Primerica, Inc.
Form 10-Q
August 16, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 001-34680

Primerica, Inc.

(Exact name of registrant as specified in its charter)

Delaware	27-1204330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3120 Breckinridge Boulevard Duluth, Georgia	30099
(Address of principal executive offices)	(ZIP Code)

(770) 381-1000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x 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	x (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 x 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 August 12, 2010**
Common Stock, $.01 Par Value	72,725,964 shares

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

PRIMERICA, INC.

Balance Sheets

	June 30, 2010 (unaudited)	December 31, 2009
	(In thousands)	
Assets		
Investments:		
Fixed-maturity securities available for sale, at fair value (amortized cost: $1,861,878 in 2010 and $6,138,058 in 2009)	$ 2,006,795	$ 6,378,179
Equity securities available for sale, at fair value (cost: $15,920 in 2010 and $45,937 in 2009)	19,274	49,326
Trading securities, at fair value (cost: $13,843 in 2010 and $18,387 in 2009)	14,124	16,996
Policy loans and other invested assets	24,865	26,947
Total investments	2,065,058	6,471,448
Cash and cash equivalents	210,506	625,260
Accrued investment income	21,369	71,382
Premiums and other receivables	188,127	169,225
Due from reinsurers	3,603,532	867,242
Due from affiliates		1,915
Deferred policy acquisition costs	745,322	2,789,905
Intangible assets	77,126	78,895
Other assets	107,271	59,167
Separate account assets	2,098,936	2,093,342
Total assets	$ 9,117,247	$ 13,227,781
Liabilities and Stockholders Equity		
Liabilities:		
Future policy benefits	$ 4,286,258	$ 4,197,454
Unearned premiums	3,692	3,185
Policy claims and other benefits payable	216,457	218,390
Other policyholders funds	388,158	382,768
Note payable	300,000	
Income taxes	129,776	890,617
Due to affiliates		202,507
Other liabilities	376,374	295,745
Separate account liabilities	2,098,936	2,093,342
Total liabilities	7,799,651	8,284,008
Stockholders equity:		
Common stock of $.01 par value. Authorized 500,000 in 2010 and issued 72,730 in 2010	727	
Paid-in capital	870,706	1,124,096
Retained earnings	304,075	3,648,801

Accumulated other comprehensive income, net of income tax expense of $(78,941) in 2010 and $(94,043) in 2009	142,088	170,876
Total stockholders equity	1,317,596	4,943,773
Total liabilities and stockholders equity	$ 9,117,247	$ 13,227,781

See accompanying notes to financial statements.

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PRIMERICA, INC.

Statements of Income - Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Revenues:				
Direct premiums	$ 547,455	$ 529,004	$ 1,085,300	$ 1,045,651
Ceded premiums	(447,213)	(158,401)	(595,332)	(296,011)
Net premiums	100,242	370,603	489,968	749,640
Net investment income	27,991	89,755	110,568	172,140
Commissions and fees	93,226	82,690	184,915	162,406
Realized investment gains (losses), including other-than-temporary impairment losses	374	(9,003)	31,429	(20,261)
Other, net	12,466	13,542	24,359	26,498
Total revenues	234,299	547,587	841,239	1,090,423
Benefits and expenses:				
Benefits and claims	45,124	151,444	215,859	297,194
Amortization of deferred policy acquisition costs	22,899	86,234	114,655	181,048
Insurance commissions	4,233	6,396	10,601	21,016
Insurance expenses	10,083	36,203	47,610	76,291
Sales commissions	43,511	40,389	87,393	80,578
Interest expense	6,928		6,928	
Other operating expenses	65,183	28,587	101,453	61,187
Total benefits and expenses	197,961	349,253	584,499	717,314
Income before income taxes	36,338	198,334	256,740	373,109
Income taxes	14,330	66,214	91,446	128,432
Net income	$ 22,008	$ 132,120	$ 165,294	$ 244,677
Earnings per share:				
Basic	$ .29		$ 2.20 (1)	
Diluted	$ .29		$ 2.18 (1)	
Weighted-average shares used in computing earnings per share:				
Basic	71,843,588		71,843,588 (1)	
Diluted	72,734,365		72,734,365 (1)	

(1) Pro forma basis using weighted-average shares during the period following our corporate reorganization on April 1, 2010

Supplemental disclosures:				
Total impairment losses	$ (1,808)	$ (24,559)	$ (12,369)	$ (60,268)

Impairment losses recognized in other comprehensive income before income taxes	553	10,221	553	25,417
Net impairment losses recognized in earnings	(1,255)	(14,338)	(11,816)	(34,851)
Other net realized investment gains	1,629	5,335	43,245	14,590
Realized investment gains (losses), including other-than-temporary impairment losses	$ 374	$ (9,003)	$ 31,429	$ (20,261)

See accompanying notes to financial statements.

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PRIMERICA, INC.

Statements of Stockholders Equity - Unaudited

	Six months ended June 30, 2010	2009
	(In thousands)	
Common stock:		
Balance, beginning of period	$	$
Issuance of common stock to Citigroup Inc.	750	
Treasury stock retired	(23)	
Balance, end of period	727	
Paid-in capital:		
Balance, beginning of period	1,124,096	1,095,062
Net capital contributed from Citigroup Inc.	172,806	5,776
Net issuance of common stock to Citigroup Inc.	(727)	
Issuance of warrants to Citigroup Inc.	18,464	
Issuance of note payable to Citigroup Inc.	(300,000)	
Tax election under Section 338(h)(10) of the Internal Revenue Code	(177,339)	
Share-based compensation	33,406	(5,083)
Balance, end of period	870,706	1,095,755
Retained earnings:		
Balance, beginning of period	3,648,801	3,340,841
Adoption of FSP SFAS No. 115-2 (included in ASC 320), net of income tax expense of $(3,929)		7,298
Net income	165,294	244,677
Distribution of warrants to Citigroup Inc.	(18,464)	
Dividends to stockholders	(3,491,556)	(27,650)
Balance, end of period	304,075	3,565,166
Treasury stock:		
Balance, beginning of period		
Treasury stock acquired	(75,321)	
Treasury stock issued, at cost	41,056	
Treasury stock retired	34,265	
Balance, end of period		
Accumulated other comprehensive income:		
Balance, beginning of period	170,876	(323,917)
Adoption of FSP SFAS No. 115-2 (included in ASC 320), net of income tax benefit of $3,929		(7,298)
Change in foreign currency translation adjustment, net of income tax expense of $(4,630) in 2010 and $(8,101) in 2009	7,396	17,678
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 (expense) of $26,418 in 2010 and $(127,884) in 2009	(48,601)	247,514
Change in net unrealized investment gains (losses) other-than-temporarily impaired, net of income tax (expense) benefit of $(6,686) in 2010 and $4,967 in 2009	12,417	(9,223)
Balance, end of period	142,088	(75,246)

Total stockholders equity	$ 1,317,596	$ 4,585,675

See accompanying notes to financial statements.

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PRIMERICA, INC.

Statements of Other Comprehensive Income - Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income	$ 22,008	$ 132,120	$ 165,294	$ 244,677
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains on investment securities	20,849	290,570	107,869	328,875
Reclassification adjustment for unrealized holding (gains) on investment securities transferred (see Note 2)			(132,688)	
Reclassification adjustment for realized investment (gains) losses included in net income	(787)	8,084	(31,097)	21,105
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation (losses) gains	(4,792)	32,544	12,027	25,780
Total other comprehensive income (loss) before income taxes	15,270	331,198	(43,889)	375,760
Income tax (expense) benefit related to items of other comprehensive income (loss)	(7,280)	(115,550)	15,101	(127,089)
Other comprehensive income (loss), net of income tax (expense) benefit	7,990	215,648	(28,788)	248,671
Total comprehensive income	$ 29,998	$ 347,768	$ 136,506	$ 493,348

See accompanying notes to financial statements.

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PRIMERICA, INC.

Statements of Cash Flows - Unaudited

	Six months ended June 30, 2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 165,294	$ 244,677
Adjustments to reconcile net income to cash provided by operating activities:		
Increase in future policy benefits	52,055	39,435
Increase in other policy benefits	3,964	22,150
Deferral of policy acquisition costs	(159,406)	(194,798)
Amortization of deferred policy acquisition costs	114,655	183,598
Change in income taxes	(12,556)	50,607
Realized investment (gains) losses, including other-than-temporary impairments	(31,429)	20,261
Accretion and amortization of investments	(1,254)	(5,073)
Income recognized on equity method investments	(188)	(1,794)
Depreciation and amortization	4,814	5,189
Change in due from reinsurers	3,552	9,621
Change in due to/from affiliates	(44,012)	14,826
Increase in premiums and other receivables	(27,564)	(3,687)
Trading securities sold	9,799	4,590
Trading securities acquired	(6,894)	(10,972)
Share-based compensation	27,139	(5,083)
Other, net	(61,499)	(28,505)
Net cash provided by operating activities	36,470	345,042
Cash flows from investing activities:		
Investments sold or matured:		
Fixed maturities available for sale - sold	931,831	419,723
Fixed maturities available for sale - matured, called and repaid	313,230	493,509
Equity securities	33,955	103
Acquisition of investments:		
Fixed maturities available for sale	(452,450)	(1,082,109)
Equity securities	(3,887)	(925)
Net decrease in policy loans and other invested assets	2,082	400
Purchases of furniture and equipment, net	(3,991)	(2,715)
Net cash provided by (used in) investing activities	820,770	(172,014)
Cash flows from financing activities:		
Net distributions to Citigroup Inc.	(1,288,391)	(33,150)
Net cash used in financing activities	(1,288,391)	(33,150)
Effect of foreign exchange rate changes on cash	16,397	6,183
(Decrease) increase in cash	(414,754)	146,061
Cash and cash equivalents, beginning of period	625,260	302,354
Cash and cash equivalents, end of period	$ 210,506	$ 448,415
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 190,822	$ 88,262

Interest paid	2,278	(41)
Impairment losses included in realized gains (losses) on sale of investments	11,816	34,851
Non-cash financing activities:		
Share-based compensation	$ 33,406	$ (5,083)
Net non-cash (distributions to) contributions from Citigroup Inc.	(2,030,359)	11,276

See accompanying notes to financial statements.

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PRIMERICA, INC.

Notes to Financial Statements Unaudited

(1) Summary of Significant Accounting Policies

Description of Business: Primerica, Inc. (the Parent Company) and its subsidiaries (collectively, the Company) are a leading distributor of financial products to middle income households in North America. The Company assists its clients in meeting their needs for term life insurance, which it underwrites, and mutual funds, variable annuities and other financial products, which it distributes 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 a New York life insurance company, National Benefit Life Insurance Company (NBLIC). 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 (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), and liabilities for future policy benefits and unpaid policy claims. 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 consolidated financial statements include the accounts of the Company and those entities required to be consolidated under applicable accounting standards. All material intercompany profits, transactions, and balances among the consolidated entities have been eliminated. Financial statements for dates and periods ending prior to April 1, 2010 have been combined and include those assets, liabilities, revenues, and expenses directly attributable to the Company s operations; all material intercompany profits, transactions, and balances among the consolidated entities have been eliminated.

The accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of June 30, 2010 and December 31, 2009, and the statements of income and other comprehensive income for the three and six months ended June 30, 2010 and 2009, and the statements of stockholders equity and cash flows for the six months ended June 30, 2010, and 2009. Results of operations for interim periods are not necessarily indicative of results for the entire year and, due to the transactions effected in connection with the Offering, are not necessarily indicative of the results to be expected in future periods.

These financial statements should be read in conjunction with the historical and pro forma financial statements and notes thereto included in our Registration Statement on Form S-1, originally filed with the U.S. Securities and Exchange Commission (SEC) on November 5, 2009, as amended through March 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.

Share-Based Compensation: For employee share-based compensation, we determine a grant date fair value and recognize the related compensation expense, adjusted for expected forfeitures, in the statement of income over the vesting period of the respective awards. For non-employee share-based compensation, we recognize the impact throughout the vesting period and the fair value of the award is based on the vesting date. To the extent that a share-based award contains sale restrictions extending beyond the vesting date, we reduce the recognized fair

value of the award to reflect the corresponding liquidity discount. Certain non-employee share-based compensation

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varies with and primarily relates to the acquisition or renewal of life insurance policies. We defer these expenses and amortize the impact over the life of the underlying life insurance policies acquired.

Earnings Per Share (EPS): In April 2010, Primerica issued common stock, warrants, and equity awards to complete the transactions related to our corporate reorganization. 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 was as follows:

	Three months ended June 30, 2010	Six months ended June 30, 2010 (1)
	(In thousands, except share and per-share amounts)	
Basic EPS:		
Numerator:		
Net income	$ 22,008	$ 165,294
Income attributable to unvested participating securities	(928)	(6,970)
Net income used in calculating basic EPS	$ 21,080	$ 158,324
Denominator:		
Weighted-average shares	71,843,588	71,843,588
Basic EPS	$ .29	$ 2.20
Diluted EPS:		
Numerator:		
Net income	$ 22,008	$ 165,294
Income attributable to unvested participating securities	(917)	(6,888)
Net income used in calculating diluted EPS	$ 21,091	$ 158,406
Denominator:		
Weighted-average shares	72,734,365	72,734,365
Diluted EPS	$ .29	$ 2.18

(1) Pro forma basis using weighted-average shares during the period following our corporate reorganization on April 1, 2010

New Accounting Principles

Subsequent Event Disclosure

In February 2010, the FASB issued ASU 2010-9, *Amendments to Certain Recognition and Disclosure Requirements*. The update requires public companies to assess subsequent events through the date of issuing its financial statements but does not require disclosure of the date through which we have assessed subsequent events. We adopted ASU 2010-9 as of January 2010. The update did not impact our financial position or results of operations.

Additional Fair Value Measurement Disclosure

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures About Fair Value Measurements*. The update requires additional disclosure for significant transfers into and out of level 1 and level 2 instruments for reporting periods beginning after December 15, 2009. Additionally, separate presentation of purchases, sales, issuances, and settlements will be required for activity in level 3 instruments for reporting periods beginning after December 15, 2010. This new guidance did not impact our financial position or results of operations.

Elimination of QSPEs and Changes in the Consolidation Model for Variable Interest Entities

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140,* now authoritative under ASC 860 (ASC 860/SFAS 166) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* now authoritative under ASC 810 (ASC 810/SFAS 167). ASC 860/SFAS 166 eliminates the concept of Qualifying Special Purpose Entities (QSPEs), changes the requirements for the derecognition of financial assets, and calls upon sellers of the assets to make additional disclosures about them. SFAS 167 details three key changes to the consolidation model. First, former QSPEs are now included in the scope of SFAS 167. In addition, the FASB has changed the method of analyzing which party to a variable interest entity (VIE) should consolidate the VIE (known as the primary beneficiary) to a qualitative determination of which party to the VIE has power combined with potentially significant benefits or losses, instead of the previous quantitative risks and rewards model. The entity that has power has the ability to direct the activities of the VIE that most significantly impact the VIE s economic performance. Finally, the new standard requires that the primary beneficiary analysis be re-evaluated whenever circumstances change. The previous rules required reconsideration of the primary beneficiary only when specified reconsideration events occurred. We adopted both standards on January 1, 2010. The adoption of this guidance has not required consolidation of any variable interest entities and did not impact our financial position or results of operations.

Recent accounting guidance not discussed above is not applicable or did not have an impact on our business. For additional information on new accounting principles and their impact, if any, on our financial position or results of operations, see Note 1 of the Notes to the Combined Financial Statements for the year ended December 31, 2009 in our Registration Statement on Form S-1, originally filed with the SEC on November 5, 2009, as amended through March 31, 2010.

Future Application of Accounting Principles

Consolidation Analysis of Investments Held through Separate Accounts

In April 2010, the FASB issued ASU 2010-15, *How Investments Held through Separate Accounts Affect an Insurer s Consolidation Analysis of Those Investments*. The update requires that an insurance entity not consider any separate account interests held for the benefit of policy holders in an investment to be the insurer s interests and that an insurance entity not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for the benefit of a related party policyholder. Additionally, in evaluating whether the retention of specialized accounting for investments in consolidation is appropriate, a separate account arrangement should be considered a subsidiary. The update requires that an insurer not consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account. This update will be effective for periods beginning after December 15, 2010. We do not expect the update to materially impact our financial position or results of operations.

Scope Exception Related to Embedded Credit Derivatives

In March 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*. The update clarifies guidance on accounting for embedded derivatives to reduce the breadth of the scope exception for bifurcating and separately accounting for certain embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The update will be effective for reporting periods beginning after June 15, 2010. We do not expect the update to materially impact our financial position or results of operations.

Proposed Definition of Deferred Policy Acquisition Costs of Insurance Entities

In November 2009, the Emerging Issues Task Force (EITF) reached a consensus that deferred policy acquisition costs should include costs directly related to the successful acquisition of new and renewed insurance contracts. The proposed guidance, if ratified by the FASB, could have a material impact on our accounting for costs related to policy applications that do not result in issued policies. The guidance also is expected to introduce a distinction between direct and indirect

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costs, which also may impact our deferred costs related to acquiring policies. In December 2009, the FASB issued Proposed ASU EITF 09-G, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASU EITF 09-G). The proposed guidance is expected to be effective beginning in 2012.

(2) Corporate Reorganization

We were incorporated in Delaware in October 2009 by Citi to serve as a holding company for the life insurance and financial product distribution businesses that we have operated for more than 30 years. At such time, we issued 100 shares of common stock to Citi. These businesses, which prior to April 1, 2010 were wholly owned indirect subsidiaries of Citi, were transferred to us on April 1, 2010. In conjunction with our reorganization, we issued to a wholly owned subsidiary of Citi (i) 74,999,900 shares of our common stock (of which 24,564,000 shares of common stock were subsequently sold by Citi in the Offering 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 equity transaction); 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 equity transaction), 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 note payable.

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.

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 $48.8 million at June 30, 2010, 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 effective yield, which represents the market return on these deposit assets, is reflected in net investment income in our statement of 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. On March 30, 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 7, 2010, the closing date of the Offering. After the closing date, 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. The Term Life Insurance segment includes underwriting profits on our in-force book of term life insurance policies, net of reinsurance, which are underwritten by our life insurance company subsidiaries. The Investment and Savings Products segment includes mutual funds and variable annuities distributed through licensed broker-dealer subsidiaries and includes segregated funds, an individual annuity savings product that we underwrite in Canada through Primerica Life Canada. In the United States, we distribute mutual fund products of several third-party companies and variable annuity products of MetLife, Inc., and its affiliates. We also earn fees for account servicing on a subset of the mutual funds we distribute. In Canada, we offer a Primerica-branded fund-of-funds mutual fund product, as well as mutual funds of well known mutual fund companies. These two operating segments are managed separately because their products serve different needs term life insurance protection versus wealth-building savings products.

We also have a Corporate and Other Distributed Products segment, which consists primarily of revenues and expenses related to the distribution of non-core products, including loans, various insurance products other than core term-life insurance products, and prepaid legal services. With the exception of certain life and disability insurance products, which we underwrite, these products are distributed pursuant to distribution arrangements with third parties.

Assets specifically related to a segment are held in that segment. We allocate invested assets to the Term Life Insurance segment based on the book value of invested assets necessary to meet statutory reserve requirements and our targeted capital objectives. Remaining invested assets and all unrealized gains and losses are allocated to the Corporate and Other Distributed Products segment. On March 31, 2010, we signed a reinsurance agreement subject to deposit accounting (the 10% reinsurance agreement) and have recognized the deposit asset in the Term Life Insurance segment. DAC is recognized in each of the segments depending on the product to which it relates. Separate account assets supporting the segregated funds product in Canada are held in the Investment and Savings Products segment. Any remaining unallocated assets are reported in the Corporate and Other Distributed Products segment. Information regarding assets by segment follows:

	June 30, 2010	December 31, 2009
	(In thousands)	
Assets:		
Term life insurance	$ 5,546,438	$ 9,016,674
Investment and savings products	2,241,565	2,192,583
Corporate and other distributed products	1,329,244	2,018,524
Total assets	$ 9,117,247	$ 13,227,781

Excluding separate account assets, the Investment and Savings Products segment had assets of $144.0 million as of June 30, 2010, compared with $100.6 million as of December 31, 2009. The significant decline in assets held in the Term Life Insurance and Corporate and Other Distributed Products segments was primarily driven by the reinsurance and reorganization transactions discussed in Note 2.

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

	June 30, 2010	December 31, 2009
Canadian assets as a percent of total assets	29%	23%
Canadian assets as a percent of total assets, excluding separate accounts	8%	9%

Beginning with the three months ended June 30, 2010, we revised our segment allocation method for allocating net investment income. The deposit asset recognized in connection with the 10% reinsurance agreement generates an

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effective yield, which is reported in the Term Life Insurance segment and reflected in net investment income in our statement of income. We then allocate the remaining net investment income based on the book value of the invested assets allocated to the Term Life Insurance segment compared to the book value of the Company s total invested assets. The revised Term Life Insurance segment net investment income allocation methodology allows for analysis of the yields generated by the invested asset portfolio and change in the size of the portfolio, along with the impact of the reinsurance deposit asset, without being impacted by changes in market value. All prior periods presented have been adjusted to consistently reflect this revised segment allocation methodology. The revised method increased Term Life Insurance segment allocated net investment income by $4.1 million and $12.3 million for the three and six months ended June 30, 2010, respectively, and decreased Corporate and Other Distributed Products segment allocated net investment income by the same amounts.

Realized investment gains and losses are reported in the Corporate and Other Distributed Products segment. We allocate certain operating expenses associated with our sales representatives, including supervision, training and legal support, to our two primary operating segments based on the average number of licensed representatives in each segment for a given period. We also allocate technology and occupancy costs based on usage. Any remaining unallocated revenue and expense items are reported in the Corporate and Other Distributed Products segment. We measure income and loss for the segments on an income before income taxes basis. Information regarding operations by segment follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Revenues:				
Term life insurance	$ 108,389	$ 430,830	$ 5	