

Primerica, Inc.  
Form 10-Q  
May 12, 2011  
Table of Contents

**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 March 31, 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)

Edgar Filing: Primerica, Inc. - Form 10-Q

Delaware  
(State or other jurisdiction of  
incorporation or organization)

27-1204330  
(I.R.S. Employer  
Identification No.)

3120 Breckinridge Boulevard

Duluth, Georgia  
(Address of principal executive offices)

30099  
(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

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 May 6, 2011
Common Stock, \$.01 Par Value	73,597,404 shares

**Table of Contents**

TABLE OF CONTENTS

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>3</b>
<u>Item 1. Financial Statements.</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	41
<u>Item 4. Controls and Procedures.</u>	42
 <b><u>PART II OTHER INFORMATION</u></b>	 <b>43</b>
<u>Item 1. Legal Proceedings.</u>	43
<u>Item 1A. Risk Factors.</u>	43
<u>Item 6. Exhibits.</u>	43
<u>Signatures</u>	45

**Table of Contents****Part I FINANCIAL INFORMATION****Item 1. Financial Statements.****PRIMERICA, INC. AND SUBSIDIARIES****Condensed Balance Sheets**

	March 31, 2011 (unaudited)	December 31, 2010
	(In thousands)	
<b>Assets</b>		
Investments:		
Fixed-maturity securities available for sale, at fair value (amortized cost: \$1,969,540 in 2011 and \$1,929,757 in 2010)	\$ 2,119,658	\$ 2,081,361
Equity securities available for sale, at fair value (cost: \$17,312 in 2011 and \$17,394 in 2010)	23,252	23,213
Trading securities, at fair value (cost: \$45,937 in 2011 and \$22,619 in 2010)	46,176	22,767
Policy loans	25,721	26,229
Other invested assets	14	14
Total investments	2,214,821	2,153,584
Cash and cash equivalents	115,277	126,038
Accrued investment income	25,104	22,328
Due from reinsurers	3,770,966	3,731,634
Deferred policy acquisition costs	908,600	853,211
Premiums and other receivables	171,925	168,026
Intangible assets	74,479	75,357
Other assets	310,572	307,342
Separate account assets	2,582,881	2,446,786
Total assets	\$ 10,174,625	\$ 9,884,306
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Future policy benefits	\$ 4,470,185	\$ 4,409,183
Unearned premiums	9,493	5,563
Policy claims and other benefits payable	241,193	229,895
Other policyholders funds	353,800	357,253
Note payable	300,000	300,000
Income taxes	142,780	136,226
Other liabilities	397,562	386,182
Payable under securities lending	186,089	181,726
Separate account liabilities	2,582,881	2,446,786
Total liabilities	8,683,983	8,452,814
<b>Stockholders equity:</b>		
Common stock of \$.01 par value. Authorized 500,000 shares in 2011 and 2010 and issued 73,188 shares in 2011 and 72,843 shares in 2010	732	728
Paid-in capital	889,654	883,168

Edgar Filing: Primerica, Inc. - Form 10-Q

Retained earnings	446,767	395,057
Accumulated other comprehensive income, net of income tax:		
Unrealized foreign currency translation gains	59,221	56,492
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	96,543	98,322
Net unrealized investment losses other-than-temporarily impaired	(2,275)	(2,275)
Total stockholders' equity	1,490,642	1,431,492
Total liabilities and stockholders' equity	\$ 10,174,625	\$ 9,884,306

See accompanying notes to condensed financial statements.

**Table of Contents****PRIMERICA, INC. AND SUBSIDIARIES****Condensed Statements of Income - Unaudited**

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Revenues:</b>		
Direct premiums	\$ 552,069	\$ 537,845
Ceded premiums	(422,238)	(148,119)
Net premiums	129,831	389,726
Commissions and fees	106,116	91,690
Net investment income	28,626	82,576
Realized investment gains, including other-than-temporary impairment losses	327	31,057
Other, net	11,452	11,893
Total revenues	276,352	606,942
<b>Benefits and expenses:</b>		
Benefits and claims	57,635	170,735
Amortization of deferred policy acquisition costs	25,556	91,756
Sales commissions	50,356	43,881
Insurance expenses	9,552	37,529
Insurance commissions	5,000	6,371
Interest expense	6,997	
Other operating expenses	40,111	36,268
Total benefits and expenses	195,207	386,540
Income before income taxes	81,145	220,402
Income taxes	28,678	77,116
Net income	\$ 52,467	\$ 143,286
<b>Earnings per share:</b>		
Basic	\$ .69	
Diluted	\$ .68	
<b>Weighted-average shares used in computing earnings per share:</b>		
Basic	72,671	
Diluted	73,826	
<b>Supplemental disclosures:</b>		
Total impairment losses	\$ (267)	\$ (10,561)
Impairment losses recognized in other comprehensive income before income taxes		
Net impairment losses recognized in earnings	(267)	(10,561)
Other net realized investment gains	594	41,618

Edgar Filing: Primerica, Inc. - Form 10-Q

Realized investment gains, including other-than-temporary impairment losses	\$	327	\$	31,057
---	----	-----	----	--------

See accompanying notes to condensed financial statements.

**Table of Contents****PRIMERICA, INC. AND SUBSIDIARIES****Condensed Statements of Stockholders Equity - Unaudited**

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Common stock:</b>		
Balance, beginning of period	\$ 728	\$
Net issuance of common stock	4	
Balance, end of period	732	
<b>Paid-in capital:</b>		
Balance, beginning of period	883,168	1,124,096
Share-based compensation	5,322	279
Ceded capital adjustment	1,168	
Net issuance of common stock	(4)	
Net capital contributed from Citigroup Inc.		187,697
Balance, end of period	889,654	1,312,072
<b>Retained earnings:</b>		
Balance, beginning of period	395,057	3,648,801
Net income	52,467	143,286
Dividends to stockholders (\$0.01 per share)	(757)	
Distributions to Citigroup Inc.		(3,491,556)
Balance, end of period	446,767	300,531
<b>Accumulated other comprehensive income:</b>		
Balance, beginning of period	152,539	170,876
Change in foreign currency translation adjustment, net of income tax expense of \$0 in 2011 and \$(4,632) in 2010	2,730	12,185
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 benefit of \$2,078 in 2011 and \$33,408 in 2010	(1,780)	(60,840)
Change in net unrealized investment gains (losses) other-than-temporarily impaired, net of income tax (expense) benefit of \$0 in 2011 and \$(6,395) in 2010		11,875
Balance, end of period	153,489	134,096
Total stockholders equity	\$ 1,490,642	\$ 1,746,699

See accompanying notes to condensed financial statements.

Table of Contents**PRIMERICA, INC. AND SUBSIDIARIES****Condensed Statements of Comprehensive Income - Unaudited**

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Net income	\$ 52,467	\$ 143,286
<b>Other comprehensive income (loss) before income taxes:</b>		
Unrealized investment gains (losses):		
Change in unrealized holding gains on investment securities	(3,638)	87,020
Reclassification adjustment for realized investment gains included in net income	(220)	(30,310)
Reclassification adjustment for unrealized holding gains on investment securities transferred		(132,688)
Foreign currency translation adjustments:		
Change in unrealized foreign currency translation gains	2,730	16,817
Total other comprehensive loss before income taxes	(1,128)	(59,161)
Income tax benefit related to items of other comprehensive loss	2,078	22,381
Other comprehensive income (loss), net of income tax benefit	950	(36,780)
Total comprehensive income	\$ 53,417	\$ 106,506

See accompanying notes to condensed financial statements.

**Table of Contents****PRIMERICA, INC. AND SUBSIDIARIES****Condensed Statements of Cash Flows - Unaudited**

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 52,467	\$ 143,286
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Change in future policy benefits	32,159	40,979
Change in other policy benefits	11,775	25,951
Deferral of policy acquisition costs	(72,524)	(93,303)
Amortization of deferred policy acquisition costs	25,556	91,756
Change in income taxes	8,630	1,063
Realized investment (gains) losses, including other-than-temporary impairments	(327)	(31,057)
Accretion and amortization of investments	(1,867)	(490)
Income recognized on equity method investments	138	(624)
Depreciation and amortization	2,657	2,432
Change in due from reinsurers	(12,289)	(31,996)
Change in due to/from affiliates		(4,677)
Change in premiums and other receivables	(4,591)	(19,598)
Trading securities (acquired) sold, net	(23,547)	2,184
Share-based compensation	3,425	279
Other, net	(18,416)	(9,080)
Net cash provided by operating activities	3,246	117,105
<b>Cash flows from investing activities:</b>		
<b>Available-for-sale investments sold, matured or called:</b>		
Fixed-maturity securities - sold	29,424	871,135
Fixed-maturity securities - matured or called	134,252	221,326
Equity securities	84	33,668
<b>Available-for-sale investments acquired:</b>		
Fixed-maturity securities	(176,073)	(343,737)
Equity securities	(38)	(3,493)
Net decrease in policy loans and other invested assets	508	1,175
Purchases of furniture and equipment, net	(580)	(1,122)
Cash received (returned) as collateral on loaned securities, net	4,363	(381,059)
(Purchases) sales of short-term investments using securities lending collateral	(4,363)	381,059
Net cash (used in) provided by investing activities	(12,423)	778,952
<b>Cash flows from financing activities:</b>		
Dividends to stockholders	(757)	
Net distributions to Citigroup Inc.		(612,725)
Net cash used in financing activities	(757)	(612,725)
Effect of foreign exchange rate changes on cash	(827)	24,179
(Decrease) increase in cash and cash equivalents	(10,761)	307,511
Cash and cash equivalents, beginning of period	126,038	602,522
Cash and cash equivalents, end of period	\$ 115,277	\$ 910,033

Edgar Filing: Primerica, Inc. - Form 10-Q

**Supplemental disclosures of cash flow information:**

Income taxes paid	\$ 20,807	\$ 164,847
Interest paid	10,418	1,326
Impairment losses included in realized gains (losses) on sale of investments	267	10,561

**Non-cash activities:**

Share-based compensation	\$ 5,322	\$ 279
Net distributions to Citigroup Inc.		(2,015,470)
Ceded capital adjustment	1,168	

See accompanying notes to condensed financial statements.

---

**Table of Contents**

**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 ended after March 31, 2010 have been consolidated while financial statements for periods ended March 31, 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 March 31, 2011 and December 31, 2010, and the statements of income, comprehensive income, stockholders' equity and cash flows for the three months ended March 31, 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.

The following 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.

**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.

**Significant Accounting Policies.** All significant accounting policies remain unchanged from our Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Annual Report).



---

**Table of Contents****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 will include incremental direct costs of 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 costs for soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development 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. The revised definition will increase the portion of acquisition costs being expensed as incurred rather than deferred and amortized over the lives of the underlying policies. The update allows either prospective or retrospective adoption and is required to be adopted for our fiscal year beginning January 1, 2012. While we have not yet determined the method of adoption and are currently unable to quantify the impact of implementation, we expect that this update may 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, taxes or required capital. The update will only impact the timing of expense recognition for certain acquisition costs.

Recent accounting guidance not discussed above is not applicable to or did not have an impact on our business. 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 initial public offering (the Offering) completed in April 2010; 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.

***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 will reduce future amortization expenses. In addition, we will transfer between 80% and 90% of all future premiums and benefits and claims associated with these policies to the corresponding reinsurance entities. We will receive ongoing ceding allowances, which will be reflected as a reduction to insurance expenses, to cover policy and claims administration expenses under each of these reinsurance contracts.



**Table of Contents**

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 \$50.2 million at March 31, 2011, with no associated liability. We will 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 will 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 will be 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.

**(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:

	March 31, 2011	December 31, 2010
	(In thousands)	
<b>Assets:</b>		
Term life insurance segment	\$ 5,893,587	\$ 5,738,219
Investment and savings products segment	2,763,022	2,615,916
Corporate and other distributed products segment	1,518,016	1,530,171
<b>Total assets</b>	<b>\$ 10,174,625</b>	<b>\$ 9,884,306</b>

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Investment and savings products segment assets, excluding separate accounts	\$ 181,333	\$ 170,326
Although we do not view our business in terms of geographic segmentation, details on our Canadian businesses	percentage of total assets were	
as follows:		

	March 31, 2011	December 31, 2010
Canadian assets as a percent of total assets	32%	31%

Edgar Filing: Primerica, Inc. - Form 10-Q

Canadian assets as a percent of total assets, excluding separate accounts	9%	9%
---	----	----

10

**Table of Contents**

Information regarding operations by segment follows:

	<b>Three months ended March 31, 2011                  2010 (In thousands)</b>	
<b>Revenues:</b>		
Term life insurance	\$ 136,962	\$ 447,178
Investment and savings products	100,846	86,693
Corporate and other distributed products	38,544	73,071
<b>Total revenues</b>	<b>\$ 276,352</b>	<b>\$ 606,942</b>
<b>Income (loss) before income taxes:</b>		
Term life insurance	\$ 57,648	\$ 160,367
Investment and savings products	31,039	25,447
Corporate and other distributed products	(7,542)	34,588
<b>Total income before income taxes</b>	<b>\$ 81,145</b>	<b>\$ 220,402</b>

The significant decline in revenues and income (loss) before income taxes for the Term Life Insurance and Corporate and Other Distributed Products segments was primarily driven by the reinsurance and reorganization transactions discussed in Note 2.

Information regarding operations by country follows:

	<b>Three months ended March 31, 2011                  2010 (In thousands)</b>	
<b>Revenues by country:</b>		
United States	\$ 222,403	\$ 512,000
Canada	53,949	94,942
<b>Total revenues</b>	<b>\$ 276,352</b>	<b>\$ 606,942</b>
<b>Income before income taxes by country:</b>		
United States	\$ 64,100	\$ 180,369
Canada	17,045	40,033
<b>Total income before income taxes</b>	<b>\$ 81,145</b>	<b>\$ 220,402</b>

Details on the contribution to results of operations by our Canadian businesses were as follows:

	<b>Three months ended March 31, 2011                  2010</b>	
Canadian revenues as a percent of total revenues	20%	16%
Canadian income before income taxes as a percent of total income before income taxes	21%	18%

The increase in the percentages of Canadian revenues and income before income taxes was primarily a result of lower U.S. revenues and income before income taxes due to the impact of our corporate reorganization in 2010 and an increase in the Canadian dollar exchange rate for the three

Edgar Filing: Primerica, Inc. - Form 10-Q

months ended March 31, 2011 relative to the same period a year ago.

**Table of Contents****(4) Investments**

The period-end cost or amortized cost, gross unrealized gains and losses, and fair value of fixed-maturity and equity securities follow:

	Cost or amortized cost	March 31, 2011 Gross unrealized gains Gross unrealized losses (In thousands)		Fair value
<b>Securities available for sale, carried at fair value:</b>				
<b>Fixed-maturity securities:</b>				
U.S. government and agencies	\$ 16,573	\$ 594	\$ (56)	\$ 17,111
Foreign government	85,451	13,556	(13)	98,994
States and political subdivisions	26,740	1,012	(198)	27,554
Corporates	1,327,092	110,653	(3,114)	1,434,631
Mortgage- and asset-backed securities	513,684	29,850	(2,166)	541,368
Total fixed-maturity securities	1,969,540	155,665	(5,547)	2,119,658
Equity securities	17,312	6,050	(110)	23,252
Total fixed-maturity and equity securities	\$ 1,986,852	\$ 161,715	\$ (5,657)	\$ 2,142,910

No other-than-temporary impairment losses recognized in AOCI as of March 31, 2011.

	Cost or amortized cost	December 31, 2010 Gross unrealized gains Gross unrealized losses (In thousands)		Fair value
<b>Securities available for sale, carried at fair value:</b>				
<b>Fixed-maturity securities:</b>				
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 impairments losses recognized in AOCI.

All of our 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.

## Edgar Filing: Primerica, Inc. - Form 10-Q

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:

	March 31, 2011	December 31, 2010
	(In thousands)	
Fair value of investments on deposit with governmental authorities	\$ 18,897	\$ 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 it

**Table of Contents**

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 other asset on our balance sheet. Cash collateral received and reinvested was as follows:

	March 31, 2011	December 31, 2010
	(In thousands)	
Securities lending collateral	\$ 186,089	\$ 181,726

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Fixed-maturity securities classified as trading, carried at fair value	\$ 46,176	\$ 22,767

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Fixed-maturity and equity security investments with cost basis in excess of fair value	\$ 292,007	\$ 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:

	March 31, 2011					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(In thousands, except number of securities)					
<b>Fixed-maturity securities:</b>						
U.S. government and agencies	\$ 6,365	\$ (56)	2	\$	\$	
Foreign government	2,887	(13)	3			
States and political subdivisions	5,737	(198)	12			
Corporates	199,226	(2,669)	129	2,985	(445)	5
Mortgage- and asset-backed securities	35,876	(224)	26	31,703	(1,942)	18
Total fixed-maturity securities	250,091	(3,160)		34,688	(2,387)	
Equity securities	1,539	(105)	5	32	(5)	2
Total fixed-maturity and equity securities	\$ 251,630	\$ (3,265)		\$ 34,720	\$ (2,392)	

**Table of Contents**

	December 31, 2010					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(In thousands, except number of securities)					
<b>Fixed-maturity securities:</b>						
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 scheduled maturity distribution of the available-for-sale fixed-maturity portfolio at March 31, 2011 follows.

	Cost or amortized cost	Fair value
	(In thousands)	
Due in one year or less	\$ 177,223	\$ 182,704
Due after one year through five years	681,711	735,417
Due after five years through 10 years	558,685	616,132
Due after 10 years	38,237	44,037
	1,455,856	1,578,290
Mortgage- and asset-backed securities	513,684	541,368
Total fixed-maturity securities	\$ 1,969,540	\$ 2,119,658

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.

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Net unrealized investment gains including foreign currency translation adjustment and other-than-temporary impairments	\$ 156,058	\$ 157,423
Less foreign currency translation adjustment	(12,257)	(9,766)
Other-than-temporary impairments	3,500	3,500
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	147,301	151,157
Less deferred income taxes	50,758	52,835
	\$ 96,543	\$ 98,322

Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax

**Table of Contents****Investment Income**

The components of net investment income were as follows:

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Fixed-maturity securities	\$ 29,014	\$ 83,814
Equity securities	188	1,239
Policy loans and other invested assets	328	317
Cash and cash equivalents	70	301
Market return on deposit asset underlying 10% reinsurance agreement	508	
Gross investment income	30,108	85,671
Investment expenses	(1,482)	(3,095)
Net investment income	\$ 28,626	\$ 82,576

Trading portfolio gains included in net investment income were as follows:

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Trading portfolio gains included in net investment income	\$ 44	\$ 200

Trading portfolio (losses) gains included in net investment income from fixed-maturity securities still owned was as follows:

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Trading portfolio (losses) gains from fixed-maturity securities still owned	\$ (139)	\$ 58

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:

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Gross realized investment gains (losses):</b>		
Gains from sales	\$ 812	\$ 42,749
Losses from sales	(325)	(1,878)
Other-than-temporary impairments	(267)	(10,561)
Gains from derivatives	107	747
Net realized investment gains	\$ 327	\$ 31,057

## Edgar Filing: Primerica, Inc. - Form 10-Q

Gross realized investment gains reclassified from accumulated other comprehensive income	\$ 220	\$ 30,310
Proceeds from sales or other redemptions	\$ 163,760	\$ 1,126,129

### ***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.

**Table of Contents**

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 bonds by reviewing the issuer's most recent performance to date, including analyst reviews, analyst outlooks and rating agency information;

Analysis of commercial mortgage-backed bonds based on the risk assessment of each security including 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 bonds based on loss projections provided by models compared to current credit enhancement levels;

Analysis of our other 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:

	March 31, 2011		December 31, 2010	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	\$ 345	\$ 1,058	\$ 970	\$ 1,558

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

	Three months ended March 31,	
	2011	2010
	(In thousands)	
Impairments on fixed-maturity securities in default	\$ 4	\$ 1
Impairments on fixed-maturity securities not in default	260	10,559
Impairments on equity securities	3	1
Total impairment charges	\$ 267	\$ 10,561

The bonds 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 three months ended March 31, 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 three months ended March 31, 2010, we recognized impairments primarily as a result of our intent to sell certain corporate and mortgage-backed

## Edgar Filing: Primerica, Inc. - Form 10-Q

securities in anticipation of the reinsurance and reorganization transactions discussed in Note 2.

As of March 31, 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.

**Table of Contents**

Net impairment losses recognized in earnings were as follows:

	Three months ended March 31, 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	\$	\$ 285
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)		
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		285
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	267	10,276
Net impairment losses recognized in earnings	\$ 267	\$ 10,561

The year-to-date roll-forward of the credit-related losses recognized in income for all securities still held at March 31, 2011 follows:

	January 1, 2011 cumulative OTTI credit losses recognized for securities still held	Cumulative OTTI credit-related losses recognized in income for available-for-sale securities			March 31, 2011 cumulative OTTI credit losses recognized for securities still held
		Additions for OTTI securities where no credit losses were recognized prior to January 1, 2011	Additions for OTTI securities where credit losses have been recognized prior to January 1, 2011 (In thousands)	Reductions due to sales of credit impaired securities	
Corporates	\$ 28,029	\$ 4	\$ 243	\$ (760)	\$ 27,516
Mortgage- and asset-backed securities	13,100		18		13,118
Total	\$ 41,129	\$ 4	\$ 261	\$ (760)	\$ 40,634

**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

## Edgar Filing: Primerica, Inc. - Form 10-Q

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

**Table of Contents**

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 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.

The estimated fair value and hierarchy classifications were as follows:

	Level 1	March 31, 2011		Fair value
		Level 2	Level 3	
(In thousands)				
<b>Fair value assets:</b>				
<b>Fixed-maturity securities:</b>				
U.S. government and agencies	\$	\$ 17,111	\$	\$ 17,111
Foreign government		98,994		98,994
States and political subdivisions		27,554		27,554
Corporates		1,410,178	24,453	1,434,631
Mortgage- and asset-backed securities		539,311	2,057	541,368
Total fixed-maturity securities		2,093,148	26,510	2,119,658
Equity securities	14,958	4,642	3,652	23,252
Trading securities		46,176		46,176
Separate accounts		2,582,881		2,582,881
Total fair value assets	\$ 14,958	\$ 4,726,847	\$ 30,162	\$ 4,771,967
<b>Fair value liabilities:</b>				
Currency swaps and forwards	\$	\$ 2,544	\$	\$ 2,544
Separate accounts		2,582,881		2,582,881
Total fair value liabilities	\$	\$ 2,585,425	\$	\$ 2,585,425
	Level 1	December 31, 2010		Fair value
		Level 2	Level 3	
(In thousands)				
<b>Fair value assets:</b>				
<b>Fixed-maturity securities:</b>				
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
<b>Fair value liabilities:</b>				
Currency swaps and forwards	\$	\$ 2,228	\$	\$ 2,228

## Edgar Filing: Primerica, Inc. - Form 10-Q

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 private 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 data inputs come from observable data corroborated by independent

**Table of Contents**

third-party data. In the absence of sufficient observable inputs, we utilize non-binding broker quotes, which are reflected in our Level 3 classification.

We perform internal 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 corroborating with 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.

The year-to-date roll forward of the Level 3 asset category was as follows:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Level 3 assets, beginning of period	\$ 24,998	\$ 771,271
Net unrealized losses through other comprehensive income	(49)	(2,486)
Net realized gains through realized investment gains, including OTTI	595	1,076
Purchases	6,914	1,770
Sales	(5,835)	(23,987)
Settlements	(224)	(166)
Transfers into level 3	4,501	39,293
Transfers out of level 3	(738)	(221,056)
Transfers due to funding of reinsurance transactions		(522,372)
Level 3 assets, end of period	\$ 30,162	\$ 43,343

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. Invested assets included in the 2010 transfer from Level 3 to Level 2 were primarily non-agency mortgage-backed securities. Invested assets included in the transfer from Level 2 to Level 3 in 2011 and 2010 primarily were fixed-maturity investments for which we were unable to corroborate independent broker quotes with observable market data. There were no significant transfers between Level 1 and Level 2 or between Level 1 and Level 3 as of March 31, 2011.

**Table of Contents****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 our derivatives follow.

	March 31, 2011	December 31, 2010
	(In thousands)	
Aggregate notional balance of derivatives	\$ 5,878	\$ 5,878
Aggregate fair value of derivatives	(2,544)	(2,228)

The change in fair value of these derivatives, as included in realized investment gains, including OTTI was as follows:

	Three months ended March 31, 2011	2010
	(In thousands)	
Change in fair value	\$ 107	\$ 747

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:

	March 31, 2011	December 31, 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**

The fair value of equity securities selected for fair value accounting was as follows:

	Three months ended March 31,	
	2011	2010
	(In thousands)	
Fair value, beginning of period	\$	\$ 7,693
Fair value, end of period		

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. Fair value gains included in net investment income were as follows:

	Three months ended March 31, 2011	2010
	(In thousands)	
Fair value gains included in net investment income	\$	\$ 667



**Table of Contents****(5) Financial Instruments**

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

	March 31, 2011		December 31, 2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
(In thousands)				
<b>Assets:</b>				
Fixed-maturity securities	\$ 2,119,658	\$ 2,119,658	\$ 2,081,361	\$ 2,081,361
Equity securities	23,252	23,252	23,213	23,213
Trading securities	46,176	46,176	22,767	22,767
Policy loans	25,721	25,721	26,229	26,229
Other invested assets	14	14	14	14
Deposit asset underlying 10% reinsurance agreement	50,223	50,223	50,099	50,099
Separate accounts	2,582,881	2,582,881	2,446,786	2,446,786
<b>Liabilities:</b>				
Note payable	\$ 300,000	\$ 326,059	\$ 300,000	\$ 323,670
Currency swaps and forwards	2,544	2,544	2,228	2,228
Separate accounts	2,582,881	2,582,881	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 primarily provided by a third-party vendor. 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 bonds, 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. Derivative instruments are stated at fair value based on market prices. 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 approximated their fair values due to the short-term nature of these instruments. Consequently, such instruments are not included in the above table. The preceding table also excludes future policy benefits and unpaid policy claims as these items are not subject to financial instrument disclosures.

**(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:

	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Direct life insurance in force	\$ 663,825	\$ 662,135
Amounts ceded to other companies	(599,435)	(600,807)
Net life insurance in force	\$ 64,390	\$ 61,328
Percentage of reinsured life insurance in force	90.3%	90.7%



**Table of Contents**

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

	March 31, 2011		December 31, 2010	
	A.M. Best		A.M. Best	
	Reinsurance receivable	rating	Reinsurance receivable	rating
	(In millions)			
Prime Reinsurance Company (1)	\$ 2,377	NR	\$ 2,353	NR
Financial Reassurance Company 2010, Ltd. (1)	346	NR	333	NR
American Health and Life Insurance Company (1)	157	A	156	A
Due from related party reinsurers	2,880		2,842	
Swiss Re Life & Health America Inc.	240	A	242	A
SCOR Global Life Reinsurance Companies	142	A	139	A
Generali USA Life Reassurance Company	113	A	112	A
Transamerica Reinsurance Companies	101	A+	103	A+
Munich American Reassurance Company	93	A+	97	A+
Korean Reinsurance Company	89	A	83	A-
RGA Reinsurance Company	66	A+	64	A+
All other reinsurers	47		50	
Due from reinsurers	\$ 3,771		\$ 3,732	

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

NR not rated

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, 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 in the first quarter of 2011 reflects the remaining agreements signed in the first quarter of 2011. No further recoveries are anticipated.

**(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 (after deducting fees and expenses) 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 March 31, 2011. No events of default or defaults occurred during the three months ended March 31, 2011.

**Table of Contents****(8) Stockholders Equity and Earnings Per Share**

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.

	<b>Three months ended March 31, 2011 (Shares in thousands)</b>
Common stock, beginning of period	72,843
Shares of restricted common stock issued, net	337
Common shares issued upon lapse of restricted stock units (RSUs)	9
Common stock retired	(1)
Common stock, end of period	73,188

Primerica has outstanding common stock, 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 of issuing equity awards that are deemed participating securities, 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. The calculation of basic and diluted EPS follows.

	<b>Three months ended March 31, 2011 (In thousands, except per-share amounts)</b>
<b>Basic EPS:</b>	
Numerator:	
Net income	\$ 52,467
Income attributable to unvested participating securities	(2,103)
Net income used in calculating basic EPS	\$ 50,364
Denominator:	
Weighted-average vested shares	72,671
Basic EPS	\$ .69
<b>Diluted EPS:</b>	
Numerator:	
Net income	\$ 52,467
Income attributable to unvested participating securities	(2,072)

Edgar Filing: Primerica, Inc. - Form 10-Q

Net income used in calculating diluted EPS	\$	50,395
Denominator:		
Weighted-average vested shares		73,826
Diluted EPS	\$	.68

**Table of Contents****(9) Share-Based Transactions**

As of March 31, 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 March 31, 2011, we had 2.7 million shares available for future grants under this plan.

All outstanding management awards have time-based vesting requirements, vesting over three years. For the three months ended March 31, 2011, we recognized approximately \$3.4 million of expense in connection with management equity awards. This expense was partially offset by a tax benefit of approximately \$1.2 million. As of March 31, 2011, total compensation cost not yet recognized in our financial statements related to management equity awards was \$35.1 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 2.3 years.

Certain quarterly incentive contests among our sales force leaders have performance-based vesting requirements whose service period and final vesting occur within the same calendar quarter. These awards are granted in the form of RSUs which are subject to sale restrictions expiring over the three years subsequent to being vested. These awards vary with and primarily relate to acquiring life insurance policies and therefore are deferred and amortized over the lives of the underlying policies acquired. For the three months ended March 31, 2011, we deferred \$1.9 million, thereby increasing DAC on our balance sheet. This amount will be amortized over the terms of the underlying policies acquired.

All of our outstanding equity awards are eligible for dividends or dividend equivalents regardless of vesting status and therefore are included in our calculation of EPS under the two-class method. As such, subsequent vesting and expiration of sales restrictions will not materially impact basic or diluted EPS.

**(10) Commitments and Contingent Liabilities**

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.

**(11) Subsequent Events**

On April 14, 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 at a public offering price of \$22.75 per share (the Secondary Offering). 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, which was originally filed with the Securities and Exchange Commission (the SEC) on April 1, 2011 and was amended and declared effective on April 8, 2011, and the Company's prospectus supplement dated April 14, 2011, as filed with the SEC.

As of March 31, 2011, Citi owned less than 40% of our outstanding common stock. Immediately after the completion of the Secondary Offering, Citi owned approximately 23% of our outstanding common stock. The Secondary Offering had no impact on Warburg Pincus' ownership stake in our common stock of approximately 22% as of March 31, 2011.

**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, the Company ) for the period from December 31, 2010 to March 31, 2011. As a result, the following discussion should be read in conjunction with 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



## **Table of Contents**

discussed under the heading "Risk Factors" in the Prospectus Supplement dated April 12, 2011 filed as an exhibit to our Current Report on Form 8-K dated April 12, 2011. 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

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, variable 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, which means 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 83% of the face amount of the policies we issued in the first three months of 2011. The average face amount of our in-force policies issued during the three months ended March 31, 2011 was approximately \$260,000. Premiums are guaranteed to remain level during the initial term period, up to a maximum of 20 years in the United States. While premiums remain level over the initial term period, 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 initially declined in proportion to the amount of revenues and earnings historically

## Edgar Filing: Primerica, Inc. - Form 10-Q

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

---

## **Table of Contents**

accounts we administer. 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 us 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.

## **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. 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.

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 three months ended March 31, 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). 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 will include incremental direct costs of 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 costs for soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development 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. The revised definition will increase the portion of acquisition costs being expensed as incurred rather than deferred and amortized over the lives of the underlying policies. The update allows either prospective or retrospective adoption and is required to be adopted for our fiscal year beginning January 1, 2012. While we have not yet determined the method of adoption and are currently unable to quantify the impact of implementation, we expect that this update may 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, taxes or required capital. The update will only impact the timing of expense recognition for certain acquisition costs.

## **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



## Table of Contents

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 March 31, 2011, recruiting declined to 52,813 new recruits from 58,085 in the first three months of 2010, reflecting the challenging economic environment and the absence of an incentive trip contest in the first half of 2011 due to our upcoming biennial convention scheduled for June 2011. The size of our life-licensed sales force declined to 92,212 sales representatives as of March 31, 2011 from 94,850 sales representatives as of December 31, 2010. Historically, the period from recruitment to licensure has been approximately three months. We believe that the decline in the life-licensed sales force is reflective of the seasonal decline in new recruits during the three months ended December 31, 2010 as well as the decline in new recruits during the three months ended March 31, 2011.

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Average number of life-licensed insurance sales representatives	93,001	98,156
Number of new policies issued	51,281	52,445
Average monthly rate of new policies issued per licensed sales representative	.18x	.18x

*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 yield rates 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

## Edgar Filing: Primerica, Inc. - Form 10-Q

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,

---

## Table of Contents

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 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 will result in lower profits. In the later years, when the reserve liability is higher than the DAC asset, a lower assumed investment yield 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 claims 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 coinsured with Citi. There is no impact on amortization of DAC associated with our YRT contracts.

*Acquisition and operating expenses.* Acquisition and operating 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 other than the Citi reinsurance transactions.

## Edgar Filing: Primerica, Inc. - Form 10-Q

*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 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 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

## **Table of Contents**

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.

*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 the 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.

## Edgar Filing: Primerica, Inc. - Form 10-Q

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 the Offering, interest expense on the Citi note and realized gains and losses on our invested asset portfolio.

**Table of Contents****Results of Operations****Primerica, Inc. and Subsidiaries Actual Results**

Our results of operations for the three months ended March 31 were as follows:

	Three months ended March 31,		Change	
	2011	2010	\$	%
(Dollars in thousands)				
<b>Revenues:</b>				
Direct premiums	\$ 552,069	\$ 537,845	\$ 14,224	3%
Ceded premiums	(422,238)	(148,119)	(274,119)	*
Net premiums	129,831	389,726	(259,895)	-67%
Commissions and fees	106,116	91,690	14,426	16%
Net investment income	28,626	82,576	(53,950)	-65%
Realized investment gains (losses), including OTTI	327	31,057	(30,730)	-99%
Other, net	11,452	11,893	(441)	-4%
<b>Total revenues</b>	<b>276,352</b>	<b>606,942</b>	<b>(330,590)</b>	<b>-54%</b>
<b>Benefits and expenses:</b>				
Benefits and claims	57,635	170,735	(113,100)	-66%
Amortization of DAC	25,556	91,756	(66,200)	-72%
Sales commissions	50,356	43,881	6,475	15%
Insurance expenses	9,552	37,529	(27,977)	-75%
Insurance commissions	5,000	6,371	(1,371)	-22%
Interest expense	6,997	6,997	6,997	*
Other operating expenses	40,111	36,268	3,843	11%
<b>Total benefits and expenses</b>	<b>195,207</b>	<b>386,540</b>	<b>(191,333)</b>	<b>-49%</b>
<b>Income before income taxes</b>	<b>81,145</b>	<b>220,402</b>	<b>(139,257)</b>	<b>-63%</b>
Income taxes	28,678	77,116	(48,438)	-63%
<b>Net income</b>	<b>\$ 52,467</b>	<b>\$ 143,286</b>	<b>\$ (90,819)</b>	<b>-63%</b>

\* Not meaningful

*Net premiums.* Net premiums were lower for the three months ended March 31, 2011 primarily due to the significant increase in ceded premiums associated with the Citi reinsurance agreements executed on March 31, 2010. The effect of these agreements on net premiums impacted the Term Life Insurance segment.

*Commissions and fees.* The increase in commissions and fees for the three months ended March 31, 2011 was primarily driven by activity in our Investment and Savings Product segment as a result of improved market conditions and the increased demand for our products.

*Net investment income.* Net investment income declined in the three months ended March 31, 2011 primarily as a result of the impact on our invested asset portfolio of the asset transfers that we executed in connection with our corporate reorganization in 2010. On March 31, 2010, we transferred approximately \$4.0 billion of assets to support the statutory liabilities assumed by the Citi reinsurers, and in April 2010, we paid dividends to Citi of approximately \$675.7 million. Lower yields on invested assets also negatively impacted net investment income during the first quarter of 2011.

## Edgar Filing: Primerica, Inc. - Form 10-Q

*Total benefits and expenses.* The decrease in total benefits and expenses for the three months ended March 31, 2011 largely reflects lower benefits and claims, lower amortization of DAC and lower insurance expenses as a result of the Citi reinsurance agreements. The changes associated with the Citi reinsurance agreements impacted the Term Life Insurance segment, while the changes in interest and other operating expenses primarily impacted the Corporate and Other Distributed Products segment.

*Income taxes.* Our effective income tax rate for the three months ended March 31, 2011 was 35.3%, compared with 35.0% for the three months ended March 31, 2010. In the first quarter of 2011, provision was made for income taxes on unremitted earnings of our Canadian subsidiaries, except where we deemed earnings to be permanently reinvested. This charge was partially offset by the benefit of a lower tax rate in Canada.

**Table of Contents****Segment Results***Term Life Insurance Segment Actual Results*

We entered into the Citi reinsurance and reorganization transactions during March and April of 2010. As such, actual results for the three months ended March 31, 2010 do not reflect the Citi reinsurance and reorganization transactions and 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. Term Life Insurance segment actual results were as follows:

	Three months ended March 31,		Change	
	2011	2010	\$	%
	(Dollars in thousands)			
<b>Revenues:</b>				
Direct premiums	\$ 532,167	\$ 517,932	\$ 14,235	3%
Ceded premiums	(418,653)	(144,370)	(274,283)	*
Net premiums	113,514	373,562	(260,048)	-70%
Allocated net investment income	15,794	64,835	(49,041)	-76%
Other, net	7,654	8,781	(1,127)	-13%
Total revenues	136,962	447,178	(310,216)	-69%
<b>Benefits and expenses:</b>				
Benefits and claims	47,351	161,109	(113,758)	-71%
Amortization of DAC	22,146	88,807	(66,661)	-75%
Insurance commissions	327	2,125	(1,798)	-85%
Insurance expenses	6,618	34,770	(28,152)	-81%
Interest expense	2,872		2,872	*
Total benefits and expenses	79,314	286,811	(207,497)	-72%
Income before income taxes	\$ 57,648	\$ 160,367	\$ (102,719)	-64%

\* Not meaningful

Because the Transactions impacted period-over-period comparability, we believe that the pro forma results presented below provide meaningful additional information necessary to evaluate our segment financial results.

*Term Life Insurance Segment Pro Forma Results*

Term Life Insurance segment pro forma results give effect to the Citi reinsurance transactions, by adjusting our actual results for the three months ended March 31, 2010 presented above to reflect the impact of the Citi reinsurance transactions on premiums, benefits and claims, and amortization of DAC as well as the expense allowance received from Citi on policies in force as of January 1, 2010. Pro forma results were also adjusted to reflect a finance charge associated with one of the Citi reinsurance agreements accounted for under the deposit method and pro rata allocations of net investment income earned on invested assets transferred to the Citi reinsurers.

**Table of Contents**

On a pro forma basis, Term Life Insurance segment results were as follows:

	Three months ended March 31,		Change	
	2011 (1)	2010	\$	%
(Dollars in thousands)				
<b>Pro forma revenues:</b>				
Direct premiums	\$ 532,167	\$ 517,932	\$ 14,235	3%
Ceded premiums	(418,653)	(440,698)	(22,045)	-5%
Net premiums	113,514	77,234	36,280	47%
Allocated net investment income	15,794	16,496	(702)	-4%
Other, net	7,654	8,781	(1,127)	-13%
Total pro forma revenues	136,962	102,511	34,451	34%
<b>Pro forma benefits and expenses:</b>				
Benefits and claims	47,351	32,905	14,446	44%
Amortization of DAC	22,146	17,418	4,728	27%
Insurance commissions	327	456	(129)	-28%
Insurance expenses	6,618	8,687	(2,069)	-24%
Interest expense	2,872	2,812	60	2%
Total pro forma benefits and expenses	79,314	62,278	17,036	27%
Pro forma income before income taxes	\$ 57,648	\$ 40,233	\$ 17,415	43%

(1) For the three months ended March 31, 2011, actual results reflect the effect of all transactions associated with our corporate reorganization. Therefore, there are no pro forma results for that period.

*Net premiums.* The strong growth in net premiums versus prior year primarily reflects incremental premiums on new business issued subsequent to the Citi reinsurance transactions. Net premiums included approximately \$8.7 million related to ceded premium recoveries discussed in Note 6. Net premiums also benefited from continued improvements in persistency and a strong Canadian dollar.

*Benefits and claims.* Excluding the \$8.7 million ceded premium recoveries noted above, benefits and claims grew faster than net premiums reflecting slightly adverse mortality and continued improvements in persistency.

*Amortization of DAC.* The growth in amortization of DAC was lower than the growth in net premiums due to the inclusion of a one-time DAC adjustment of approximately \$2.2 million largely related to in-force business ceded to the Citi reinsurers and continued improvements in persistency.

*Insurance expenses.* Insurance expenses for the three months ended March 31, 2011 decreased primarily due to the release of management incentive compensation accruals in 2011 related to the 2010 fiscal year.

*Term Life Insurance Product Sales*

Sales of our term life insurance products have declined modestly in line with term life insurance industry trends and with the year-over-year decline in the size of our sales force. For the three months ended March 31, 2011, we issued 51,281 new policies, compared with 52,445 new policies for the same period in 2010.

**Table of Contents***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 March 31,		Change	
	2011	2010	\$	%
	(Dollars in millions)			
Face amount in force, beginning of period	\$ 656,791	\$ 650,195	\$ 6,596	1%
Issued face amount	16,735	17,997	(1,262)	-7%
Terminations	(17,247)	(18,867)	1,620	-9%
Foreign currency	2,244	2,464	(220)	*
Face amount in force, end of period (1)	\$ 658,523	\$ 651,790	\$ 6,734	1%

\* Less than 1%

(1) Totals may not add due to rounding.

Issued face amount decreased primarily due to lower policy sales and lower average size of policies issued. The decrease in terminations resulted from persistency that, while remaining below historical norms, has continued to improve.

*Investment and Savings Product Segment Actual Results*

The Transactions had no impact on the Investment and Savings Products segment. On an actual basis, Investment and Savings Products segment results were as follows:

	Three months ended March 31,		Change	
	2011	2010	\$	%
	(Dollars in thousands)			
<b>Revenues:</b>				
Commissions and fees:				
Sales-based revenues	\$ 43,128	\$ 36,363	\$ 6,765	19%
Asset-based revenues	44,825	38,014	6,811	18%
Account-based revenues	10,432	10,208	224	2%
Other, net	2,461	2,108	353	17%
Total revenues	100,846	86,693	14,153	16%
<b>Expenses:</b>				
Amortization of DAC	2,785	2,549	236	9%
Insurance commissions	2,140	1,809	331	18%
Sales commissions:				
Sales-based	30,547	26,203	4,344	17%
Asset-based	15,451	12,715	2,736	22%
Other operating expenses	18,884	17,970	914	5%
Total expenses	69,807	61,246	8,561	14%
Income before income taxes	\$ 31,039	\$ 25,447	\$ 5,592	22%



**Table of Contents**

Supplemental information on the underlying metrics that drove results follows.

	Three months ended March 31,	
	2011	2010
	(Dollars in millions and accounts in thousands)	
<b>Product sales</b>		
Mutual funds	\$ 646.0	\$ 594.7
Annuities and other	344.6	267.3
Total sales-based revenue generating product sales	990.6	862.1
Segregated funds	123.1	111.4
Total product sales (1)	\$ 1,113.7	\$ 973.5
<b>Average client asset values</b>		
Mutual funds	\$ 24,882	\$ 22,543
Annuities and other	8,242	6,847
Segregated funds	2,477	2,105
Total average asset values in client accounts (1)	\$ 35,602	\$ 31,404
<b>Average number of fee-generating accounts</b>		
Recordkeeping accounts	2,662	2,762
Custodial accounts	1,966	2,008

(1) Totals may not add due to rounding.

*Commissions and fees.* For the three months ended March 31, 2011, commissions and fees increased primarily as a result of improving economic and market trends and client demand. Sales-based revenues primarily grew as a result of demand, while asset-based revenues were driven by improved equity valuations.

*Amortization of DAC.* The increase in DAC amortization for the three months ended March 31, 2011 was associated with our Canadian Segregated Funds products and is a result of increases in asset values.

*Sales commissions.* The increase in sales- and asset-based commissions for the three months ended March 31, 2011 was primarily driven by the increases in sales and assets noted above.

*Other operating expenses.* Other operating expenses increased slightly primarily as a result of growth in the business and expenses related to new product introductions, partially offset by the release of management incentive compensation accruals in 2011 related to the 2010 fiscal year.

*Product sales.* Investment and savings products sales were significantly higher in the first three months of 2011 than the comparable period in 2010. We believe the increase in sales reflects the focus by middle income consumers on savings and debt management.

*Asset Values in Client Accounts*

Changes in asset values in client accounts were as follows:

Three months ended		Change	
March 31,		\$	%
2011	2010		
(Dollars in millions)			

## Edgar Filing: Primerica, Inc. - Form 10-Q

Asset values, beginning of period	\$ 34,869	\$ 31,303	\$ 3,566	11%
Inflows	1,114	974	140	14%
Redemptions	(1,083)	(956)	(127)	13%
Change in market value, net and other	1,288	1,350	(62)	*
Asset values, end of period (1)	\$ 36,187	\$ 32,670	\$ 3,517	11%

\* Less than 1%

(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

**Table of Contents**

increased reflecting the year-over-year increase in assets under management, even though actual redemption rates were level as a percent of average assets under management for both the first three months of 2011 and 2010. The market return on assets under management in 2011 and 2010 reflected 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.

*Corporate and Other Distributed Products Segment Actual Results*

We entered into the reorganization transactions during March and April of 2010. As such, actual results for the three months ended March 31, 2010 do not reflect the reorganization transactions. Corporate and Other Distributed Products segment actual results were as follows:

	Three months ended March 31,		Change	
	2011	2010	\$	%
(Dollars in thousands)				
<b>Revenues:</b>				
Direct premiums	\$ 19,902	\$ 19,913	\$ (11)	*
Ceded premiums	(3,585)	(3,749)	164	-4%
Net premiums	16,317	16,164	153	*
Commissions and fees	7,731	7,105	626	9%
Allocated net investment income	12,832	17,741	(4,909)	-28%
Realized investment gains (losses), including OTTI	327	31,057	(30,730)	-99%
Other, net	1,337	1,004	333	33%
<b>Total revenues</b>	<b>38,544</b>	<b>73,071</b>	<b>(34,527)</b>	<b>-47%</b>
<b>Benefits and expenses:</b>				
Benefits and claims	10,284	9,626	658	7%
Amortization of DAC	625	400	225	56%
Insurance commissions	2,533	2,437	96	4%
Insurance expenses	2,934	2,759	175	6%
Sales commissions	4,358	4,963	(605)	-12%
Interest expense	4,125		4,125	*
Other operating expenses	21,227	18,298	2,929	16%
<b>Total benefits and expenses</b>	<b>46,086</b>	<b>38,483</b>	<b>7,603</b>	<b>20%</b>
<b>(Loss) income before income taxes</b>	<b>\$ (7,542)</b>	<b>\$ 34,588</b>	<b>\$ (42,130)</b>	<b>-122%</b>

\* Less than 1% or not meaningful

Actual results for the three months ended March 31, 2010 presented above include net investment income earned on the invested assets backing the distributions to Citi made as part of our corporate reorganization.

Because the Transactions impacted period-over-period comparability, we believe that the pro forma results presented below provide meaningful additional information necessary to evaluate our segment financial results.

*Corporate and Other Distributed Products Segment Pro Forma Results*

Corporate and Other Distributed Products segment pro forma results give effect to the reorganization transactions. Net investment income was adjusted to reflect the pro rata share of income on invested assets distributed to Citi as part of our reorganization. Interest expense reflects the amount of interest that would have been accrued on the Citi note had it been in place as of January 1, 2010. Other operating expense adjustments reflect the ongoing expense from management equity awards granted in connection with the initial public offering.



**Table of Contents**

On a pro forma basis, Corporate and Other Distributed Products segment results were as follows:

	Three months ended March 31,		Change	
	2011 (1)	2010	\$	%
(Dollars in thousands)				
<b>Revenues:</b>				
Direct premiums	\$ 19,902	\$ 19,913	\$ (11)	*
Ceded premiums	(3,585)	(3,749)	164	-4%
Net premiums	16,317	16,164	153	*
Commissions and fees	7,731	7,105	626	9%
Allocated net investment income	12,832	11,345	1,487	13%
Realized investment gains (losses), including OTTI	327	31,057	(30,730)	-99%
Other, net	1,337	1,004	333	33%
<b>Total revenues</b>	<b>38,544</b>	<b>66,675</b>	<b>(28,131)</b>	<b>-42%</b>
<b>Benefits and expenses:</b>				
Benefits and claims	10,284	9,626	658	7%
Amortization of DAC	625	400	225	56%
Insurance commissions	2,533	2,437	96	4%
Insurance expenses	2,934	2,759	175	6%
Sales commissions	4,358	4,963	(605)	-12%
Interest expense	4,125	4,125		*
Other operating expenses	21,227	21,374	(147)	*
<b>Total benefits and expenses</b>	<b>46,084</b>	<b>45,684</b>	<b>402</b>	<b>*</b>
<b>(Loss) income before income taxes</b>	<b>\$ (7,542)</b>	<b>\$ 20,991</b>	<b>\$ (28,533)</b>	<b>*</b>

\* Less than 1%, or not meaningful

(1) For the three months ended March 31, 2011, actual results reflect the effect of all transactions associated with our corporate reorganization. Therefore, there are no pro forma results for that period.

Total revenues were lower in the first quarter of 2011 primarily as a result of the realized investment gains recognized in the first quarter of 2010 in anticipation of our corporate reorganization. This impact was partially offset by a higher allocation of net investment income relative to the first quarter of 2010. Realized investment gains (losses) included \$0.3 million of OTTI in the first quarter of 2011, compared with \$10.6 million of OTTI in the first quarter of 2010.

Net premiums grew at a slower pace than benefits and claims as the increase in claims on our short-term disability line was only partially offset by an increase in production and the associated increase in premiums.

Our loan business continued to decline during the three months ended March 31, 2011, but was neutral to loss before income taxes when compared with the three months ended March 31, 2010.

Other operating expenses were flat in the first three months of 2011 as IPO-related costs incurred in the first three months of 2010 were replaced by ongoing operating expenses.

**Table of Contents****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 advisor to manage our investing activities. Our investment advisor 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 in an effort 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.

Fixed-maturity securities accounted for 98% of total investments at both March 31, 2011 and December 31, 2010. 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. The average rating of our fixed-maturity portfolio is single A, with an average duration of approximately 3.6 years. The distribution of our investments in fixed-maturity securities by rating follows.

	As of March 31, 2011	As of December 31, 2010
AAA	26%	27%
AA	9	9
A	22	22
BBB	36	36
Below investment grade	6	7
Not rated	*	*
<b>Total (1)</b>	<b>100%</b>	<b>100%</b>

\* Less than 1%

(1) Totals may not add due to rounding.

**Table of Contents**

As of March 31, 2011, the ten largest holdings within our invested asset portfolio were as follows:

Issuer	Amortized cost	Fair value (Dollars in thousands)	Unrealized gain (loss)	Credit rating
Government of Canada	\$ 31,587	\$ 35,887	\$ 4,300	AAA
National Rural Utilities Cooperative	14,898	17,810	2,912	A+
General Electric Co	13,434	15,399	1,965	AA+
Verizon Communications Inc	13,492	15,227	1,735	A-
Bank of America Corporation	12,709	13,887	1,178	A
Medtronic Inc	12,543	12,739	196	AA-
ConocoPhillips	9,283	10,813	1,530	A
Enel SpA	10,541	10,753	212	A-
Edison International	10,809	10,748	(61)	B+
Banco Santander SA	9,893	9,927	34	AA
<b>Total ten largest holdings</b>	<b>\$ 139,189</b>	<b>\$ 153,190</b>	<b>\$ 14,001</b>	
<b>Total fixed-maturity and equity securities</b>	<b>\$ 2,033,028</b>	<b>\$ 2,189,086</b>	<b>\$ 156,058</b>	
<b>Percent of total fixed-maturity and equity securities</b>	<b>7%</b>	<b>7%</b>		

For additional information, see Note 4 to 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.

**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.

**Table of Contents**

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 are presently evaluating how an excess reserve financing could generate statutory capital in the amount of approximately \$300 million that could be distributed to the Parent Company as well as how other capital options may fit into our capital strategy. The amount and timing of any such transaction will be subject to regulatory approval and other factors and no assurance can be given that any such transaction will be executed in the near term or at all.

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, which significantly increased the public float of our common stock and which may make it feasible for us to consider adopting a stock repurchase program as part of our long-term capital strategy. If we successfully execute a structured excess reserve financing arrangement, we currently expect to use a portion of our then-available capital to fund share repurchases.

**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, 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:

	Three months ended		
	March 31,		
	2011	2010	Change
	(In thousands)		
Net cash provided by operating activities	\$ 3,246	\$ 117,105	\$ (113,859)
Net cash (used in) provided by investing activities	(12,423)	778,952	(791,375)
Net cash used in financing activities	(757)	(612,725)	611,968
Effect of foreign exchange rate changes on cash	(827)	24,179	(25,006)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>\$ (10,761)</b>	<b>\$ 307,511</b>	<b>\$ (318,272)</b>

*Operating Activities.* The change in operating cash flows for the three months ended March 31, 2011, compared with the three months ended March 31, 2010 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.

*Investing Activities.* The change in investing cash flows for the three months ended March 31, 2011, compared with the same period a year ago 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.

*Financing Activities.* The change in financing cash flows 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

## Edgar Filing: Primerica, Inc. - Form 10-Q

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

---

## **Table of Contents**

preferred securities, surplus notes, hybrid securities or convertible debt that generates sufficient net cash proceeds (after deducting fees and expenses) 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 March 31, 2011. No events of default or defaults occurred during the three months ended March 31, 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 March 31, 2011, our debt-to-capital ratio was 16.8%.

### **Short-term Borrowings**

We had no short-term borrowings as of or during the three months ended March 31, 2011.

### **Rating Agencies**

Primerica Life's financial strength rating is AA- with a stable outlook by Standard & Poor's; A+ with a negative outlook by A.M. Best Company and A+ with a stable outlook by Fitch.

### **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.

Prior to and after the reinsurance and reorganization transactions, 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. We intend to take a conservative approach toward RBC levels, particularly in light of our anticipated growth. Over time, our management may opt to change RBC levels to levels that are more consistent with companies whose business is similar to ours.

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 March 31, 2011, as determined by OSFI.

## **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, as well as 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 Prospectus Supplement dated April 12, 2011 filed as an exhibit to our Current Report on Form 8-K dated April 12, 2011.

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:

## Edgar Filing: Primerica, Inc. - Form 10-Q

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;

**Table of Contents**

our 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;

recent 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;

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 March 31, 2011 was \$2.17 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

## **Table of Contents**

rates would cause the market value of our fixed-maturity securities portfolios to decline by approximately \$70.6 million, or 3.3%, based on our actual securities positions as of March 31, 2011.

### **Canadian currency risk**

We also have exposure to foreign currency exchange risk to the extent we conduct business in Canada. For the three months ended March 31, 2011, 20% 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 three months ended March 31, 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 three months ended March 31, 2011 by approximately \$1.7 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 first fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

**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.

**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 you or other 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.

**Description**

## Edgar Filing: Primerica, Inc. - Form 10-Q

### Exhibit Number

- 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)).

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
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

**Table of Contents**

**SIGNATURES**

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

May 11, 2011

**Primerica, Inc.**

/s/ Alison S. Rand  
Alison S. Rand  
Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

45