Primerica, Inc.
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 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)

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

Registrant's telephone number, including area code: (770) 381-1000
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.01 Par Value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes ý No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No
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. ý 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). ý Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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 | ý | 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 ý No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2011, was $842,037,313. The number of shares of the registrant's Common Stock outstanding at January 31, 2012, with $.01 par value, was 64,938,806.

Documents Incorporated By Reference

Certain information contained in the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 16, 2012 is incorporated by reference into Part III hereof.

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as some statements in periodic press releases and some oral statements made by our officials during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will be,” “will continue,” “will likely result,” and similar expressions, or future conditional verbs such as “may,” “w “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 section entitled “Risk Factors” included herein. 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 report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these risks and uncertainties. These risks and uncertainties include, among others:

- our failure to continue to attract and license new recruits, retain sales representatives, or license or maintain the licensing of our sales representatives;
- changes to the independent contractor status of our sales representatives;
- our or our sales representatives’ violation of, or non-compliance, with laws and regulations;
- our or our sales representatives' failure to protect the confidentiality of client information;
- differences between our actual experience and our expectations regarding mortality, persistency, expenses and investment yields as reflected in the pricing for our insurance policies;
- the occurrence of a catastrophic event that causes a large number of premature deaths of our insureds;
- changes in federal and state legislation and regulation, including other legislation or regulation that affects our insurance and investment product businesses;
- our failure to meet risk-based capital standards or other minimum capital or surplus requirements;
- a downgrade or potential downgrade in our insurance subsidiaries’ financial strength ratings or in our investment grade credit ratings for the senior unsecured debt that we may elect to offer pursuant to our existing shelf registration statement at some time in the future;
- the effects of credit deterioration and interest rate fluctuations on our invested asset portfolio;
- incorrectly valuing our investments;
- inadequate or unaffordable reinsurance or the failure of our reinsurers to perform their obligations;
- changes in accounting for deferred policy acquisition costs 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 economic down cycles in the United States and Canada;
- our ability to generate and maintain a sufficient amount of capital;
- our non-compliance with the covenants of our note payable;
- 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; and

- conflicts of interest due to the significant interest in us held by certain private equity funds managed by Warburg Pincus LLC.

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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 report 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.

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# PART I

## ITEM 1. BUSINESS.

Primerica, Inc. ("Primerica", "we" or the "Parent Company") is a leading distributor of financial products to middle income households in the United States and Canada with approximately 91,000 licensed sales representatives at December 31, 2011. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We insured more than 4.3 million lives and approximately 2 million clients maintained investment accounts with us at December 31, 2011. Our distribution model uniquely positions us to reach underserved middle income consumers in a cost effective manner and has proven itself in both favorable and challenging economic environments.

Our mission is to serve middle income families by helping them make informed financial decisions and providing them with a strategy and means to gain financial independence. Our distribution model is designed to:

- Address our clients' financial needs. Our sales representatives use our proprietary financial needs analysis tool ("FNA") and an educational approach to demonstrate how our products can assist clients to provide financial protection for their families, save for their retirement and other needs and manage their debt. Typically, our clients are the friends, family members and personal acquaintances of our sales representatives. Meetings are generally held in informal, face-to-face settings, usually in the clients' homes.
- Provide a business opportunity. We provide an entrepreneurial business opportunity for individuals to distribute our financial products. Low entry costs and the ability to begin part-time allow our sales representatives to supplement their income by starting their own independent businesses without incurring significant start-up costs or leaving their current jobs. Our unique compensation structure, technology, training and back-office processing are designed to enable our sales representatives to successfully grow their independent businesses.

### Corporate Structure

We conduct our core business activities in the United States through three principal entities, all of which are direct or indirect wholly owned subsidiaries of the Parent Company:

- Primerica Financial Services, Inc. ("PFS"), our general agency and marketing company;
- Primerica Life Insurance Company ("Primerica Life"), our principal life insurance underwriting company; and
- PFS Investments Inc. ("PFS Investments"), our investment and savings products company and broker-dealer.

Primerica Life is domiciled in Massachusetts and its wholly owned subsidiary, National Benefit Life Insurance Company ("NBLIC"), is a New York life insurance underwriting company.

We conduct our principal business activities in Canada through two principal entities, both of which are indirect wholly owned subsidiaries of the Parent Company:

- Primerica Life Insurance Company of Canada ("Primerica Life Canada"), our Canadian life insurance underwriting company; and
- PFSL Investments Canada Ltd. ("PFSL Investments Canada"), our Canadian licensed mutual fund dealer.

Primerica, Inc. was incorporated in the United States as a Delaware corporation in October 2009 to serve as a holding company for the Primerica businesses. Our businesses, which prior to April 1, 2010 were wholly owned indirect subsidiaries of Citigroup Inc. ("Citi"), were transferred to us by Citi on April 1, 2010 in a reorganization pursuant to which we completed an initial public offering in April 2010 (the "IPO"). For a description of our corporate reorganization, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – The Transactions."

In November 2011, we repurchased from Citi approximately 8.9 million shares of our common stock at a price of $22.42 per share, for a total purchase price of approximately $200.0 million. The per-share purchase price was determined based on the volume-weighted average price per share of Primerica, Inc. common stock during the seven-day period prior to execution of the repurchase agreement. We funded this repurchase with funds made available by a dividend from Primerica Life to the Parent Company.

In April 2011, Citi sold 12.0 million shares of our common stock in an underwritten public offering at a price of $22.75 per share. In December 2011, Citi sold approximately 8.1 million shares of our common stock, representing all of its remaining shares of our common stock, in an underwritten public offering at a price of $22.29 per share. We did not receive any proceeds from the sale of these shares.

Our Clients

Our clients are generally middle income consumers, which we define as households with $30,000 to $100,000 of annual income. According to the 2009 U.S. Census Bureau Current Population Survey, the latest period for which data is



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available, approximately 50% of U.S. households fall in this range. We believe that we understand the financial needs of the middle income segment well:

- They have inadequate or no life insurance coverage. Individual life insurance sales in the United States declined from 12.5 million policy sales in 1975 to 6.7 million policy sales in 2010, the latest period for which data is available, according to LIMRA, a worldwide association of insurance and financial services companies. We believe that term life insurance, which we have provided to middle income clients for many years, is generally the best option for them to meet their life insurance needs due to its lower initial cost versus cash value life insurance.
- They need help saving for retirement and other personal goals. The current economic environment has intensified the challenges of middle income families to save for retirement and other goals. By developing personalized savings programs for our clients using our proprietary FNA tool and offering a wide range of mutual funds, annuities and segregated fund products sponsored and managed by reputable firms, our sales representatives are well equipped to help clients develop long-term savings plans to address their financial needs.
- They need to reduce their consumer debt. Many middle income families have numerous debt obligations from credit cards, auto loans, and home mortgages. We help our clients address these financial burdens by providing personalized client-driven debt management techniques that can help them reduce and ultimately pay off their debts.
- They prefer to meet face-to-face when considering financial products. Historically, middle income consumers have indicated a preference to meet face-to-face when considering financial products or services. As such, we have designed our business model to address this preference in a cost-effective manner.

Our Distribution Model

Our distribution model, which borrows aspects from franchising, direct sales and traditional insurance agencies – is designed to reach and serve middle income consumers efficiently. Key characteristics of our unique distribution model include:

- Independent entrepreneurs: Our sales representatives are independent contractors building and operating their own businesses. This business-within-a-business approach means that our sales representatives are entrepreneurs who take responsibility for selling products, recruiting sales representatives, setting their own schedules and managing and paying the expenses associated with their sales activities, including office rent and administrative overhead.
- Part-time opportunity: By offering a flexible part-time opportunity, we are able to attract a significant number of recruits who desire to earn supplemental income and generally concentrate on smaller-sized transactions typical of middle income consumers. Virtually all of our sales representatives begin selling our products on a part-time basis, which enables them to hold jobs while exploring an opportunity with us.
- Incentive to build distribution: When a sale is made, the selling representative receives a commission, as does the representative who recruited him or her, which we refer to as override compensation. Override compensation is paid through several levels of the selling representative's recruitment and supervisory organization. This structure motivates existing sales representatives to grow our sales force and ensures their success by providing them with commission income from the sales completed by their recruits.
- Sales force leadership: A sales representative who has built a successful organization can achieve the sales designation of Regional Vice President ("RVP") and can earn higher compensation and bonuses. RVPs are independent contractors who open and operate offices for their sales organizations and devote their full attention to their Primerica businesses. RVPs also support and monitor the part-time sales representatives on whose sales they earn override commissions in compliance with applicable regulatory requirements. RVPs' efforts to expand their businesses are a primary driver of our success.
- Innovative compensation system: We have developed an innovative system for compensating our independent sales force that is primarily tied to, and contingent upon, product sales. We advance to our representatives a significant portion of their insurance commissions upon their submission of an insurance application and the first month's premium payment. In addition to being a source of motivation, this upfront payment provides our sales representatives with immediate cash flow to offset costs associated with originating the business. In addition, monthly production bonuses are paid to sales representatives whose downline sales organizations meet certain sales levels. With compensation predominantly tied to sales activity, our compensation approach accommodates varying degrees of

individual productivity, which allows us to effectively use a large group of part-time representatives while providing a variable cost structure. In addition, we incentivize our RVPs with equity compensation, which aligns their interests with those of our stockholders.

- Large dynamic sales force: The members of our sales force primarily target and serve their friends, family members and personal acquaintances through individually driven networking activities. We believe that this warm

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markets approach is an effective way to distribute our products because it facilitates face-to-face interaction initiated by a trusted acquaintance of the prospective client, which is difficult to replicate using other distribution approaches. Due to the large size of our sales force, attrition and our active recruiting of new sales representatives, our sales force is constantly renewing itself, which allows us to continually access an expanding base of prospective clients without engaging costly media channels.

- Motivational culture: Through sales force recognition events and contests, we seek to create a culture that inspires and rewards our sales representatives for their personal successes and those of their sales organizations. We believe this motivational environment is a major reason that many sales representatives join and achieve success in our business.

Structure and Scalability of Our Sales Force

New sales representatives are recruited by existing sales representatives. When these new recruits join our sales force, they are assigned an upline relationship with the sales representative who recruited them and with the recruiting sales representative's respective upline RVP organization. As new sales representatives are successful in recruiting other sales representatives, they begin to build their own organization of sales representatives who become their downline sales representatives. We encourage our sales representatives to bring in new recruits to build their own sales organizations, enabling them to earn override commissions on sales made by members of their downline organization. Members of our sales force view building their own downline organizations as building their own business within a business.

While the substantial majority of our sales representatives are part-time, approximately 4,000 served as RVPs at December 31, 2011. RVPs establish and maintain their own offices, which we refer to as field offices. Additionally, they are responsible for funding the costs of their administrative staff, marketing materials, travel and training and exclusive recognition events for the sales representatives in their respective downline organizations. Field offices provide a location for conducting recruiting meetings, training events and sales-related meetings, disseminating our Internet-streamed TV programming, conducting compliance functions, and housing field office business records.

Our sales-related expenses are largely variable costs that fluctuate with product sales volume. Sales-related expenses consist primarily of sales commissions and incentive programs for our sales representatives as well as costs associated with information technology, compliance, administrative activities, sales management and training.

With support provided by our home office staff, RVPs play a major role in training, motivating and monitoring our sales representatives. Because the primary determinant of a sales representative's compensation is the size and productivity of his or her downline organization, our distribution model provides financial rewards to our sales representatives who successfully recruit, support and monitor productive sales representatives. Furthermore, we have developed proprietary tools and technology to enable our RVPs to reduce the time spent on administrative responsibilities associated with their sales organization so they can devote more time to the sales and recruiting activities that drive our growth. We believe that our tools and technology, coupled with our equity incentive award program, further incentivize our sales representatives to become RVPs.

To encourage our most successful RVPs to build large downline sales organizations that generate strong sales volumes, we established the Primerica Ownership Program to provide certain qualifying RVPs a contractual right, upon meeting certain criteria, to sell their Primerica business to another RVP or transfer it to a qualifying family member.

Both the structure of our sales force and the capacity of our support capabilities provide us with a high degree of scalability as we grow our business. Our support systems and technology are capable of supporting a large sales force and a high volume of transactions. In addition, by sharing training and compliance activities with our RVPs, we are able to grow without incurring proportionate overhead expenses, which accommodates an increase in sales representatives, clients, product sales and transactions.

Recruitment of Sales Representatives

Recruiting sales representatives is undertaken by our existing sales representatives, who identify prospects and share with them the benefits of associating with our organization. Our sales representatives showcase our organization as dynamic and capable of improving lives by demonstrating the success achieved by the members of our sales force.

After the initial contact, prospective recruits typically are invited to an opportunity meeting, which is conducted by an RVP. The objective of an opportunity meeting is to inform recruits about our mission and their opportunity to join our sales force. At the conclusion of each opportunity meeting, prospective recruits are asked to complete an application and pay a $99 fee to commence their pre-licensing training and licensing examination preparation programs. While recruits are not obligated to purchase any of our products to become a sales representative, they often elect to do so. Our sales force is our sole distribution channel and our success depends on the ongoing recruitment, training and licensing of new sales representatives. Recruits often become our clients or provide us with access to their friends, family members and personal acquaintances. As a result, we continually work to improve our systematic approach to recruiting and training new sales representatives so they can obtain the licensing and skills necessary for success. Similar to other distribution systems that rely upon part-time sales representatives, and typical of the life insurance industry generally, we experience wide disparities in the productivity of individual sales representatives. Many new recruits do not get licensed, mainly due to the time commitment required to obtain licenses and various regulatory hurdles. Many of our licensed sales representatives are only marginally active in our business. As a result, we plan for this disparate level of productivity and view a continuous recruiting cycle as a key component of our distribution model. Our distribution model is designed to address the varying productivity associated with part-time sales representatives by paying production-based compensation, emphasizing recruiting, and continuing initiatives to address barriers to licensing new recruits. By providing override commissions to sales representatives on the sales generated by their downline sales organization, our compensation structure aligns the interests of our sales representatives with our interest in recruiting new representatives and maximizing their success.

The following table provides information on new recruits and sales representatives:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Number of new recruits | 244,756 | 231,390 | 221,920 |
| Number of newly insurance-licensed sales representatives | 33,711 | 34,488 | 37,629 |
| Number of insurance-licensed sales representatives, at period end (1) | 91,176 | 94,850 | 99,785 |
| Average number of insurance-licensed sales representatives during period | 91,855 | 96,840 | 100,569 |

(1) A change in the methodology for terminating agents resulted in an immaterial increase in the size of the year-end 2011 sales force relative to what it would have been under the prior methodology.

We define new recruits as individuals who have submitted an application to join our sales force, together with payment of a fee to commence their pre-licensing training. We may not approve certain new recruits to join our sales force, and others elect to withdraw from our sales force prior to becoming active in our business.

On average, it requires approximately three months for our sales representatives to complete the necessary applications and pre-licensing coursework and to pass the applicable state or provincial examinations to obtain a license to sell our term life insurance products. As a result, individuals recruited to join our sales force within a given fiscal period may not become licensed sales representatives until a subsequent period.

We have launched several initiatives that are designed to maintain and increase our recruiting, licensing and sales activity, including:

- implementing a bonus program that provides incentives to new recruits to get licensed and make sales quickly;
- providing our sales force with the ability to register new recruits almost instantaneously using their mobile devices, which allows our new recruits to get started in pre-licensing activities and building their businesses immediately;
- developing a wide array of courses, training tools and incentives that assist and encourage new recruits to obtain the requisite licenses; and
- working with industry and trade associations to address unnecessary regulatory barriers to licensing qualified candidates, including efforts to modify state licensing laws and regulations.

Sales Force Motivation, Training and Communication

Motivating, training and communicating with our sales force are critical to our success and that of our sales force.

Motivation. Through our proven system of sales force recognition events, contests, and communications, we provide incentives that drive our results. Motivation is driven in part by our sales representatives' belief that they can achieve higher levels of financial success by building their own businesses as Primerica sales representatives. The opportunity to help others address financial challenges is also a significant source of motivation for many of our sales representatives, as well as for our management and home office employees.

We motivate our sales representatives to succeed in our business by:

- compensating our sales representatives for product sales by them and their downline organizations;
- 

helping our sales representatives learn financial fundamentals so they can confidently and effectively assist our clients;

- reducing the administrative burden on our sales force, which allows them to devote more of their time to building a downline organization and selling products; and
- creating a culture in which sales representatives are encouraged to achieve goals through the recognition of their

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sales and recruiting achievements as well as those of their sales organizations.

To help our sales representatives understand that they are part of a larger enterprise than their field office, we conduct numerous local, regional and national meetings. These meetings are a vehicle to inform and motivate our sales force. For example, in January 2012 we conducted ten regional meetings across the United States and Canada and in June 2011, approximately 40,000 people attended our national convention at the Georgia Dome in Atlanta. We believe the fact that so many of our new recruits and sales representatives elect to attend our meetings at their own expense demonstrates their commitment to our organization and mission.

Training. Our sales representatives must hold licenses to sell most of our products. Our in-house insurance licensing center offers a significant number of classroom, online and correspondence insurance pre-licensing classes to meet applicable state and provincial licensing requirements and prepare recruits to pass applicable licensing exams. For those representatives who wish to sell our investment and savings products, we contract with third-party training firms to conduct exam preparation.

We continue to develop courses, tools and incentives to help new recruits become licensed sales representatives. Among other tools, we provide to our sales force, generally at no cost to them, an online exam simulator, exam preparation review classes in addition to state or province mandated life insurance pre-licensing classes, and life insurance exam review videos. We also developed an interactive tool on Primerica Online ("POL"), our intranet website, that provides new recruits with a step-by-step guide to building their Primerica businesses.

Other internal training program opportunities include sales, management skills, business ownership, product and compliance training modules and videos. Additionally, many RVPs conduct sales training either on nights or weekends, providing new recruits a convenient opportunity to attend training outside of weekday jobs or family commitments.

Communication. We communicate with our sales force through multiple channels, including:

- POL, which is designed to be a support system for our sales force. POL provides sales representatives with access to their Primerica e-mail, bulletins and alerts, business tracking tools and real-time updates on their pending life applications and new recruits. We also use POL to provide real-time recognition of sales representatives' successes and scoreboards for sales force production, contests and trips. POL also is a gateway to our product providers and product support. Over 140,000 of our sales representatives, both licensed and not-yet licensed, subscribed to POL at December 31, 2011. Subscribers generally pay a $25 monthly fee to subscribe to POL, which helps cover the cost of maintaining this support system.
- our in-house TV network, which is broadcast by Internet-streaming video. We create original broadcasts and videos that enable senior management to update our sales force and provide training and motivational presentations. We broadcast a live weekly program hosted by home office management and selected RVPs that focuses on new developments and provides motivational messages to our sales force. We also broadcast a training-oriented program to our sales force on a weekly basis and profile successful sales representatives, allowing these individuals to share their secrets for success with our other sales representatives.
- our publications department, which produces materials to support, motivate and inform our sales force. We sell recruiting materials, sales pieces, business cards and stationery and provide total communications services, including web design, print presentations, graphic design and script writing. We also produce a weekly mailing that includes materials promoting our current incentives, as well as the latest news about our product offerings.
- our GoSolo® voice messaging tool and mass texting, which allow us to widely distribute motivational and informational voice messages, broadcasts and text messages to our sales force. GoSolo® is a subscription service provided by a third party.

Sales Force Support and Tools

Our information systems and technology are designed to support a sales and distribution model that relies on a large group of predominantly part-time representatives to assist them in building their own businesses. We provide our sales representatives with sales tools that allow both new and experienced sales representatives to offer financial information and products to their clients. The most significant of these tools are:

- Our Financial Needs Analysis: Our FNA is a proprietary, web-based, needs-based analysis tool. The FNA gives our sales representatives the ability to collect and synthesize client financial data and develop a financial analysis for the client that is easily understood. The FNA, while not a financial plan, provides our clients with a personalized explanation of how our products work and introduces prudent financial concepts, such as regular saving and accelerating the repayment of high cost credit card debt to help them reach their financial goals. The FNA provides clients with a snapshot of their current financial position and identifies their life insurance, savings and debt management needs.

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- Our Point-of-Sale Application Tool: Our web-based, point-of-sale software, TurboApps, is an internally developed system that streamlines the application process for our insurance products. This application populates client information from the FNA to eliminate redundant data collection and provides real-time feedback to eliminate incomplete and illegible applications. Integrated with our paperless field office management system described below and with our home office systems, TurboApps allows our RVPs and us to realize the efficiencies of straight-through-processing of application data and other information collected on our sales representatives' mobile devices, which results in expedited processing of our life insurance product sales. TurboApps also supports our recruiting activity and our U.S. mutual fund product sales. We developed the web-based versions of TurboApps to take advantage of the proliferation of portable devices and wireless Internet connections, including smartphones, laptop computers and tablets. We have also introduced our first edition of the Primerica App, which allows our representatives to provide an insurance quote when they do not have access to the Internet.
- Virtual Base Shop: In an effort to ease the administrative burden on RVPs and simplify sales force operations, we make available to RVPs a secure Intranet-based paperless field office management system as part of the POL subscription. This virtual office is designed to automate the RVP's administrative responsibilities and can be accessed by all sales representatives in an RVP's immediate downline sales organization, which we refer to as his or her base shop.
- Our Morningstar Investment Presentation Tools: We have licensed from Morningstar two web-based sales presentation tools, Portfolio Solutions and Morningstar® Hypothetical Illustrator℠. In addition, we have contracted with Ibbotson Associates Advisors, LLC, a leading asset allocation advisory firm, to build detailed asset allocation portfolios. These tools allow our sales representatives to illustrate for clients and prospective clients the long-term benefits of proper asset allocation and the potential wealth creation over specific time horizons. We believe these tools offer the benefit of objective third-party advice from an industry leader and help establish the credibility of both our sales representatives and products.
- Client Account Manager: We also use Client Account Manager, a portfolio management tool that assists our sales representatives with monitoring individual client investment accounts. Client Account Manager provides our sales representatives with additional product sales opportunities for our investment and savings products by providing better access to detailed account information for active client accounts and accounts that our representatives have inherited upon departure of the representative who established the relationship. We believe that Client Account Manager enables better service and more relevant client contact to present additional investment recommendations and product opportunities.

We also make available other technology to support our sales force in managing their businesses and in serving our clients, including:

- a toll-free sales support call center to address questions and assist with paperwork, underwriting and licensing;
- a tele-underwriting process that allows clients to provide needed medical information without disclosing it to our sales representatives; and
- POL for tracking the status of pending life insurance applications and the progress of their new recruits in their training and licensing efforts.

Performance-Based Compensation Structure

Our compensation system is rooted in our origin as an insurance agency. Our sales representatives can earn compensation in multiple ways, including:

- sales commissions and fees based on their personal sales and client assets under management;
- override commissions based on sales by the sales representatives and fees based on client assets under management in their downline organizations;
- bonuses and other compensation, including equity-based compensation, based on their own sales performance, the aggregate sales performance of their downline organizations and other criteria; and
- participation in our contests and other incentive programs.

Our compensation system pays a commission to the selling representative who actually sells the product and override commissions to several levels of the selling representative's upline organization. With respect to term life insurance sales, commissions are calculated based on the total first-year premium (excluding policy fee) for all policies and riders. To motivate our sales force, we compensate them for term life insurance product sales as quickly as possible. We advance a majority of the insurance commission upon the submission of a completed application and the first month's premium payment. The remainder of the life insurance sales commission is paid upon receipt of the first 12 months of premium. As the client makes his or her premium payments, the commission is earned by the sales representative and the commission advance is recovered. If premium payments are not made by the client and the policy terminates, any outstanding

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advance commission is charged back to the sales representative. The chargeback would equal that portion of the advance that was made, but not earned, by the representative because the client did not pay the full premium for the period of time for which the advance was made to the representative. Chargebacks, which occur in the normal course of business, may be recovered by reducing any amounts otherwise payable to the sales representative.

Sales representatives and their upline organizations are contractually obligated to repay us any commission advances that are ultimately not earned due to the underlying policy lapsing prior to the full commission being earned. Additionally, we hold back a portion of the commissions earned by our sales representatives as a reserve out of which we may recover chargebacks. The amounts held back are referred to as deferred compensation account commissions (“DCA commissions”). DCA commissions are available to reduce amounts owed to the Company by sales representatives. DCA commissions also provide an upline sales representative with a cushion against the chargeback obligations of their downline sales representatives. DCA commissions, unless applied to amounts owed, are ultimately released to the sales representatives.

Generally, commissions are not paid after the first year with respect to a policy. One of our riders provides for coverage increases each year. For such riders, commissions in the second year and thereafter are only paid with respect to the premium increase related to the increased coverage. Renewal commissions are paid on some older in-force policies. At the end of the policy duration, compensation is paid on conversions.

We also pay compensation to our sales force for the sale of mutual funds, annuities, long-term care insurance, prepaid legal protection and our Primerica DebtWatchers™ products, and for the referral of customers seeking auto and home insurance. For most mutual funds (non-managed accounts) and annuity products, commissions are paid both on the sale and on the total of assets under management and are calculated based on the dealer re-allowance and trail compensation actually paid to us. For managed account mutual fund products, fees earned are based on the total of assets under management. Long-term care insurance commissions are calculated based on the amount of premium paid. Prepaid legal protection commissions and Primerica DebtWatchers™ commissions are payable in fixed amounts on the sale of the respective product. For auto and homeowners' insurance products, fees are paid for referrals that result in completed applications.

We pay bonuses and other incentive compensation for the sale of certain products. Bonuses are payable to the selling representative or to selected override levels, or both, for achieving specified production levels for the sale of term life insurance, investment and savings products, and prepaid legal protection, and for auto and home insurance referrals. Upon achieving certain goals and building their teams, new representatives can qualify for additional bonuses, which are generally contingent on new recruits completing their first personal sales.

In addition to these methods of compensation, we use a quarterly compensation program under which RVPs can earn equity awards based on various production and sales criteria. Effective deployment of these programs allows us to align the interests of our sales force with those of our stockholders.

Sales Force Licensing

The states, provinces and territories in which our sales representatives operate generally require our sales representatives to obtain and maintain licenses to sell our insurance and securities products. Our sales representatives may also be required to maintain licenses to sell certain of our other financial products. Our sales representatives must pass applicable examinations to be licensed to sell our insurance and securities products. To encourage new recruits to obtain their life licenses, we either pay directly or reimburse the sales representative for certain licensing-related fees and expenses once he or she passes the applicable exam and obtains the applicable life insurance license.

To sell insurance products, our sales representatives must be licensed by their resident state, province or territory and by any other state, province or territory in which they do business. In most states, our sales representatives must be appointed by our applicable insurance subsidiary.

To sell mutual funds, our U.S. sales representatives must be registered with the Financial Industry Regulatory Authority (“FINRA”) and licensed as Series 6, and in most states Series 63, registered sales representatives of our broker-dealer subsidiary and by each state in which they sell securities products. To sell variable annuity products, our sales representatives must have these licenses and FINRA registrations and be appointed by the annuity underwriter in the states in which they market annuity products. To sell our managed account product, our representatives must be Series 65 licensed in most states.

Our Canadian sales representatives selling mutual fund products are required to be licensed by the securities commissions in the provinces and territories in which they sell mutual fund products. Our Canadian sales representatives who are licensed to sell our insurance products do not need any further licensing to sell our segregated funds products in Canada. In Canada, sales representatives who refer clients to a mortgage lender do not have to be licensed as a mortgage broker.

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Supervision and Compliance

To ensure compliance with various federal, state, provincial and territorial legal requirements, we and our RVPs share responsibility for maintaining an overall compliance program that involves compliance training and supporting and monitoring the activities of our sales representatives. Our Office of the General Counsel and our Field Supervision Department work with RVPs to develop appropriate compliance procedures and systems.

Generally, all RVPs must obtain a principal license (FINRA Series 26 in the United States and Branch Manager license in Canada) and as a result, they assume supervisory responsibility over the activities of their downline sales organizations. Additional supervision is provided by approximately 490 Offices of Supervisory Jurisdiction ("OSJs"), which are run by select RVPs who receive additional compensation for assuming additional responsibility for supervision and compliance monitoring across all product lines. OSJs are required to periodically inspect our field offices and report any compliance issues they observe to us.

All of our sales representatives are required to participate in our annual compliance meeting, a program administered by our senior management and our legal and compliance staff at which we provide a compliance training overview across all product lines and require the completion of compliance checklists by each of our licensed sales representatives for each product he or she offers. Additionally, our sales representatives receive periodic compliance newsletters regarding new compliance developments and issues of special significance. Furthermore, the OSJs are required to complete an annual training seminar that focuses on securities compliance and field supervision.

Our Compliance Department regularly runs surveillance reports designed to monitor the activity of our sales force. If we detect any unusual or suspicious activity, our Compliance Department commences an investigation and ensures that appropriate action is taken to resolve any issues and address disciplinary action. Our Field Supervision Department regularly assists the OSJs and communicates compliance requirements to them to ensure that they properly discharge their supervisory responsibilities. The Field Supervision Department also periodically inspects OSJ offices.

Our Field Audit Department regularly conducts audits of all sales representative offices, including scheduled and no-notice audits. Our policy is to conduct approximately 50% of the field office audits on a no-notice basis. The Field Audit Department reviews all regulatory-required records that are not maintained at our home office. Any compliance deficiencies noted in the audit must be corrected, and we carefully monitor all corrective action. Field offices that fail an audit are subject to a follow-up audit in 150 days. Continued audit deficiencies are addressed through a progressive disciplinary structure that includes fines, reprimands, probations and terminations.

Our Products

We tailor our products to appeal to middle income consumers. We believe our face-to-face delivery of products and the FNA add sufficient value to the client to allow us to compete on the basis of product value and service in addition to price. Reflecting our philosophy of helping middle income clients with their financial product needs and to ensure compatibility with our distribution model, our products generally incorporate the following criteria:

- Consistent with sound individual finance principles: Products must be consistent with good personal finance principles for middle income consumers, such as reducing debt, minimizing expenses and encouraging long-term savings.
- Designed to support client multiple goals: Products are designed to address and support a broad range of financial goals rather than compete with or cannibalize each other. For example, term life insurance does not compete with mutual funds because term life has no cash value or investment element.
- Ongoing needs based: Products must meet the ongoing financial needs of many middle income consumers so that the likelihood of a potential sale is high.
- Easily understood and sold: Products must be appropriate for distribution by our sales force, which requires that the application and approval process must be simple to understand and explain, and the likelihood of approval must be sufficiently high to justify the investment of time by our sales representatives.

We use three operating segments to organize, evaluate and manage our business: Term Life Insurance, Investment and Savings Products, and Corporate and Other Distributed Products. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations" and Note 2 to our consolidated and combined financial statements included elsewhere in this report for certain financial information regarding our operating segments and the geographic areas in which we operate.

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The following table provides information on our principal products and the principal sources thereof by operating segment.

| Operating Segment | Principal Products | Principal Sources of Products (Applicable Geographic Territory) |
|---|---|---|
| Term Life Insurance | Term Life Insurance | Primerica Life (U.S. (except New York), the District of Columbia and certain territories)<br>NBLIC (New York)<br>Primerica Life Canada (Canada) |
| Investment and Savings Products | Mutual Funds | American Funds (U.S.)<br>Franklin Templeton (U.S.)<br>Invesco (U.S.)<br>Legg Mason Global Asset Management (U.S.)<br>Pioneer Investments (U.S.)<br>AGF Funds (Canada)<br>Concert™ Funds (Canada) |
| | Managed Accounts | Lockwood Advisors (U.S.) |
| | Variable Annuities | MetLife Investors and its affiliates (U.S.) |
| | Fixed Annuities | MetLife Investors USA Life Insurance Company and its affiliates (U.S.)<br>The Lincoln National Life Insurance Company and its affiliates (U.S.) |
| | Segregated Funds | Primerica Life Canada (Canada) |
| Corporate and Other Distributed Products | Primerica DebtWatchers™ | Equifax Consumer Services LLC (U.S. and Canada) |
| | Long-Term Care Insurance | Genworth Life Insurance Company and its affiliates (U.S.) |
| | Prepaid Legal Services | Prepaid Legal Services, Inc. (U.S. and Canada) |
| | Auto and Homeowners' Insurance | Various insurance companies, as offered through Answer Financial, Inc. (U.S.) |
| | Mortgage Loan referrals (Canada only) | AGF Trust Company (Canada) |
| | Mail-Order Student Life | NBLIC (U.S., except Alaska, Hawaii, Montana, Washington and the District of Columbia)<br>NBLIC (New York and New Jersey) |

Short-Term Disability
Benefit Insurance

Term Life Insurance Products

Through our three life insurance subsidiaries – Primerica Life, NBLIC and Primerica Life Canada – we offer term life insurance to clients in the United States, its territories, the District of Columbia and Canada. In 2010, the latest period for which data is available, we were the largest provider of individual term life insurance in the United States based on the amount of in-force premiums collected, according to LIMRA.

We believe that term life insurance is a better alternative for middle income clients than cash value life insurance. Term life insurance provides a guaranteed death benefit if the insured dies during the fixed coverage period of an in-force policy, thereby providing financial protection for his or her named beneficiaries in return for the periodic payment of premiums. Term insurance products, which are sometimes referred to as pure protection products, have no savings or investment features. By buying term life insurance rather than cash value life insurance, a policyholder initially pays a lower premium and, as a result, may have funds available to invest for retirement and other needs. We also believe that a person's need for life insurance is inversely proportional to that person's need for retirement savings, a concept we refer to as the theory of decreasing responsibility. Young adults with children, new mortgages and other obligations need to buy higher amounts of insurance to protect their family from the loss of future income resulting from the death of a primary bread winner. With

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its lower initial premium, term life insurance lets young families buy more coverage for their premium dollar when their needs are greatest and still have the ability to have funds for their retirement and other savings goals.

We design our term life insurance products to be easily understood by, and meet the needs of, our clients. Clients purchasing our term life insurance products generally seek stable, longer-term income protection products for themselves and their families. In response to this demand, we offer term life insurance products with level premium coverage periods that range from 10 to 35 years. Policies remain in force until the expiration of the coverage period or until the policyholder ceases to make premium payments and terminates the policy. Premiums are guaranteed not to rise above a certain amount each year during the life of the policy. The initial guarantee period for policies issued in the United States equals the initial term period, up to a maximum of 20 years. After 20 years, we have the right to raise the premium, subject to limits provided for in the applicable policy. In Canada, the amount of the premium is guaranteed for the entire term of the policy.

Our Custom Advantage term life insurance policies may be customized through the addition of riders to provide coverage for specific protection needs, such as mortgage and college expense protection. These additional riders are available individually for both the primary insured and a spouse. For insureds under the age of 56 who are issued non-rated coverage, we offer an increasing benefit rider that allows for an automatic 10% annual increase in coverage (subject to a maximum lifetime increase of $500,000) without new underwriting. All children under the age of 25 in a family may be insured under one rider for one premium. Providing insurance for an entire family under one policy results in only one policy fee, premium banding for the total coverage on the primary insured and spouse, and reduced administrative expenses. The term premium banding refers to levels of death benefits payable on a term life insurance policy at which the cost to the insured of each $1,000 of death benefits payable decreases. Our premium bands are currently $150,000, $250,000 and $500,000. The death benefits attributable to an insured individual and his or her insured spouse are combined for purposes of determining which premium band will be used to calculate individual premiums. Therefore, the couple together may be charged premiums that are less per person per $1,000 of death benefits payable than they would otherwise be charged as individuals.

At our 2011 national convention, we launched a new rapid issue term life product called TermNow™ for face amounts of $250,000 and below. In the United States, TermNow allows a sales representative to take an online application and, with the client’s permission, allows the Company to access databases, including prescription drug, Medical Information Bureau ("MIB"), and motor vehicle records as part of the underwriting process. In Canada, TermNow is underwritten using the online application and MIB data, but the Company uses this data and the client's responses to application questions to determine additional underwriting procedures in lieu of accessing motor vehicle records and prescription drug databases. These new processes replaced the prior process of collecting a saliva sample. Results of these searches are reported in real time to our underwriting system, which then makes a decision about whether or not to rapidly issue a policy.

The average face amount of our in-force policies issued in 2011 was approximately $248,400. The following table sets forth selected information regarding our term life insurance product portfolio:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Life insurance issued: | | | |
| Number of policies issued | 237,535 | 223,514 | 233,837 |
| Face amount issued (In millions) | $73,146 | $74,401 | $80,497 |

| | December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Life insurance in force: | | | |
| Number of policies in force | 2,316,131 | 2,311,030 | 2,332,273 |
| Face amount in force (In millions) | $664,955 | $656,791 | $650,195 |

Pricing and Underwriting. We believe that effective pricing and underwriting are significant drivers of the profitability of our life insurance business and we have established our pricing assumptions to be consistent with our underwriting practices. We set pricing assumptions for expected claims, lapses, investment returns and expenses based on our experience and other factors. These other factors include:

- expected changes from relevant experience due to changes in circumstances, such as (i) revised underwriting procedures affecting future mortality and reinsurance rates, (ii) new product features, and (iii) revised administrative programs affecting sales levels, expenses, and client continuation or termination of policies; and
- observed trends in experience that we expect to continue, such as general mortality improvement in the general population and better or worse policy persistency (the period over which a policy remains in force) due to changing economic conditions.

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Under our current underwriting guidelines, we individually assess each insurable adult applicant and place such applicant into one of four risk classifications based on current health, medical history and other factors. Each of these four classifications (preferred plus, preferred, non-tobacco and tobacco) has specific health criteria. We may decline an applicant's request for coverage if his or her health or activities create unacceptable risks for us.

We do not have our sales representatives collect sensitive and personal medical information from an applicant. Our sales representatives ask applicants a series of yes or no questions regarding the applicant's medical history. If we believe that follow up regarding an applicant's medical history is warranted, we use a third-party provider and its trained personnel to contact the applicant by telephone to obtain a detailed medical history. The report resulting from the tele-underwriting process is electronically transmitted to us and is evaluated in our underwriting process. During the underwriting process, we may consider information about the applicant from third-party sources such as the MIB, prescription drug databases, motor vehicle bureaus and physician statements.

To accommodate the significant volume of insurance business that we process, we and our sales force use technology to make our operations more efficient. At our 2011 national convention, we also rolled out a new web-based life insurance application that supports both our existing Custom Advantage term products and TermNow. We designed the web-based application and TermNow product to allow our sales representatives to submit an application via our Intranet, allowing us to underwrite the applicant in real-time and send an approval or additional underwriting notice back to the applicant and representative all within minutes. Approximately 65% of the life insurance applications we received in 2011 were submitted electronically, including through our web-based life insurance application. Our web-based life insurance application ensures that the application is submitted error-free, collects the applicant's electronic signatures and populates the RVP's sales log. For paper applications, we use our proprietary review and screening system to automatically screen that an application meets regulatory and other requirements, as well as alert our application processing staff to any deficiencies with the application. If any deficiencies are noted, our application processing staff telephones the sales representative to obtain the necessary information. Once an application is complete, the pertinent application data is uploaded to our life insurance administrative systems, which manage the underwriting process by electronically analyzing data and recommending underwriting decisions and communicating with the sales representative and third-party providers.

Claims Management. Our insurance subsidiaries processed over 14,000 life insurance benefit claims in 2011 on policies underwritten by us and sold by our sales representatives. These claims fall into three categories: death, waiver of premium (applicable to disabled policyholders who purchased a rider pursuant to which Primerica agrees to waive remaining life insurance premiums during a qualifying disability), or terminal illness. The claim may be reported by our sales representative, a beneficiary or, in the case of terminal illness, the policyholder. Following are the benefits paid by us for each category of claim:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In thousands) | | |
| Death | $ 993,396 | $ 939,107 | $ 942,622 |
| Waiver of premium | 25,836 | 24,136 | 21,395 |
| Terminal illness (1) | 9,654 | 9,354 | 9,295 |

(1) We consider claims paid for terminal illness to be loans made to the beneficiary that are repaid to us upon death of the beneficiary from the death benefit.

In the United States, after coverage has been in force for two years, we may not contest the policy for misrepresentations in the application or the suicide of the insured. In Canada, we have a similar two-year contestability period, but we are permitted to contest insurance fraud at any time. As a matter of policy, we do not contest any coverage issued by us to replace the face amount of another insurance company's individual coverage to the extent the replaced coverage would not be contestable by the replaced company. We believe this approach helps our sales representatives sell replacement policies, as it reassures clients that claims made under their replacement policies are not more likely to be contested as to the face amount replaced. Through our claims administration system, we record, process and pay the appropriate benefit with respect to any reported claim. Our claims system is used by our home office investigators to order medical and investigative reports from third-party providers, calculate amounts due to the beneficiary (including interest) and report payments to the appropriate reinsurance companies.

In 2011, the New York State Department of Financial Services (“NYSDFS”) sent industry-wide inquiries to insurers, including NBLIC, instructing them to cross-check their U.S. life insurance policyholders with public death records to identify deceased policyholders for whom claims had not been filed and report their findings to the NYSDFS. NBLIC has filed reports in response to the inquiry. In accordance with Massachusetts Division of Insurance ("Massachusetts DOI") best practices, Primerica Life, a Massachusetts domestic insurer, has cross-checked public death records and is continuing to review such information. Primerica Life is in the process of contacting the beneficiaries of its insureds who were identified in the public death records search and who have not previously submitted death claims or previously been contacted, and we expect a number of these beneficiaries to receive payment under our policies. In accordance with Massachusetts DOI best practices, Primerica Life will cross-check public death records semi-annually to timely identify potential unreported claims.

Reinsurance. We use reinsurance primarily to reduce the volatility risk with respect to mortality. Since 1994, we have reinsured death benefits in the United States on a first dollar quota share yearly renewable term ("YRT") basis. We pay premiums to each reinsurer based on rates in the applicable agreement.

We automatically reinsure 90% of all U.S. insurance policies that we underwrite with respect to the first $4 million per life of coverage, excluding coverage under certain riders. For all risks in excess of $4 million per life of coverage, we reinsure on a case-by-case, or facultative, basis. With respect to our Canadian insurance policies, we reinsure face amounts above $500,000 per life on an excess loss YRT basis and for all risk in excess of $2 million per life, we reinsure on a facultative basis. We also reinsure substandard cases on a facultative basis to capitalize on the extensive experience some of our reinsurers have with substandard cases. A substandard case has a level of risk that is acceptable to us, but at higher premium rates than a standard case because of the health, habits or occupation of the applicant.

While our reinsurance agreements are expected to continue indefinitely, both we and our reinsurers are entitled to discontinue any reinsurance agreement as to future policies by giving 90 days' advance notice to the other. Each reinsurer's ability to terminate coverage for existing policies is limited to circumstances such as a material breach of contract or nonpayment of premiums by us. Each reinsurer has the right to increase rates with certain restrictions. If a reinsurer increases rates, we have the right to immediately recapture the business. Either party may offset any balance due from the other party. For additional information, see Notes 1 and 5 to our consolidated and combined financial statements.

Financial Strength Ratings. Ratings with respect to financial strength are an important factor in establishing our competitive position and maintaining public confidence in us and our ability to market our products. Ratings organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Rating Agencies."

Investment and Savings Products

We believe that middle income families have significant unmet retirement and other savings needs. Using our FNA tool, our sales representatives help our clients understand their current financial situation and how they can use time-tested financial principles, such as prioritizing personal savings, to reach their savings goals. Our products comprise basic saving and investment vehicles that seek to meet the needs of clients in all stages of life.

Through PFS, our U.S. licensed insurance agency; PFS Investments, our U.S. licensed broker-dealer subsidiary; Primerica Life Canada; PFSL Investments Canada, our Canadian licensed dealer; and our licensed sales representatives, we distribute and sell to our clients mutual funds, variable and fixed annuities and segregated funds. As of December 31, 2011, approximately 21,700 of our sales representatives were licensed to distribute mutual funds in the United States and Canada. As of December 31, 2011, approximately 12,400 of our sales representatives were licensed and appointed to distribute variable and fixed annuities in the United States and approximately 9,000 of our sales representatives were licensed to sell segregated funds in Canada.

Mutual Funds. In the United States, our licensed sales representatives primarily distribute mutual funds from five select asset management firms: American Funds, Franklin Templeton, Invesco, Legg Mason and Pioneer. We have selling agreements with each of these fund companies and a number of other fund companies. These firms have diversified product offerings, including domestic and international stock, bond and money market funds. Each firm has individual funds with long track records and each continually evaluates its fund offerings and adds new funds on a regular basis. Additionally, their product offerings reflect diversified asset classes and varied investment styles. We believe these asset management firms provide funds that meet the investment needs of our clients.

During 2011, four of these fund families (Legg Mason, Invesco, American Funds and Franklin Templeton) accounted for approximately 94% of our mutual fund sales in the United States. Legg Mason and Invesco each have large wholesaling teams that support our sales force in distributing their mutual fund products. Our selling agreements with

Legg Mason, Invesco, American Funds and Franklin Templeton all have indefinite terms and provide for termination at will. Each of these agreements authorizes us to receive purchase orders for shares of mutual funds or similar investments underwritten by the fund company and to sell and distribute the shares on behalf of the fund company. All purchase orders are subject to acceptance or rejection by the relevant fund company in its sole discretion. Purchase orders received by the fund company from us are accepted only at the then-applicable public offering price for the shares ordered (the net asset value of the shares plus any applicable sales charge). For sales of shares that we initiate, we are paid commissions based upon the dollar amount of the sales and earn marketing and distribution (12b-1) fees, on mutual fund products sold based on asset values in our client accounts. Pursuant to agreements with Legg Mason, Invesco, and other fund companies, we also receive, as consideration for our mutual fund sales infrastructure, a mutual fund support fee based on one or more of the following: a percentage of fund sales, a percentage of the value of our clients' assets in the funds, or an agreed-upon fixed amount.

In Canada, our sales representatives offer Primerica-branded Concert™ Series funds, which accounted for 47% of our Canadian mutual fund product sales in 2011. Our Concert™ Series of funds are six different asset allocation funds with varying investment objectives ranging from fixed income to aggressive growth. Each Concert™ Series fund is a fund of funds that allocates fund assets among equity and income mutual funds of AGF Funds, a major asset management firm in Canada. The asset allocation within each Concert™ Series fund is determined on a contract basis by Legg Mason. The principal non-proprietary funds that we offer our clients in Canada are funds of AGF Funds, Mackenzie and Invesco Trimark. Sales of these non-proprietary funds accounted for 40% of mutual fund product sales in Canada in 2011. Like our U.S. fund family list, the asset management partners we have chosen in Canada have a diversified offering of stock, bond and money market funds, including domestic and international funds with a variety of investment styles.

A key part of our investment philosophy for our clients is the long-term benefits of dollar cost averaging through systematic investing. To accomplish this, we assist our clients by facilitating monthly contributions to their investment account by bank draft against their checking accounts. As of December 31, 2011, qualified retirement plans for which we serve as nominee accounted for 71% of client account assets in the United States and 79% of client account assets in Canada. Our high concentration of retirement plan accounts and our systematic savings philosophy are beneficial to us as these accounts tend to have lower redemption rates than the industry and, therefore, generate more recurring asset-based revenues.

Variable Annuities.    Our U.S. licensed sales representatives also distribute variable annuities underwritten and provided by two MetLife insurance companies. Variable annuities are insurance products that enable our clients to invest in accounts with attributes similar to mutual funds, but also have benefits not found in mutual funds, including death benefits that protect beneficiaries from losses due to a market downturn and income benefits that guarantee future income payments for the life of the policyholder(s). MetLife bears the insurance risk on the variable annuities that we distribute.

With our assistance, Metlife has developed a series of private label annuity products specifically designed to meet the needs of our clients. We are a party to a selling agreement with MetLife which, among certain other rights, gives them the right to supply us with certain annuity and other insurance products on an exclusive basis until July 2013 and on a non-exclusive basis until July 2015.

Segregated Funds.    In Canada, we offer segregated fund products, which are branded as our Common Sense Funds™, that have some of the characteristics of our variable annuity products distributed in the United States. Our Common Sense Funds™ are underwritten by Primerica Life Canada and offer our clients the ability to participate in a diversified managed investment program that can be opened for as little as C$25. While the assets and corresponding liability (reserves) are recognized on our balance sheet, the assets are held in trust for the benefit of the segregated fund contract owners and are not commingled with the general assets of the Company.

The investment objective of segregated funds is long-term capital appreciation combined with some guarantee of principal. Unlike mutual funds, our segregated fund product guarantees clients at least 75% of their net contributions (net of withdrawals) at the earlier of the date of their death or at the segregated fund's maturity date, which is selected by the client. The portfolio consists of both equities and bonds with the equity component consisting of a pool of large cap Canadian equities and the bond component consisting of Canadian federal government zero coupon treasuries. The portion of the segregated fund portfolio allocated to zero coupon treasuries are held in sufficient quantity to satisfy the guarantees payable at the maturity date of the segregated fund. As a result, our potential exposure to market risk is very low as it comes from the guarantees payable upon the death of the client prior to the maturity date. With the guarantee level at 75% and in light of the time until the scheduled maturity of our segregated funds contracts, we currently do not believe it is necessary to allocate any corporate capital as reserves for segregated fund contract benefits.

Many of our Canadian clients invest in segregated funds through a registered retirement savings plan (“RRSP”). An RRSP is similar to an individual retirement account, or IRA, in the United States in that contributions are made to the

RRSP on a pre-tax basis and income is earned on a tax-deferred basis. Our Common Sense Funds™ are managed by AGF Funds, one of Canada's leading investment management firms, and a leading provider of our mutual fund products.

Fixed Annuities. To expand our investment and savings product offerings, we entered into an agreement with The Lincoln National Financial Life Insurance Company to offer three fixed indexed annuity products, which we began selling throughout the United States in January 2012. These products combine safety of principal and guaranteed rates of return with additional investment options tied to the S&P 500 Index that allow for higher returns based on the performance of the index. We also sell fixed annuities underwritten by MetLife Investors USA Insurance Company and its affiliates. Our current offering includes a fixed premium deferred annuity, a single premium immediate annuity and a longevity income guaranteed annuity. The fixed premium deferred annuity allows our clients to accumulate savings on a tax deferred basis with safety of principal and a guaranteed rate of return. The single premium immediate annuity and longevity income guaranteed annuity provide clients with income alternatives during retirement. We believe these fixed annuity products give both our life and securities representatives more ways to assist our clients with their retirement planning needs.

Managed Accounts. In 2011, PFS Investments became a registered investment adviser in the United States and introduced a managed accounts program under a contract with Lockwood Advisors, a registered investment adviser and unit of Bank of New York Mellon. The initial offering consists of a mutual fund advisory program with a $25,000 minimum initial investment. As part of our contract, Lockwood Advisors participated in the design and assists in the ongoing administration of the program, including the investment of client assets on a discretionary basis into one or more asset allocation portfolios. In contrast to our existing mutual fund and annuity business, in an advisory fee program, clients do not pay an upfront commission. Rather, they pay an annual fee based on the value of the assets in their account.

Revenue and Sales Force Compensation. In the United States, we earn revenue from our investment and savings products business in three ways: commissions earned on the sale of such products; fees earned based upon client asset values; and account-based revenue. On the sale of mutual funds (non-managed accounts) and annuities, we earn a dealer reallowance or commission on new purchases as well as trail commissions on the assets held in our clients' accounts, and we pay our sales representatives a percentage of the dealer reallowance and trail commissions we receive. Sales representatives that qualify to offer managed accounts receive a portion of the annual fee we receive as compensation for as long as we retain the account. We also receive marketing and support fees from most of our fund providers. These payments are typically a percentage of sales or a percentage of the total clients' asset values, or a combination of both.

We perform custodial services and receive fees on a per-account basis for serving as a non-bank custodian for certain of our clients' retirement plan accounts for certain of the funds offered in the United States. We also perform recordkeeping services for some of our select U.S. fund companies and receive compensation on a per-account basis for these services. Because the total amount of these fees fluctuates with the number of such accounts, the opening or closing of accounts has a direct impact on our revenues. From time to time, the fund companies for whom we provide these services request that accounts with small balances be closed.

In Canada, we earn revenue from the sales of our investment and savings products in two ways: commissions on mutual fund sales and fees paid based upon clients' asset values (mutual fund trail commissions, and asset management fees from segregated funds and Concert™ Series funds). On the sale of mutual funds, we also earn a dealer reallowance or commission. We pay a percentage of the dealer reallowance and trail commissions we receive from mutual fund sales as compensation to our sales representatives. On the sale of segregated funds, we earn a fee based on total asset value. We pay our sales representatives a sales commission on segregated fund sales and a fee paid quarterly based on clients' asset values.

Other Distributed Products

We offer Primerica DebtWatchers™, long-term care insurance, prepaid legal services, and auto and homeowners' insurance referrals as well as debt consolidation referrals in Canada. While many of these products are Primerica-branded, all of them are underwritten or otherwise provided by a third party.

We offer our Primerica DebtWatchers™ product in the United States and a very similar product in three provinces in Canada. Primerica DebtWatchers™ allows clients to create a simple-to-understand plan for paying off their debt and provides clients with periodic updates of their credit score and other personal credit information. Primerica DebtWatchers™ is co-branded with and supported by a subsidiary of Equifax Inc.

We offer our U.S. clients long-term care insurance, underwritten and provided by Genworth Life Insurance Company and its affiliates. We receive a commission based on our sales of these policies.

We offer our U.S. and Canadian clients a Primerica-branded prepaid legal services program on a subscription basis that is underwritten and provided by Prepaid Legal Services, Inc. The prepaid legal services program offers a network of attorneys in each state, province or territory to assist subscribers with legal matters such as drafting wills, living wills and powers of attorney, trial defense and motor vehicle-related matters. We receive a commission based on our sales of these contracts.

We have an arrangement with Answer Financial, Inc. (“Answer Financial”), an independent insurance agency, whereby our U.S. sales representatives refer clients to Answer Financial to receive multiple, competitive auto and homeowners' insurance quotes. Answer Financial's comparative quote process allows clients to easily identify the underwriter that is most competitively priced for their type of risk. We receive commissions based on completed auto and homeowners' insurance applications and pay our sales representatives a flat referral fee for each completed application.

In Canada, we have a referral program for a debt consolidation loan product offered by a third party lender, AGF Trust Company, and assist clients with developing debt reduction/elimination strategies. Due to regulatory requirements, our sales representatives in Canada only refer clients to the lender and are not involved in the loan application and closing process.

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Primerica Financial Services Home Mortgages, Inc. ("Primerica Mortgages"), our U.S. loan brokering company, ceased its loan brokering activities in all states in which it held licenses effective December 31, 2011. As of January 1, 2012, Primerica Mortgages no longer accepts loan requests from U.S. clients. As the pending loan requests are processed by our lender, which we anticipate should be completed by the end of the first quarter of 2012, Primerica Mortgages is commencing the process of surrendering its state licenses and completely exiting the loan brokering business in the United States.

We also offer mail-order student life and short-term disability benefit insurance, which we underwrite through our New York insurance subsidiary, NBLIC. These products are distributed by third parties but not by our sales force.

Regulation

Our operations are subject to extensive laws and governmental regulations, including administrative determinations, court decisions and similar constraints. The purpose of the laws and regulations affecting our operations is primarily to protect our clients and other consumers and not our stockholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations.

Insurance and securities regulatory authorities periodically make inquiries regarding compliance by us and our subsidiaries with insurance, securities and other laws and regulations regarding the conduct of our insurance and securities businesses. At any given time, a number of financial or market conduct examinations of our subsidiaries may be ongoing. We cooperate with such inquiries and take corrective action when warranted.

Regulation of Our Insurance Business

Primerica Life, as a Massachusetts domestic insurer, is regulated by the Massachusetts DOI and is licensed to transact business in the United States (except New York), certain territories and the District of Columbia. NBLIC, as a New York domestic insurer, is regulated by the NYSDFS and is licensed to transact business in all 50 states, the District of Columbia and the U.S. Virgin Islands.

State insurance laws and regulations regulate all aspects of our U.S. insurance business. Such regulation is vested in state agencies having broad administrative and, in some instances, discretionary power dealing with many aspects of our business, which may include, among other things, premium rates and increases thereto, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy.

Our U.S. insurance subsidiaries are required to file certain annual, quarterly and periodic reports with the supervisory agencies in the jurisdictions in which they do business, and their business and accounts are subject to examination by such agencies at any time. These examinations generally are conducted under National Association of Insurance Commissioners (“NAIC”) guidelines. Under the rules of these jurisdictions, insurance companies are examined periodically (generally every three to five years) by one or more of the supervisory agencies on behalf of the states in which they do business. Our most recent insurance department examinations have not produced any significant adverse findings regarding any of our insurance subsidiaries.

Primerica Life Canada is federally incorporated and provincially licensed. It transacts business in all Canadian provinces and territories. Primerica Life Canada is regulated federally by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) and provincially by the Superintendents of Insurance for each province and territory. Federal and provincial insurance laws regulate all aspects of our Canadian insurance business. OSFI regulates insurers' corporate governance, financial and prudential oversight, and regulatory compliance, while provincial and territorial regulators oversee insurers' market conduct practices and related compliance.

Our Canadian insurance subsidiary files quarterly and annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") with OSFI in compliance with legal and regulatory requirements. OSFI conducts periodic detailed examinations of insurers' business and financial practices, including the control environment, internal and external auditing and minimum capital adequacy, surpluses and related testing, legislative compliance and appointed actuary requirements. These examinations also address regulatory compliance with anti-money laundering practices, outsourcing, related-party transactions, privacy and corporate governance. Provincial regulators conduct periodic market conduct examinations of insurers doing business in their jurisdiction.

In addition to federal and provincial oversight, Primerica Life Canada is also subject to the guidelines set out by the Canadian Life and Health Insurance Association (“CLHIA”). CLHIA is an industry association that works closely with federal and provincial regulators to establish market conduct guidelines and sound business and financial practices addressing matters such as sales representative suitability and screening, insurance illustrations and partially guaranteed savings products.

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The laws and regulations governing our U.S. and Canadian insurance businesses include numerous provisions governing the marketplace activities of insurers, including policy filings, payment of insurance commissions, disclosures, advertising, product replacement, sales and underwriting practices and complaints and claims handling. The state insurance regulatory authorities in the United States and the federal and provincial regulators in Canada generally enforce these provisions through periodic market conduct examinations.

In addition, most U.S. states and Canadian provinces and territories, as well as the Canadian federal government, have laws and regulations governing the financial condition of insurers, including standards of solvency, types and concentration of investments, establishment and maintenance of reserves, reinsurance and requirements of capital adequacy, and the business conduct of insurers, including sales and marketing practices, claim procedures and practices, and policy form content. As discussed previously, U.S. state insurance law and Canadian provincial insurance law also require certain licensing of insurers and their agents.

Insurance Holding Company Regulation; Limitations on Dividends. The states in which our U.S. insurance subsidiaries are domiciled have enacted legislation and adopted regulations regarding insurance holding company systems. These laws require registration of, and periodic reporting by, insurance companies domiciled within the jurisdiction that control, or are controlled by, other corporations or persons so as to constitute an insurance holding company system. These laws also affect the acquisition of control of insurance companies as well as transactions between insurance companies and companies controlling them.

The Parent Company is a holding company that has no significant operations. Our primary asset is the capital stock of our subsidiaries and our primary liability is a $300.0 million note payable to Citi (the "Citi note"). As a result, we depend on dividends or other distributions from our insurance and other subsidiaries as the principal source of cash to meet our obligations, including the payment of interest on, and repayment of, principal of any debt obligations.

The states in which our U.S. insurance subsidiaries are domiciled impose certain restrictions on our insurance subsidiaries' ability to pay dividends to us. In Canada, dividends can be paid subject to the paying insurance company's continuing compliance with regulatory requirements and upon notice to OSFI. We determine the dividend capacity of our insurance subsidiaries using statutory accounting principles ("SAP") in the United States and IFRS in Canada.

The following table sets forth the statutory value of cash and securities dividends paid or payable by our insurance subsidiaries:

| | Cash and Securities Dividends Paid or Payable | | | | |
|---|---|---|---|---|---|
| | Year ended December 31, | | | | |
| | 2011 | | 2010 | 2009 | |
| | (In thousands) | | | | |
| Primerica Life | $200,000 | (1) | $1,447,759 | $149,000 | (2) |
| NBLIC | — | | 296,839 | — | |
| Primerica Life Canada | — | | 566,754 | — | |

(1) Used to fund our share repurchase in November 2011.

(2) Dividend declared by Primerica Life in 2009 and paid in 2010.

Due to its negative unassigned surplus position, Primerica Life's 2011 dividend required approval by the Massachusetts DOI. In 2010, Primerica Life's dividend and NBLIC's dividend were both deemed extraordinary. For additional information on dividend capacity and restrictions, see Note 15 to our consolidated and combined financial statements.

Policy and Contract Reserve Sufficiency Analysis. Under the laws and regulations of their jurisdictions of domicile, our U.S. insurance subsidiaries are required to conduct annual analyses of the sufficiency of their life insurance statutory reserves. In addition, other U.S. jurisdictions in which our U.S. subsidiaries are licensed may have certain reserve requirements that differ from those of their domiciliary jurisdictions. In each case, a qualified actuary must submit an opinion that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus. Our U.S. insurance subsidiaries most recently submitted these opinions without qualification as of December 31, 2011 to applicable insurance regulatory authorities.

Our Canadian insurance subsidiary also is required to conduct regular analyses of the sufficiency of its life insurance statutory reserves. Life insurance reserving and reporting requirements are completed by our Canadian insurance subsidiary's appointed actuary. Materials provided by the appointed actuary are filed with OSFI as part of our annual filing and are subject to OSFI's review. Based upon this review, OSFI may institute remedial action against our Canadian insurance subsidiary as OSFI deems necessary. Our Canadian insurance subsidiary has not been subject to any such remediation or enforcement by OSFI.

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Surplus and Capital Requirements. U.S. insurance regulators have the discretionary authority, in connection with the ongoing licensing of our U.S. insurance subsidiaries, to limit or prohibit the ability of an insurer to issue new policies if, in the regulators' judgment, the insurer is not maintaining a minimum amount of surplus or is in hazardous financial condition. Insurance regulators may also limit the ability of an insurer to issue new life insurance policies and annuity contracts above an amount based upon the face amount and premiums of policies of a similar type issued in the prior year. We do not believe that the current or anticipated levels of statutory surplus of our U.S. insurance subsidiaries present a material risk that any such regulator would limit the amount of new policies that our U.S. insurance subsidiaries may issue.

The NAIC has established risk-based capital (“RBC”) standards for U.S. life insurance companies, as well as a model act to be applied at the state level. The model act provides that life insurance companies must submit an annual RBC report to state regulators reporting their RBC based upon four categories of risk: asset risk, insurance risk, interest rate risk and business risk. For each category, the capital requirement is determined by applying factors to various asset, premium and reserve items, with the factor being higher for those items with greater underlying risk and lower for less risky items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action. If an insurer's RBC falls below specified levels, the insurer would be subject to different degrees of regulatory action depending upon the level. These actions range from requiring the insurer to propose actions to correct the capital deficiency to placing the insurer under regulatory control. As of December 31, 2011, Primerica Life and NBLIC had combined statutory capital and surplus in excess of the applicable regulatory thresholds.

In Canada, OSFI has authority to request an insurer to enter into a prudential agreement implementing measures to maintain or improve the insurer's safety and soundness. OSFI also may issue orders to an insurer directing it to refrain from unsafe or unsound practices or to take action to remedy financial concerns. OSFI has neither requested that our Canadian insurance subsidiary enter into any prudential agreement nor has OSFI issued any order against our Canadian insurance subsidiary.

In Canada, an insurer's minimum capital requirement is overseen by 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. As of December 31, 2011, Primerica Life Canada had statutory capital in excess of the applicable regulatory thresholds.

NAIC Pronouncements and Reviews. Although we and our insurance subsidiaries are subject to state insurance regulation, in many instances the state regulations emanate from NAIC model statutes and pronouncements. Certain changes to NAIC model statutes and pronouncements, particularly as they affect accounting issues, may take effect automatically without affirmative action by a given state. With respect to some financial regulations and guidelines, non-domiciliary states sometimes defer to the interpretation of the insurance department of the state of domicile. However, neither the action of the domiciliary state nor the action of the NAIC is binding on a non-domiciliary state. Accordingly, a non-domiciliary state could choose to follow a different interpretation. In addition, working groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and if changes were made, whether they should be applied retrospectively, prospectively only, or in a phased-in manner. A requirement to reduce the reserve credits on ceded business, if applied retroactively, would have a negative impact on our statutory capital. The NAIC is also currently working on reforming state regulation in various areas, including comprehensive reforms relating to insurance reserves.

The NAIC has established guidelines to assess the financial strength of insurance companies for U.S. state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 12 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their state.

Statutory Accounting Principles. SAP is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles and related regulations determine, among other things, the amounts our insurance subsidiaries may pay to us as dividends, and they differ somewhat from accounting principles generally accepted in the United States of America ("U.S. GAAP"), which are designed to measure a business on a going-concern basis. Under U.S. GAAP, certain expenses are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under U.S. GAAP is based in part upon best estimate assumptions made by the insurer. U.S. GAAP-basis stockholders' equity represents both amounts currently available and amounts expected to emerge over the life of the business. As a result, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. GAAP may be different from those



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reflected in financial statements prepared under SAP.

State Insurance Guaranty Funds Laws. Under most state insurance guaranty fund laws, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. Most insurance guaranty fund laws currently provide that an assessment may be excused or deferred if it would threaten an insurer's own financial strength. In addition, assessments may be partially offset by credits against future state premium taxes.

Additional Oversight in Canada. In connection with our corporate reorganization, we entered into an undertaking agreement with OSFI pursuant to which we are subject to ongoing obligations to provide OSFI with certain information. In particular, we agreed to provide OSFI with advance notice, if practicable, of: (i) future debt issuances by us that are in an amount greater than 20% of our market capitalization (other than refinancing the $300.0 million Citi note), (ii) any final decision by our board of directors that could result in a material shift of our primary focus on regulated financial services and (iii) any change in ownership made by a beneficial owner of more than 5% of our common stock in the event that our senior management becomes aware of that fact. We are also required to provide OSFI with copies of our filings with the Securities and Exchange Commission (the "SEC"), material press releases and access to our senior officers and auditors to discuss any prudential concerns OSFI may have concerning Primerica Life Canada. The following items are exempt from the advance notice commitment: (a) matters subject to confidentiality and disclosure restrictions imposed by governmental authorities and (b) matters that management, acting in good faith, deems would have an adverse effect on us. The term of the undertaking agreement is two years, subject to an obligation of OSFI and us to negotiate in good faith sixty days prior to expiration either a renewal or a decision not to renew based on the financial condition of Primerica Life Canada at the time of such negotiation.

The Minister of Finance (Canada) under the Insurance Companies Act (Canada) approved our indirect acquisition of Primerica Life Canada. The Minister expects that a person controlling a federal insurance company will provide ongoing financial, managerial or operational support to its subsidiary should such support prove necessary. The Minister has required us to sign a support principle letter which provides, without limiting the scope of the support principle letter, that this ongoing support may take the form of additional capital, the provision of managerial expertise or the provision of support in such areas as risk management, internal control systems and training. The provision of the support principle letter is intended to ensure that the person controlling the federal insurance company is aware of the importance and relevance of the support principle in the consideration of the application. However, the letter does not create a legal obligation on our part to provide the support.

Our Canadian insurance subsidiary is currently in compliance with the terms of the undertaking agreement and support principle letter.

Regulation of Our Investment and Savings Products Business

PFS Investments is registered with, and regulated by, FINRA and the SEC. It is also subject to regulation by the Municipal Securities Rulemaking Board (the “MSRB”) with respect to 529 plans as well as by state securities agencies. PFS Investments operates as an introducing broker-dealer and is registered in all 50 states and with the SEC. As such, it performs the suitability review of investment recommendations in accordance with FINRA requirements, but it does not hold client accounts. U.S. client funds are held by the mutual fund in which such client funds are invested or by MetLife in the case of variable annuities.

The SEC rules and regulations that currently apply to PFS Investments and our registered representatives generally require that we make suitable investment recommendations to our customers and disclose conflicts of interest that might affect the recommendations or advice we provide. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) gave the SEC the power to impose on broker-dealers a heightened standard of conduct (fiduciary duty) that is currently applicable only to investment advisers. As required by the Dodd-Frank Act, the SEC staff submitted a report to Congress in 2010 in which it recommended that the SEC adopt a uniform fiduciary standard of conduct. The timing of any future rulemaking is unclear.

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

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determine the impact, if any, on our business, financial position or results of operations. See “Risk Factors – Risks Related to Our Investments and Savings Products Business - If heightened standards of conduct or more stringent licensing requirements, such as those recently proposed by the SEC and proposed and withdrawn by the DOL, are imposed on us or our sales representatives or selling compensation is reduced as a result of new legislation or regulations, it could have a material adverse effect on our business, financial condition and results of operations.”

PFS Investments is also approved as a non-bank custodian under Internal Revenue Service (“IRS”) regulations and, in that capacity, may act as a custodian or trustee for certain retirement accounts. Our sales representatives who sell securities products through PFS Investments (including, in certain jurisdictions, variable annuities) are required to be registered representatives of PFS Investments. All aspects of PFS Investments' business are regulated, including sales methods and charges, trade practices, the use and safeguarding of customer securities, capital structure, recordkeeping, conduct and supervision of its employees.

In 2011, PFS Investments became an SEC-registered investment adviser and, under the name Primerica Advisors, began offering a managed accounts, or mutual fund advisory, program. In most states, our representatives are required to obtain an additional license to offer this program.

Primerica Shareholder Services, Inc. ("PSS") is registered with the SEC as a transfer agent and, accordingly, is subject to SEC rules and examinations.

PFSL Investments Canada is a mutual fund dealer registered with and regulated by the Mutual Fund Dealers Association of Canada (the “MFDA”), the national self-regulatory organization for the distribution side for the Canadian mutual fund industry. It is also registered with provincial and territorial securities commissions throughout Canada. As a registered mutual fund dealer, PFSL Investments Canada performs the suitability review of mutual fund investment recommendations, and like our U.S. broker-dealer, it does not hold client accounts.

PFSL Investments Canada sales representatives are required to be registered in the provinces and territories in which they do business and are also subject to regulation by the MFDA. These regulators have broad administrative powers, including the power to limit or restrict the conduct of our business and impose censures or fines for failure to comply with the law or regulations.

PFSL Investments Canada is registered as an Investment Fund Manager in connection with our Concert™ Series mutual funds.

Other Laws and Regulations

The USA Patriot Act of 2001 (the "Patriot Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and their policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations also govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including certain life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic storage and transmission of such information. Congress and state legislatures are expected to consider additional legislation relating to privacy and other aspects of consumer information.

The Financial Consumer Agency of Canada (“FCAC”), a Canadian federal regulatory body, is responsible for ensuring that federally regulated financial institutions, which include Primerica Life Canada and PFSL Investments Canada, comply with federal consumer protection laws and regulations, voluntary codes of conduct and their own public commitments. The Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”) is Canada's financial intelligence unit. Its mandate includes ensuring that entities subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, comply with reporting, recordkeeping and other obligations under that act. We are also subject to privacy laws under the jurisdiction of federal and provincial privacy commissioners, anti-money laundering laws enforced by FINTRAC and OSFI, and the consumer complaints provisions of federal insurance laws under the mandate of the FCAC, which requires insurers to belong to a complaints ombud-service and file a copy of their complaints handling policy with the FCAC.

Segment Financial and Geographic Disclosures

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

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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. 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, prepaid legal services and various insurance products other than our core term life insurance products.

Information regarding operations by segment follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In thousands) | | |
| Revenues: | | | |
| Term life insurance segment | $554,995 | $808,568 | $1,742,065 |
| Investment and savings products segment | 396,703 | 361,807 | 300,140 |
| Corporate and other distributed products segment | 151,395 | 191,488 | 178,196 |
| Total revenues | $1,103,093 | $1,361,863 | $2,220,401 |
| Income (loss) before income taxes: | | | |
| Term life insurance segment | $194,609 | $299,044 | $659,012 |
| Investment and savings products segment | 117,076 | 113,530 | 93,404 |
| Corporate and other distributed products segment | (35,841) | (13,431) | 7,539 |
| Total income before income taxes | $275,844 | $399,143 | $759,955 |

Information regarding operations by country follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In thousands) | | |
| Revenues by country: | | | |
| United States | $895,067 | $1,136,414 | $1,922,047 |
| Canada | 208,026 | 225,449 | 298,354 |
| Total revenues | $1,103,093 | $1,361,863 | $2,220,401 |
| Income before income taxes by country: | | | |
| United States | $209,685 | $317,195 | $637,355 |
| Canada | 66,159 | 81,948 | 122,600 |
| Total income before income taxes | $275,844 | $399,143 | $759,955 |

Information regarding assets by segment follows:

| | December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In thousands) | | |
| Assets: | | | |
| Term life insurance segment | $6,137,033 | $5,738,219 | $9,016,674 |
| Investment and savings products segment | 2,591,137 | 2,615,916 | 2,192,583 |
| Corporate and other distributed products segment | 1,270,374 | 1,530,171 | 2,505,887 |
| Total assets | $9,998,544 | $9,884,306 | $13,715,144 |

Information regarding long-lived assets by country follows:

| | December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (In thousands) | | |
| Long-lived assets: | | | |
| United States | $84,550 | $90,566 | $90,905 |
| Canada | 316 | 1,114 | 1,265 |
| Total long-lived assets | $84,866 | $91,680 | $92,170 |

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For information on risks relating to our Canadian operation, see "Risk Factors" and "Item 7A. Quantitative and Qualitative Information About Market Risks – Canadian Currency Risk."

Competition

We operate in a highly competitive environment with respect to the sale of financial products and, to a lesser extent, for retaining our more productive sales representatives. Because we offer several different financial products, we compete directly with a variety of financial institutions, such as insurance companies and brokers, banks, finance companies, credit unions, broker-dealers, mutual fund companies and other financial products and services companies. Competitors with respect to our term life insurance products consist both of stock and mutual insurance companies, as well as other financial intermediaries. Competitive factors affecting the sale of life insurance products include the level of premium rates, benefit features, risk selection practices, compensation of sales representatives and financial strength ratings from ratings agencies such as A.M. Best.

In offering our securities products, our sales representatives compete with a range of other advisors, broker-dealers and direct channels, including wirehouses, regional broker-dealers, independent broker-dealers, insurers, banks, asset managers, registered investment advisors, mutual fund companies and other direct distributors. The mutual funds that we offer face competition from other mutual fund families and alternative investment products, such as exchange traded funds. Our annuity products compete with products from numerous other companies. Competitive factors affecting the sale of annuity products include price, product features, investment performance, commission structure, perceived financial strength, claims-paying ratings, service and distribution capabilities.

Information Technology

We have built a sophisticated information technology platform that is designed to support our clients, operations and sales force. Located at our main campus in Duluth, Georgia, our data center houses an enterprise-class IBM mainframe that serves as the repository for all client and sales force data and as a database server for our distributed environment. Our IT infrastructure supports 45 core business applications. Our business applications, many of which are proprietary, are supported by application developers and data center staff at our main campus. Our information security team provides services that include project consulting, threat management, application and infrastructure assessments, secure configuration management and information security administration. This infrastructure also supports a combination of local and remote recovery solutions for business resumption in the event of a disaster.

Employees

As of December 31, 2011, we had 1,784 full-time employees in the United States and 208 full-time employees in Canada. In addition, as of December 31, 2011, we had 468 on-call employees in the United States and 77 on-call employees in Canada who provide certain services on an as-needed hourly basis. None of our employees is a member of any labor union and we have never experienced any business interruption as a result of any labor disputes.

Internet Website

Our website address is www.primerica.com. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable upon filing such information with, or furnishing it to, the SEC.

ITEM 1A. RISK FACTORS.

Risks Related to Our Distribution Structure

Our failure to continue to attract new recruits, retain sales representatives or license or maintain the licensing of our sales representatives would materially adversely affect our business.

New sales representatives provide us with access to new referrals, enable us to increase sales, expand our client base and provide the next generation of successful sales representatives. As is typical with distribution businesses, we experience a high rate of turnover among our part-time sales representatives, which requires us to attract, retain and motivate a large number of sales representatives. Recruiting is performed by our current sales representatives, and the effectiveness of our recruiting is generally dependent upon our reputation as a provider of a rewarding and potentially lucrative income opportunity, as well as the general competitive and economic environment. The motivation of recruits to complete their training and licensing requirements and to commit to selling our products is largely dependent upon the effectiveness of our compensation and promotional programs and the competitiveness of such programs compared with other companies, including other part-time business opportunities.

If our new business opportunities and products do not generate sufficient interest to attract new recruits, motivate them to become licensed sales representatives and maintain their licenses and incentivize them to sell our products and recruit other new sales representatives, our business would be materially adversely affected.

Furthermore, if we or any other direct sales businesses with a similar distribution structure engage in practices resulting in increased negative public attention for our business, the resulting reputational challenges could adversely affect our ability to attract new recruits. Direct sales companies such as ours can be the subject of negative commentary on website postings, social media and other non-traditional media. This negative commentary can spread inaccurate or incomplete information about the direct sales industry in general or our company in particular, which can make our recruiting more difficult.

Certain of our key RVPs have large sales organizations that include thousands of downline sales representatives. These key RVPs are responsible for attracting, motivating, supporting and assisting the sales representatives in their sales organizations. The loss of one or more key RVPs together with a substantial number of their sales representatives for any reason, including movement to a competitor, or any other event that causes the departure of a large number of sales representatives, could materially adversely affect our financial results and could impair our ability to attract new sales representatives.

There are a number of laws and regulations that could apply to our distribution model, which subject us to the risk that we may have to modify our distribution structure.

In the past, certain direct sales distribution models have been subject to challenge under various laws, including laws relating to business opportunities, franchising, pyramid schemes and unfair or deceptive trade practices.

In general, state business opportunity and franchise laws in the United States prohibit sales of business opportunities or franchises unless the seller provides potential purchasers with a pre-sale disclosure document that has first been filed with a designated state agency and grants purchasers certain legal recourse against sellers of business opportunities and franchises. In Canada, the provinces of Alberta, Ontario, New Brunswick and Prince Edward Island have enacted legislation dealing with franchising, which typically requires mandatory disclosure to prospective franchisees.

We have not been, and are not currently, subject to business opportunity laws because the amounts paid by our new representatives to us: (i) are less than the minimum thresholds set by many state statutes and (ii) are not fees paid for the right to participate in a business, but rather are for bona fide expenses such as state-required insurance examinations and pre-licensing training. We have not been, and are not currently, subject to franchise laws for similar reasons. However, there is a risk that a governmental agency or court could disagree with our assessment or that these laws and regulations could change. In addition, the Federal Trade Commission ("FTC") recently finalized a new Business Opportunity Rule. We do not believe that the FTC's Business Opportunity Rule applies to our company. However, it could be interpreted in a manner inconsistent with our interpretation. Becoming subject to business opportunity or franchise laws or regulations could require us to provide certain disclosures and regulate the manner in which we recruit our sales representatives that may increase the expense of, or adversely impact our success in, recruiting new sales representatives and make it more difficult for us to successfully attract and recruit new sales representatives.

There are various laws and regulations that prohibit fraudulent or deceptive schemes known as pyramid schemes. In general, a pyramid scheme is defined as an arrangement in which new participants are required to pay a fee to participate in the organization and then receive compensation primarily for recruiting other persons to participate, either directly or through sales of goods or services that are merely disguised payments for recruiting others. The application of these laws and regulations to a given set of business practices is inherently fact-based and, therefore, is subject to interpretation by applicable enforcement authorities. Our representatives are paid by commissions based on sales of our products and services to bona fide purchasers, and for this and other reasons we do not believe that we are subject to laws regulating pyramid schemes. Moreover, our representatives are not required to purchase any of the products marketed by us. However, even though we believe that our distribution practices are currently in compliance with, or exempt from, these laws and regulations, there is a risk that a governmental agency or court could disagree with our assessment or that these laws and regulations could change, which may require us to cease our operations in certain jurisdictions or result in other costs or fines.

There are also federal, state and provincial laws of general application, such as the FTC Act, and state or provincial unfair and deceptive trade practices laws that could potentially be invoked to challenge aspects of our recruiting of sales representatives and compensation practices. In particular, our recruiting efforts include promotional materials for recruits

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that describe the potential opportunity available to them if they join our sales force. These materials, as well as our other recruiting efforts and those of our sales representatives, are subject to scrutiny by the FTC and state and provincial enforcement authorities with respect to misleading statements, including misleading earnings claims made to convince potential new recruits to join our sales force. If claims made by us or by our sales representatives are deemed to be misleading, it could result in violations of the FTC Act or comparable state and provincial statutes prohibiting unfair or deceptive trade practices or result in reputational harm.

Being subject to, or out of compliance with, the aforementioned laws and regulations could require us to change our distribution structure, which could materially adversely affect our business, financial condition and results of operations.

There may be adverse tax and employment law consequences if the independent contractor status of our sales representatives is successfully challenged.

Our sales representatives are independent contractors who operate their own businesses. In the past, we have been successful in defending our company in various contexts before courts and governmental agencies against claims that our sales representatives should be treated like employees. Although we believe that we have properly classified our representatives as independent contractors, there is nevertheless a risk that the IRS or another authority will take a different view. Furthermore, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status and misclassification of independent sales representatives are subject to change or interpretation by various authorities.

The classification of workers as independent contractors has been the subject of federal legislative and regulatory interest over the last several years, with proposals being made that call for greater scrutiny of independent contractor classifications and greater penalties for companies who wrongly classify workers as independent contractors instead of employees. Thus far, none of these proposals has been enacted by the federal government. In July 2011, the DOL issued a statement in which it announced its intention to pursue rulemaking under the Fair Labor Standards Act referred to as “Right to Know” that would require companies utilizing independent contractors to make disclosures to the independent contractors regarding their classification as such and the rationale supporting the classification, as well as a description of their rights under the Fair Labor Standards Act. In September 2011, the Appropriations Committee of the U.S. House of Representatives released a draft funding bill for fiscal 2012 for the DOL that would, if enacted, prohibit the DOL from using any of its funding to develop or promulgate the “Right to Know” rule being considered by the DOL. We cannot predict the outcome of these legislative and regulatory efforts, but the topic of independent contractor classification seems likely to remain active.

If a federal, state or provincial authority enacts legislation or adopts regulations that change the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of our independent contractors, we could incur significant costs in complying with such laws and regulations, including in respect of tax withholding, social security payments and recordkeeping, or we may be required to modify our business model, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, there is the risk that we may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state, or provincial tax or employment laws or with respect to any applicable employee benefit plan.

Our or our sales representatives' violation of, or non-compliance with, laws and regulations and the related claims and proceedings could expose us to material liabilities.

Extensive federal, state, provincial and territorial laws regulate our products and our relationships with our clients, imposing certain requirements that our sales representatives must follow. The laws and regulations applicable to our business include those promulgated by FINRA, the SEC, the MSRB, the FTC and state insurance and securities regulatory agencies in the United States. In Canada, our business is regulated by OSFI, FINTRAC, FCAC, MFDA, and provincial and territorial insurance regulators and provincial and territorial securities regulators. At any given time, we may have pending state, federal or provincial examinations or inquiries of our investment and savings products and insurance businesses. In addition to imposing requirements that representatives must follow in their dealings with clients, these laws and regulations generally require us to maintain a system of supervision to attempt to ensure that our sales representatives comply with the requirements to which they are subject. We have developed policies and procedures to comply with these laws and regulations. However, despite these compliance and supervisory efforts, the breadth of our operations and the broad regulatory requirements could result in oversight failures and instances of non-compliance or misconduct on the part of our sales representatives.

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From time to time, we are subject to private litigation as a result of alleged misconduct by our sales representatives. Examples include claims that a sales representative's failure to disclose underwriting-related information regarding the insured on an insurance application resulted in the denial of a life insurance policy claim, and with respect to investment and savings products sales, errors or omissions that a representative made in connection with an account. In addition to the potential for non-compliance with laws or misconduct applicable to our existing product offerings, we could experience similar regulatory issues or litigation with respect to new products, such as fixed annuities or our managed accounts products. Non-compliance or misconduct by our sales representatives could result in adverse findings in either examinations or litigation and could subject us to sanctions, monetary liabilities, restrictions on or the loss of the operation of our business, claims against us or reputational harm, any of which could have a material adverse effect on our business, financial condition and results of operations.

Any failure to protect the confidentiality of client information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.

Pursuant to federal laws, various federal agencies have established rules protecting the privacy and security of personal information. In addition, most states and some provinces have enacted laws, which vary significantly from jurisdiction to jurisdiction, to safeguard the privacy and security of personal information. Many of our sales representatives and employees have access to, and routinely process, personal information of clients through a variety of media, including the Internet and software applications. We rely on various internal processes and controls to protect the confidentiality of client information that is accessible to, or in the possession of, our company, our employees and our sales representatives. It is possible that a sales representative or employee could, intentionally or unintentionally, disclose or misappropriate confidential client information. If we fail to maintain adequate internal controls or if our sales representatives or employees fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of client information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Insurance Business and Reinsurance

We may face significant losses if our actual experience differs from our expectations regarding mortality or persistency.

We set prices for life insurance policies based upon expected claim payment patterns derived from assumptions we make about the mortality rates, or likelihood of death, of our policyholders in any given year. The long-term profitability of these products depends upon how our actual mortality rates compare to our pricing assumptions. For example, if mortality rates are higher than those assumed in our pricing assumptions, we could be required to make more death benefit payments under our life insurance policies or to make such payments sooner than we had projected, which may decrease the profitability of our term life insurance products and result in an increase in the cost of our subsequent reinsurance transactions.

The prices and expected future profitability of our life insurance products are also based, in part, upon assumptions related to persistency. Actual persistency that is lower than our persistency assumptions could have an adverse effect on profitability, especially in the early years of a policy, primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. Actual persistency that is higher than our persistency assumptions could have an adverse effect on profitability in the later years of a block of policies because the anticipated claims experience is higher in these later years. If actual persistency is significantly different from that assumed in our pricing assumptions, our reserves for future policy benefits may prove to be inadequate. We are precluded from adjusting premiums on our in-force business during the initial term of the policies, and our ability to adjust premiums on in-force business after the initial policy term is limited to the maximum premium rates in the policy.

Our assumptions and estimates regarding mortality and persistency require us to make numerous judgments and, therefore, are inherently uncertain. We cannot determine with precision the actual persistency or ultimate amounts that we will pay for actual claim payments on a block of policies, the timing of those payments, or whether the assets supporting these contingent future payment obligations will increase to the levels we estimate before payment of claims. If we conclude that our reserves, together with future premiums, are insufficient to cover actual or expected claims payments and the scheduled amortization of our deferred policy acquisition costs ("DAC") assets, we would be required to first accelerate our amortization of the DAC assets and then increase our reserves and incur income statement charges for the period in which we make the determination, which could materially adversely affect our business, financial condition and

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results of operations.

The occurrence of a catastrophic event could materially adversely affect our business, financial condition and results of operations.

Our insurance operations are exposed to the risk of catastrophic events, which could cause a large number of premature deaths of our insureds. A catastrophic event could also cause significant volatility in global financial markets and disrupt the economy. Although we have ceded a significant majority of our mortality risk to reinsurers since the mid-1990s, a catastrophic event could cause a material adverse effect on our business, financial condition and results of operations. Claims resulting from a catastrophic event could cause substantial volatility in our financial results for any quarter or year and could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, most of the jurisdictions in which our insurance subsidiaries are admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed issuers. It is possible that a catastrophic event could require extraordinary assessments on our insurance companies, which may have a material adverse effect on our business, financial condition and results of operations.

Our insurance business is highly regulated, and statutory and regulatory changes may materially adversely affect our business, financial condition and results of operations.

Life insurance statutes and regulations are generally designed to protect the interests of the public and policyholders. Those interests may conflict with the interests of our stockholders. Currently, in the United States, the power to regulate insurance resides almost exclusively with the states. The laws of the various U.S. jurisdictions grant state insurance regulators broad powers to regulate almost all aspects of our insurance business. Much of this state regulation follows model statutes or regulations developed or amended by the NAIC, which is composed of the insurance commissioners of each U.S. jurisdiction. The NAIC re-examines and amends existing model laws and regulations (including holding company regulations) in addition to determining whether new ones are needed.

The U.S. Congress continues to examine the current condition of U.S. state-based insurance regulation to determine whether to impose federal regulation and to allow optional federal insurance company incorporation. The Dodd-Frank Act created an Office of Federal Insurance Reform that was authorized to, among other things, study methods to modernize and improve insurance regulation, including uniformity and the feasibility of federal regulation. We cannot predict with certainty whether, or in what form, reforms will be enacted and, if so, whether the enacted reforms will materially affect our business. Changes in federal statutes, including the Gramm-Leach-Bliley Act and the McCarran-Ferguson Act, financial services regulation and federal taxation, in addition to changes to state statutes and regulations, may be more restrictive than current requirements or may result in higher costs, and could materially adversely affect our business, financial condition and results of operations.

Provincial and federal insurance laws regulate all aspects of our Canadian insurance business. Changes to provincial or federal statutes and regulations may be more restrictive than current requirements or may result in higher costs, which could materially adversely affect our business, financial condition and results of operations. We have also entered into an undertaking agreement with OSFI in connection with the IPO and our corporate reorganization pursuant to which we have agreed to provide OSFI certain information, including advance notice, where practicable, of certain corporate actions. If we fail to comply with our undertaking to OSFI, or if OSFI determines that our corporate actions do not comply with applicable Canadian law, Primerica Life Canada could face sanctions or fines, and Primerica Life Canada could be subject to increased capital requirements or other requirements deemed appropriate by OSFI.

We received approval from the Minister of Finance (Canada) under the Insurance Companies Act (Canada) in connection with our indirect acquisition of Primerica Life Canada. The Minister expects that a person controlling a federal insurance company will provide ongoing financial, managerial or operational support to its subsidiary should such support prove necessary, and has required us to sign a support principle letter to that effect. This ongoing support may take the form of additional capital, the provision of managerial expertise or the provision of support in such areas as risk management, internal control systems and training. However, the letter does not create a legal obligation on the part of the person to provide the support. In the event that OSFI determines Primerica Life Canada is not receiving adequate support from us under applicable Canadian law, Primerica Life Canada may be subject to increased capital requirements or other requirements deemed appropriate by OSFI.

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If there were to be extraordinary changes to statutory or regulatory requirements in the United States or Canada, we may be unable to fully comply with or maintain all required insurance licenses and approvals. Regulatory authorities have relatively broad discretion to grant, renew and revoke licenses and approvals. If we do not have all requisite licenses and approvals, or do not comply with applicable statutory and regulatory requirements, the regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our insurance activities or impose fines or penalties on us, which could materially adversely affect our business, financial condition and results of operations. We cannot predict with certainty the effect any proposed or future legislation or regulatory initiatives may have on the conduct of our business.

A decline in the regulatory capital ratios of our insurance subsidiaries could result in increased scrutiny by insurance regulators and ratings agencies and have a material adverse effect on our business, financial condition and results of operations.

Each of our U.S. insurance subsidiaries is subject to RBC standards (imposed under the laws of its respective jurisdiction of domicile. The RBC formula for U.S. life insurance companies generally establishes capital requirements relating to insurance, business, asset and interest rate risks. Our U.S. insurance subsidiaries are required to report their results of RBC calculations annually to the applicable state department of insurance and the NAIC. Our Canadian life insurance subsidiary is subject to minimum continuing capital and surplus requirements (“MCCSR”), and Tier 1 capital ratio requirements, and is required to provide its MCCSR and Tier 1 capital ratio calculations to the Canadian regulators. The capitalization of our insurance subsidiaries is maintained at levels in excess of the effective minimum requirements of the NAIC in the United States and OSFI in Canada. In any particular year, statutory capital and surplus amounts and RBC and MCCSR ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries (which is sensitive to equity and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in their reserve requirements, the value of certain fixed-income and equity securities in their investment portfolios, the credit ratings of investments held in their portfolios, the value of certain derivative instruments, changes in interest rates, credit market volatility, changes in consumer behavior, as well as changes to the NAIC's RBC formula or the MCCSR calculation of OSFI. Many of these factors are outside of our control.

Our financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC and MCCSR ratios of our insurance company subsidiaries. Ratings agencies may change their internal models, effectively increasing or decreasing the amount of statutory capital our insurance subsidiaries must hold to maintain their current ratings. In addition, ratings agencies may downgrade the invested assets held in our portfolio, which could result in a reduction of their capital and surplus. Changes in statutory accounting principles could also adversely impact our insurance subsidiaries' ability to meet minimum RBC, MCCSR and statutory capital and surplus requirements. There is no assurance that our insurance subsidiaries will not need additional capital or, if needed, that we will be able to provide it to maintain the targeted RBC and MCCSR levels to support their business operations.

The failure of any of our insurance subsidiaries to meet its applicable RBC and MCCSR requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, financial condition and results of operations. A decline in RBC or MCCSR also limits the ability of our insurance subsidiaries to pay dividends or make distributions and could be a factor in causing ratings agencies to downgrade the financial strength ratings of all our insurance subsidiaries. Such downgrades would have an adverse effect on our ability to write new insurance business and, therefore, could have a material adverse effect on our business, financial condition and results of operations.

A ratings downgrade by a ratings organization could materially adversely affect our business, financial condition and results of operations.

Each of our insurance subsidiaries has been assigned a financial strength rating by A.M. Best. Primerica Life currently also has an insurer financial strength rating from Standard & Poor's, Moody's and Fitch. NBLIC and Primerica Life Canada are not rated by Standard & Poor's, Moody's or Fitch.

The financial strength ratings of our insurance subsidiaries are subject to periodic review using, among other things, the ratings agencies' proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Insurance financial strength ratings are directed toward the concerns of policyholders and are not intended for the protection of stockholders or as a recommendation to buy, hold or sell securities. Our financial strength ratings will affect our competitive position relative to other insurance companies. If the financial strength ratings of our insurance subsidiaries

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fall below certain levels, some of our policyholders may move their business to our competitors. In addition, the models used by ratings agencies to determine financial strength are different from the capital requirements set by insurance regulators.

Ratings organizations review the financial performance and financial conditions of insurance companies, and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. A downgrade in the financial strength ratings of any of our insurance subsidiaries, or the announced potential for a downgrade, could
have a material adverse effect on our business, financial condition and results of operations, including by:

- reducing sales of insurance products;
- adversely affecting our relationships with our sales representatives;
- materially increasing the amount of policy cancellations by our policyholders;
- requiring us to reduce prices to remain competitive; and
- adversely affecting our ability to obtain reinsurance at reasonable prices or at all.

If the rating agencies or regulators change their approach to financial strength ratings and statutory capital requirements, we may need to take action to maintain current ratings and capital adequacy ratios, which could have a material adverse effect on our business, financial condition and results of operations.

In addition to financial strength ratings of our insurance subsidiaries, the Parent Company currently has investment grade credit ratings from Standard & Poor's, Moody's, and A.M. Best for the senior unsecured debt that it may elect to offer pursuant to its existing shelf registration statement at some point in the future. These ratings are indicators of a debt issuer's ability to meet the terms of debt obligations and are important factors in its ability to access liquidity in the debt markets. A rating downgrade by a rating agency can occur at any time if the rating agency perceives an adverse change in our financial condition, results of operations or ability to service debt. If such a downgrade occurs, it could have a material adverse effect on our financial condition and results of operations in many ways, including adversely limiting our access to capital in the unsecured debt market and potentially increasing the cost of such debt.

Credit deterioration in, and the effects of interest rate fluctuations on, our invested asset portfolio could materially adversely affect our business, financial condition and results of operations.

A large percentage of our invested asset portfolio is invested in fixed-income securities. As a result, credit deterioration and interest rate fluctuations could materially affect the value and earnings of our invested asset portfolio. Fixed-income securities decline in value if there is no active trading market for the securities or the market's impression of, or the ratings agencies' views on, the credit quality of an issuer worsens. During periods of declining market interest rates, any interest income we receive on variable interest rate investments would decrease and we would be forced to invest the cash we receive as interest, return of principal on our investments and cash from operations in lower-yielding, high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed-income securities could also decide to prepay their obligations to borrow at lower market rates, which would increase our reinvestment risk. If interest rates generally increase, the market value of our fixed rate income portfolio decreases. Additionally, if the market value of any security in our invested asset portfolio decreases, we may realize losses if we deem the value of the security to be other-than-temporarily impaired. To the extent that any fluctuations in fair value or interest rates are significant or we recognize impairments that are material, it could have a material adverse effect on our business, financial condition and results of operations.

Valuation of our investments and the determination of whether a decline in the fair value of our invested assets is other-than-temporary are based on methodologies and estimates that may prove to be incorrect.

U.S. GAAP requires that when the fair value of any of our invested assets declines and such decline is deemed to be other-than-temporary, we recognize a loss in either accumulated other comprehensive income or on our statement of income based on certain criteria in the period that such determination is made. Determining the fair value of certain invested assets, particularly those that do not trade on a regular basis, requires an assessment of available data and the use of assumptions and estimates. Once it is determined that the fair value of an asset is below its carrying value, we must determine whether the decline in fair value is other-than-temporary, which is based on subjective factors and involves a variety of assumptions and estimates.

There are certain risks and uncertainties associated with determining whether declines in market value are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain

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industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions and legislative actions. In the case of mortgage- and asset-backed securities, there is added uncertainty as to the performance of the underlying collateral assets. To the extent that we are incorrect in our determination of the fair value of our investment securities or our determination that a decline in their value is other-than-temporary, we may realize losses that never actually materialize or may fail to recognize losses within the appropriate reporting period.

The failure by any of our reinsurers to perform its obligations to us could have a material adverse effect on our business, financial condition and results of operations.

We extensively use reinsurance in the United States to diversify our risk and to manage our loss exposure to mortality risk. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. We, as the insurer, are required to pay the full amount of death benefits even in circumstances where we are entitled to receive payments from the reinsurer. Due to factors such as insolvency, adverse underwriting results or inadequate investment returns, our reinsurers may not be able to pay the amounts they owe us on a timely basis or at all. Further, reinsurers might refuse or fail to pay losses that we cede to them or might delay payment. Since death benefit claims may be paid long after a policy is issued, we bear credit risk with respect to our reinsurers. The creditworthiness of our reinsurers may change before we can recover amounts to which we are entitled. Any such failure to pay by our reinsurers could have a material adverse effect on our business, financial condition and results of operations.

The failure by the affiliates of Citi who are parties to the Citi reinsurance transactions to perform their obligations to us under our coinsurance agreements could have a material adverse effect on our business, financial condition and results of operations.

Immediately prior to the IPO, we entered into four coinsurance agreements with three reinsurer affiliates of Citi pursuant to which we ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. Under this arrangement, our current third-party reinsurance agreements remain in place. The largest of these transactions involved two coinsurance agreements between Primerica Life and Prime Reinsurance Company, Inc. ("Prime Re"), then a wholly owned subsidiary of Primerica Life. Pursuant to these reinsurance agreements, we distributed to Citi all of the issued and outstanding common stock of Prime Re. Prime Re was formed solely for the purpose of entering into these reinsurance transactions, had no operating history at the time the coinsurance agreements were executed and does not possess a financial strength rating from any rating agency. The other transactions were between (i) Primerica Life Canada and Financial Reassurance Company 2010 Ltd., a Bermuda reinsurer and wholly owned subsidiary of Citi, formed to operate solely for the purpose of reinsuring Citi-related risks and (ii) NBLIC and American Health and Life Insurance Company (“AHL”), a wholly owned insurance subsidiary of Citi that has a financial strength rating of “A” by A.M. Best. Each of the three reinsurers entered into trust agreements with our respective insurance subsidiaries and a trustee pursuant to which the reinsurer placed assets (primarily treasury and fixed-income securities) in trust for such subsidiary's benefit to secure the reinsurer's obligations to such subsidiary. Each such coinsurance agreement requires each reinsurer to maintain assets in trust sufficient to give the subsidiary full credit for regulatory purposes for the insurance, which amount will not be less than the amount of the reserves for the reinsured liabilities. In addition, in the case of the reinsurance transactions between Prime Re and Primerica Life, Citi has agreed in a capital maintenance agreement to maintain Prime Re's RBC above a specified minimum level, subject to a maximum amount being contributed by Citi. In the case of the reinsurance transaction between NBLIC and AHL, Citi has agreed to over-collateralize the assets in the trust for NBLIC for the life of the coinsurance agreement between NBLIC and AHL. Furthermore, our insurance subsidiaries have the right to recapture the business upon the occurrence of an event of default under their respective coinsurance agreement with the Citi affiliates subject to any applicable cure periods. An event of default includes: (1) a reinsurer insolvency, (2) failure through the fault of the reinsurer to provide full statutory financial statement credit for the reinsurance ceded, (3) a material breach of any covenant, representation or warranty by the reinsurer, (4) failure by the reinsurer to fund the trust account required to be established under the coinsurance agreements in any material respects, or (5) in connection with the coinsurance agreements with Prime Re, failure by Citi to maintain sufficient capital in the reinsurer, pursuant to the capital maintenance agreement between Citi and the reinsurer within 45 calendar days of any demand for payment by or on behalf of Primerica Life, and any 45-day extension thereof as consented to by Primerica Life, which consent may not be unreasonably conditioned, delayed or withheld, for a total of not more than 90 days to obtain such consent; provided that Primerica Life is not required to consent to extend such period beyond an additional 45 days. While any such recapture would be at no cost to us, such recapture would result in a substantial increase in our insurance exposure and require us to be fully responsible for the management of the assets set aside to support statutory reserves. The type of assets we might obtain as a result of a recapture may not be as liquid as our current invested asset portfolio and could result in an unfavorable impact on our risk profile.

There is no assurance that the relevant Citi reinsurer will pay the reinsurance obligations owed to us now or in the future or that it will pay these obligations on a timely basis. Notwithstanding the capital maintenance agreement between Prime Re and Citi and the initial over-collateralization of assets in trust for the benefit of our insurance companies, if any of our Citi reinsurers becomes insolvent, the amount in the trust account to support the obligations of such reinsurer is insufficient to pay such reinsurer's obligations to us and we fail to enforce our right to recapture the business, it could have a material adverse effect on our business, financial condition and results of operations.

Changes in accounting for DAC of insurance entities will accelerate the recognition for certain acquisition costs not deemed to be directly related to the successful acquisition of new insurance contracts.

In October 2010, the Financial Accounting Standards Board (the "FASB"), issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU 2010-26"). The update revises the definition of DAC to reflect incremental costs directly related to the successful acquisition of new and renewed insurance contracts. The update creates a more limited definition than the current guidance, which defines DAC as those costs that vary with, and primarily relate to, the acquisition of insurance contracts. The revised definition materially increases 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. We plan to adopt this update retrospectively. We estimate that the adoption will result in a reduction to our DAC asset in the range of approximately $140 million to $160 million as of December 31, 2011. We further estimate that it will reduce income before income taxes in the range of approximately $27 million to $33 million. The related analysis and implementation of this accounting change is ongoing and may result in a different impact that is higher or lower than these anticipated ranges, which could have a material adverse effect on our financial position and results of operations.

Risks Related to Our Investments and Savings Products Business

Our investment and savings products segment is heavily dependent on mutual fund and annuity products offered by a relatively small number of companies and if these products fail to remain competitive with other investment options or we lose our relationship with one or more of these fund companies or with the source of our annuity products, our business, financial condition and results of operations may be materially adversely affected.

We earn a significant portion of our earnings through our relationships with a small group of mutual fund companies. A decision by one or more of these companies to alter or discontinue their current arrangements with us could materially adversely affect our business, financial condition and results of operations. In addition, if any of our investment and savings products fail to achieve satisfactory investment performance, our clients may seek higher yielding alternative investment products and we could experience higher redemption rates. In such circumstances, we may also experience re-allocations of existing client assets and increased allocations of new assets to investment and savings products with higher investment returns, which ultimately results in changes in our mix of business. Since different investment and savings products have different revenue and expense characteristics, such changes could have significant negative consequences for us.

In recent years there has been an increase in the popularity of alternative investments, which we do not currently offer, principally index funds and exchange traded funds. These investment options typically have low fee structures and provide some of the attributes of mutual funds, such as risk diversification. If these products continue to gain traction among our client base as viable alternatives to mutual fund investments, our investment and savings products revenues could decline.

In addition to sales commissions and asset-based compensation, a significant portion of our earnings from investment and savings products comes from recordkeeping services that we provide to third parties and from fees earned for custodial services that we provide to clients with retirement plan accounts in the funds of these mutual fund companies. We also receive revenue sharing payments from each of these mutual fund companies. A decision by one or more of these fund companies to alter or discontinue their current arrangements with us would materially adversely affect our business, financial condition and results of operations.

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Our or our securities-licensed sales representatives violations of, or non-compliance with, laws and regulations could expose us to material liabilities.

Our subsidiary broker-dealer and registered investment advisor, PFS Investments, is subject to federal and state regulation of its securities business. These regulations cover sales practices, trade suitability, supervision of registered representatives, recordkeeping, the conduct and qualification of officers and employees, the rules and regulations of the MSRB and state blue sky regulation. Investment advisory representatives are generally held to a higher standard of conduct than registered representatives. Our subsidiary, PSS, is a registered transfer agent engaged in the recordkeeping business and is subject to SEC regulation. Violations of laws or regulations applicable to the activities of PFS Investments or PSS, or violations by a third party with which PFS Investments or PSS contracts which improperly performs its task, could subject us to disciplinary actions and could result in the imposition of cease and desist orders, fines or censures, restitution to clients, disciplinary actions, including the potential suspension or revocation of its license by the SEC, or the suspension or expulsion from FINRA and reputational damage, which could materially adversely affect our business, financial condition and results of operations.

Our Canadian dealer subsidiary, PFSL Investments Canada and its sales representatives are subject to the securities laws of the provinces and territories of Canada in which we sell our mutual fund products and those of third parties and to the rules of the MFDA, the self-regulatory organization governing mutual fund dealers. PFSL Investments Canada is subject to periodic review by both the MFDA and the provincial and territorial securities commissions to assess its compliance with, among other things, applicable capital requirements and sales practices and procedures. These regulators have broad administrative powers, including the power to limit or restrict the conduct of our business for failure to comply with applicable laws or regulations. Possible sanctions that could be imposed include the suspension of individual sales representatives, limitations on the activities in which the dealer may engage, suspension or revocation of the dealer registration, censure or fines, any of which could materially adversely affect our business, financial condition and results of operations.

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

Our U.S. sales representatives are subject to federal and state regulation as well as state licensing requirements. PFS Investments, which is regulated as a broker-dealer, and our U.S. sales representatives are currently subject to general anti-fraud limitations under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and SEC rules and regulations, as well as other conduct standards prescribed by FINRA. These standards generally require that broker-dealers and their sales representatives disclose conflicts of interest that might affect the advice or recommendations they provide and require them to make suitable investment recommendations to their customers. The Dodd-Frank Act, which gives the SEC the power to impose on broker-dealers a heightened standard of conduct that is currently applicable only to investment advisers, requires the SEC to conduct a study to evaluate the effectiveness of the current legal standards of conduct for those that provide personalized investment advice regarding securities to retail customers. In 2010, the SEC staff submitted a report to Congress in which it recommended that the SEC adopt a uniform fiduciary standard of conduct. The timing of any future rulemaking is unclear.

In October 2010, the DOL published the DOL Proposed Rule, which would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of IRC Section 4975. IRC Section 4975 prohibits certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including IRAs. In September 2011, the DOL withdrew the DOL Proposed Rule, but has indicated that it will re-propose a similar fiduciary rule in early 2012. If PFS Investments and its securities-licensed representatives are deemed to be fiduciaries under a rule similar to the DOL Proposed Rule, our ability to receive and retain certain types of compensation paid by third parties with respect to both new and existing assets in qualified accounts could be significantly limited.

IRAs and other qualified accounts are a core component of the Investment and Savings Products segment of our business and accounted for a significant portion of the total revenue of this segment for the year ended December 31, 2011. Thus, if a fiduciary rule similar to the DOL Proposed Rule is re-proposed and adopted, we would expect to substantially restructure our current business model for qualified accounts. Such restructuring could make it significantly more difficult for us and our representatives to profitably serve the middle-income market and could result in a significant reduction in the number of IRAs and qualified accounts that we serve, which could materially adversely affect the amount of revenue that we generate from this line of business and ultimately could result in a decline in the number of our securities-licensed representatives. Furthermore, our licensed representatives could be required to obtain additional securities licenses, which they may not be willing or able to obtain.

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

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

If our suitability policies and procedures were deemed inadequate, it could have a material adverse effect on our business, financial condition and results of operations.

We review the account applications that we receive for our investment and savings products for suitability. While we believe that the policies and procedures we implemented to help our sales representatives assist clients in making appropriate and suitable investment choices are reasonably designed to achieve compliance with applicable securities laws and regulations, it is possible that the SEC, FINRA or MFDA may not agree. Further, we could be subject to regulatory actions or private litigation, which could materially adversely affect our business, financial condition and results of operations.

Our sales force support tools may fail to appropriately identify suitable investment products.

Our support tools are designed to educate clients, help identify their financial needs, and introduce the potential benefits of our products. There could be a risk that the assumptions and methods of analyses embedded in our support tools could be successfully challenged and subject us to regulatory action or private litigation, which could materially adversely affect our business, financial condition and results of operations.

Non-compliance with applicable regulations could lead to revocation of our subsidiary's status as a non-bank custodian.

PFS Investments is a non-bank custodian of retirement accounts, as permitted under Treasury Regulation 1.408-2. A non-bank custodian is an entity that is not a bank and that is permitted by the IRS to act as a custodian for retirement plan account assets of our clients. The IRS retains authority to revoke or suspend that status if it finds that PFS Investments is unwilling or unable to administer retirement accounts in a manner consistent with the requirements of the applicable regulations. Revocation of PFS Investments' non-bank custodian status would affect its ability to earn revenue for providing such services and, consequently, could materially adversely affect our business, financial condition and results of operations.

Failure of our agents to become licensed to offer our managed accounts program could adversely affect our investments business.

In 2011, PFS Investments became an SEC-registered investment adviser and, under the name Primerica Advisors, began offering a mutual fund advisory program. In most states, our representatives are required to obtain an additional license to offer this program. If a significant number of our representatives who are required to obtain such additional licenses to offer this program fail to do so, then the revenue and earnings we generate from this business could be materially adversely affected.

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Other Risks Related to Our Business

We may be exposed to regulatory liabilities in connection with the wind-down of our U.S. mortgage business.
Primerica Mortgages ceased its loan brokering activities in all states in which it held licenses effective December 31, 2011. Accordingly, we have instructed our sales force to cease offering loan products on behalf of Primerica Mortgages in the United States from and after January 1, 2012. We anticipate that all loan requests which were pending as of December 31, 2011 will be processed by the end of the first quarter of 2012. As of January 1, 2012, Primerica Mortgages commenced the process of surrendering its state licenses so that it may completely exit the loan brokering business in the United States. Although Primerica Mortgages is no longer engaged in offering loan products, it and other Primerica companies could be subject to potential regulatory or other liability for violations of state or federal laws governing the loan industry if our sales representatives engage in misconduct while continuing to conduct the mortgage loan brokering business as an outside business activity.
Changes in accounting standards can be difficult to predict and could adversely impact how we record and report our financial condition and results of operations.
Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. U.S. GAAP continues to evolve and, as a result, may change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to anticipate and implement and can materially impact how we record and report our financial condition and results of operations. For example, the FASB's current insurance contracts project could, among other things, significantly change the way we measure insurance liabilities on our balance sheet and the way we present earnings on our statement of income. This project, in addition to a related proposal to modify how to account for insurance contracts under IFRS, could adversely impact both our financial condition and results of operations as reported on a U.S. GAAP basis as well as our statutory capital calculations.

The effects of economic down cycles in the United States and Canada could materially adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations have been materially adversely affected by the economic downturn in the United States and Canada and the slow recovery that has occurred since the last half of 2009. This economic downturn, which has been characterized by higher unemployment, lower family income, lower valuation of retirement savings accounts, lower corporate earnings, lower business investment and lower consumer spending, has adversely affected the demand for the term life insurance, investment and other financial products that we sell. Future economic down cycles could severely adversely affect new sales and cause clients to liquidate mutual funds and other investments sold by our sales representatives. This could cause a decrease in the asset value of client accounts, reduce our trailing commission revenues and result in other-than-temporary-impairments in our invested asset portfolio. In addition, we may experience an elevated incidence of lapses or surrenders of insurance policies, and some of our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Further, volatility in equity markets or downturns could discourage purchases of the investment products that we distribute and could have a materially adverse effect on our business, including our ability to recruit and retain sales representatives. If credit markets remain tight for a prolonged period, our liquidity will be more limited than it otherwise would have been, and our business, financial condition and results of operations may be materially adversely affected.

We are subject to various federal laws and regulations in the United States and Canada, changes in which or violations of which may require us to alter our business practices and could materially adversely affect our business, financial condition and results of operations.

In the United States, we are subject to many regulations, including the Gramm-Leach-Bliley Act and its implementing regulations, including Regulation S-P, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act, the Telemarketing and Consumer Fraud and Abuse Prevention Act, the Telephone Consumer Protection Act, the FTC Act, and the Electronic Funds Transfer Act. We are also subject to anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the Patriot Act, which requires us to develop and implement customer identification and risk-based anti-money laundering programs, report suspicious activity and maintain certain records. We are also required to follow certain economic and trade sanctions programs that are administered by the Office of Foreign Asset Control that prohibit or restrict transactions with suspected countries, their governments, and in certain circumstances, their nationals.

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In Canada, we are subject to provincial and territorial regulations, including consumer protection legislation that pertains to unfair and misleading business practices, provincial and territorial credit reporting legislation that provides requirements