surrendered to us to pay the tax withholding obligations of employees in connection with the lapsing of restrictions on restricted shares and restricted stock units.

## Item 6. Exhibits.

### Exhibits and Financial Statements Schedules

#### (a) Exhibits.

The agreements included as exhibits to this report are included to provide you with information regarding the terms of these agreements and are not intended to provide any other factual or disclosure information about the Company or its subsidiaries, our business or the other parties to these agreements. These agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the application agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to our investors;
- and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time, and should not be relied upon by investors.

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| Exhibit<br>Number | Description  |
|-------------------|--|
| 3.1               | Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Primerica's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (Commission File No. 001-34680))   |
| 3.2               | Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to Primerica's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (Commission File No. 001-34680))   |
| 31.1              | Rule 13a-14(a)/15d-14(a) Certification, executed by D. Richard Williams, Chairman of the Board and Co-Chief Executive Officer  |
| 31.2              | Rule 13a-14(a)/15d-14(a) Certification, executed by John A. Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer   |
| 31.3              | Rule 13a-14(a)/15d-14(a) Certification, executed by Alison S. Rand, Executive Vice President and Chief Financial Officer   |
| 32.1              | Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by D. Richard Williams, Chairman of the Board and Co-Chief Executive Officer, John A. Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer, and Alison S. Rand, Executive Vice President and Chief Financial Officer |
| 101.INS*          | XBRL Instance Document (1)   |
| 101.SCH*          | XBRL Taxonomy Extension Schema   |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF*          | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB*          | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE*          | XBRL Taxonomy Extension Presentation Linkbase  |

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections. The financial information contained in the XBRL(eXtensible Business Reporting Language)-related documents is "unaudited" and "unreviewed".

(1) Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended September 30, 2011, formatted in XBRL: (i) Condensed Balance Sheets, (ii) Condensed Statements of Income, (iii) Condensed Statements of Stockholders' Equity, (iv) Condensed Statements of Comprehensive Income, (v) Condensed Statements of Cash Flows, (vi) Notes to Condensed Financial Statements



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SIGNATURES

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

Primerica, Inc.

November 7, 2011

/s/ Alison S. Rand

Alison S. Rand

Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)