Primerica, Inc.
Form 10-Q
August 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
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 (State or other jurisdiction of incorporation or organization)	27-1204330 (I.R.S. Employer Identification No.)
1 Primerica Parkway Duluth, Georgia	30099
(Address of principal executive offices)	(ZIP Code)

(770) 381-1000
(Registrant's telephone number, including area code)
Not applicable.
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 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

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

Class	As of July 31, 2013
Common Stock, $0.01 Par Value	54,686,787 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	June 30, 2013 (unaudited) (In thousands)	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities available for sale, at fair value (amortized cost: $1,575,997 in 2013 and $1,711,582 in 2012)	$1,682,121	$1,887,014
Equity securities available for sale, at fair value (cost: $31,079 in 2013 and $29,955 in 2012)	37,725	37,147
Trading securities, at fair value (cost: $12,365 in 2013 and $7,740 in 2012)	12,359	7,762
Policy loans	25,784	24,613
Total investments	1,757,989	1,956,536
Cash and cash equivalents	118,087	112,216
Accrued investment income	18,256	19,540
Due from reinsurers	3,993,258	4,005,194
Deferred policy acquisition costs, net	1,133,542	1,066,422
Premiums and other receivables	181,317	170,656
Intangible assets, net (accumulated amortization: $63,323 in 2013 and $61,621 in 2012)	69,654	69,816
Income taxes	26,047	17,256
Other assets	271,535	302,126
Separate account assets	2,435,740	2,618,115
Total assets	$10,005,425	$10,337,877
Liabilities and Stockholders’ Equity		
Liabilities:		
Future policy benefits	$4,943,743	$4,850,488
Unearned premiums	7,689	6,056
Policy claims and other benefits payable	238,967	254,533
Other policyholders’ funds	337,931	345,721
Notes payable	374,457	374,433
Income taxes	89,713	114,611
Other liabilities	344,649	358,577
Payable under securities lending	86,272	139,927
Separate account liabilities	2,435,740	2,618,115
Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	8,859,161	9,062,461
Stockholders’ equity:		
Common stock ($0.01 par value; authorized 500,000 in 2013 and 2012; and issued 54,504 shares in 2013 and 56,374 shares in 2012)	545	564
Paid-in capital	456,050	602,269
Retained earnings	572,714	503,173

Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	43,158	55,487
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	74,844	114,958
Net unrealized investment losses other-than-temporarily impaired	(1,047)	(1,035)
Total stockholders’ equity	1,146,264	1,275,416
Total liabilities and stockholders’ equity	$10,005,425	$10,337,877

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income - Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per-share amounts)			
Revenues:				
Direct premiums	$577,208	$570,073	$1,148,107	$1,131,110
Ceded premiums	(417,450)	(415,815)	(828,054)	(833,978)
Net premiums	159,758	154,258	320,053	297,132
Commissions and fees	116,857	106,759	228,837	210,656
Net investment income	21,027	23,605	44,243	49,702
Realized investment gains (losses), including other-than-temporary impairment losses	3,468	4,321	5,754	6,452
Other, net	11,197	11,582	21,865	23,184
Total revenues	312,307	300,525	620,752	587,126
Benefits and expenses:				
Benefits and claims	69,770	68,925	144,016	136,858
Amortization of deferred policy acquisition costs	30,112	28,205	61,364	54,736
Sales commissions	57,638	51,475	112,686	101,192
Insurance expenses	28,094	24,589	55,236	47,033
Insurance commissions	5,424	6,458	11,490	14,954
Interest expense	8,793	8,506	17,588	15,416
Other operating expenses	45,030	40,446	90,694	81,551
Total benefits and expenses	244,861	228,604	493,074	451,740
Income before income taxes	67,446	71,921	127,678	135,386
Income taxes	23,956	25,741	45,343	47,450
Net income	$43,490	$46,180	$82,335	$87,936
Earnings per share:				
Basic	$0.76	$0.73	$1.43	$1.35
Diluted	$0.74	$0.72	$1.39	$1.33
Weighted-average shares used in computing earnings per share:				
Basic	56,511	61,531	56,553	63,332
Diluted	57,849	62,687	58,127	64,481
Supplemental disclosures:				
Total impairment losses	$(5)	$(203)	$(91)	$(904)
Impairment losses recognized in other comprehensive income before income taxes	4	76	19	563
Net impairment losses recognized in earnings	(1)	(127)	(72)	(341)
Other net realized investment gains (losses)	3,469	4,448	5,826	6,793
Realized investment gains (losses), including other-than-temporary impairment losses	$3,468	$4,321	$5,754	$6,452

Dividends declared per share	$0.11	$0.05	$0.22	$0.08

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income - Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$43,490	$46,180	$82,335	$87,936
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains (losses) on investment securities	(55,000)	3,931	(57,500)	21,445
Reclassification adjustment for realized investment (gains) losses included in net income	(2,573)	(4,640)	(4,232)	(6,461)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)	(8,305)	(4,177)	(12,493)	(869)
Total other comprehensive income (loss) before income taxes	(65,878)	(4,886)	(74,225)	14,115
Income tax expense (benefit) related to items of other comprehensive income (loss)	(20,256)	(298)	(21,770)	5,166
Other comprehensive income (loss), net of income taxes	(45,622)	(4,588)	(52,455)	8,949
Total comprehensive income (loss)	$(2,132)	$41,592	$29,880	$96,885

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity - Unaudited

	Six months ended June 30, 2013	2012
	(In thousands)	
Common stock:		
Balance, beginning of period	$564	$649
Repurchases of common stock	(29)	(62)
Net issuance of common stock	10	12
Balance, end of period	545	599
Paid-in capital:		
Balance, beginning of period	602,269	835,232
Share-based compensation	23,234	17,353
Net issuance of common stock	(10)	(12)
Repurchases of common stock	(101,044)	(160,817)
Repurchases of warrants	(68,399)	—
Net capital contributed by Citigroup	—	1,961
Balance, end of period	456,050	693,717
Retained earnings:		
Balance, beginning of period	503,173	344,104
Net income	82,335	87,936
Dividends	(12,794)	(5,104)
Balance, end of period	572,714	426,936
Accumulated other comprehensive income (loss):		
Balance, beginning of period	169,410	146,665
Change in foreign currency translation adjustment, net of income tax expense (benefit) of $(164) in 2013 and $(79) in 2012	(12,329)	(790)
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of $(21,598) in 2013 and $5,441 in 2012	(40,114)	10,105
Change in net unrealized investment losses other-than-temporarily impaired, net of income tax benefit of $(8) in 2013 and ($196) in 2012	(12)	(366)
Balance, end of period	116,955	155,614
Total stockholders' equity	$1,146,264	$1,276,866

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows - Unaudited

	Six months ended June 30, 2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$82,335	$87,936
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	97,129	113,712
Deferral of policy acquisition costs	(131,042)	(137,724)
Amortization of deferred policy acquisition costs	61,364	54,736
Change in income taxes	(11,920)	(3,726)
Realized investment (gains) losses, including other-than-temporary impairments	(5,754)	(6,452)
Accretion and amortization of investments	(1,791)	(304)
Depreciation and amortization	5,339	4,911
Change in due from reinsurers	(8,697)	(47,710)
Change in premiums and other receivables	(11,214)	(3,826)
Trading securities sold, matured, or called (acquired), net	(4,613)	14,639
Share-based compensation	7,952	9,311
Change in other operating assets and liabilities, net	(26,584)	(73,824)
Net cash provided by (used in) operating activities	52,504	11,679
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities - sold	78,755	213,317
Fixed-maturity securities - matured or called	141,854	124,320
Equity securities	2,998	1,246
Available-for-sale investments acquired:		
Fixed-maturity securities	(78,054)	(209,197)
Equity securities	(93)	(3,086)
Purchases of property and equipment and other investing activities, net	(15,916)	148
Cash collateral received (returned) on loaned securities, net	(53,655)	(5,395)
Sales (purchases) of short-term investments using securities lending collateral, net	53,655	5,395
Net cash provided by (used in) investing activities	129,544	126,748
Cash flows from financing activities:		
Dividends paid	(12,794)	(5,104)
Common stock and warrants repurchased	(169,472)	(160,879)
Excess tax benefits on share-based compensation	7,179	4,157
Payments of deferred financing costs	—	(4,619)
Net cash provided by (used in) financing activities	(175,087)	(166,445)
Effect of foreign exchange rate changes on cash	(1,090)	2
Change in cash and cash equivalents	5,871	(28,016)
Cash and cash equivalents, beginning of period	112,216	136,078
Cash and cash equivalents, end of period	$118,087	$108,062

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements - Unaudited

(1) Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

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

We capitalized Peach Re, Inc. ("Peach Re"), a special purpose financial captive insurance company and wholly owned subsidiary of Primerica Life, and Primerica Life ceded to Peach Re certain level premium term life insurance policies pursuant to a coinsurance agreement (the "Peach Re Coinsurance Agreement"), effective March 31, 2012.

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of June 30, 2013 and December 31, 2012, the statements of income and comprehensive income for the three and six months ended June 30, 2013 and 2012, and the statements of stockholders' equity and cash flows for the six months ended June 30, 2013 and 2012. Results of operations for interim periods are not necessarily indicative of results for the entire year or of the results to be expected in future periods.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated and combined financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Annual Report").

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

Consolidation. The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and those entities required to be consolidated under applicable accounting standards. All material intercompany profits, transactions, and balances among the consolidated entities have been eliminated.

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

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the condensed consolidated financial statements at June 30, 2013.

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Significant Accounting Policies. All significant accounting policies remain unchanged from the 2012 Annual Report.
New Accounting Principles. In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”). The amendments of ASU 2013-02 require an entity to provide additional information about the amounts reclassified out of accumulated other comprehensive income. The amendments in ASU 2013-02 were applied prospectively for our fiscal year beginning January 1, 2013. The disclosures required by this update are included in this report and had no impact on our financial position, results of operations, or cash flows.
Future Application of Accounting Standards. Recent accounting guidance not otherwise disclosed is not applicable, is immaterial to our financial statements, or did not or will not have an impact on our business.

(2) Segment Information
We have two primary operating segments – Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment. Total assets and results of operations by segment were as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Assets:		
Term life insurance segment	$6,547,276	$6,400,126
Investment and savings products segment	2,630,595	2,810,137
Corporate and other distributed products segment	827,554	1,127,614
Total assets	$10,005,425	$10,337,877

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(In thousands)			
Revenues:				
Term life insurance segment	$169,182	$162,159	$337,016	$312,933
Investment and savings products segment	113,361	102,967	222,083	203,101
Corporate and other distributed products segment	29,764	35,399	61,653	71,092
Total revenues	$312,307	$300,525	$620,752	$587,126
Income (loss) before income taxes:				
Term life insurance segment	$51,897	$51,151	$97,023	$94,404
Investment and savings products segment	27,488	29,444	53,841	58,314
Corporate and other distributed products segment	(11,939)	(8,674)	(23,186)	(17,332)
Total income before income taxes	$67,446	$71,921	$127,678	$135,386

The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately $195.6 million and $192.8 million as of June 30, 2013 and December 31, 2012, respectively.
In the second quarter of 2013, Primerica changed its measurement of segment information to reclassify the deposit asset underlying the 10% reinsurance agreement with Citigroup Inc. ("Citigroup"), as well as the related mark-to-market adjustments included in the calculation of its effective yield, to the Corporate and Other Distributed Products segment instead of the Term Life Insurance segment. The deposit asset reflects a unique corporate financing-related asset, changes in the market value of which are no longer viewed by management for purposes of making decisions about allocating resources to the Term Life Insurance segment and assessing its performance. All prior period information has been adjusted to consistently reflect this change in segment measurement. The change does not impact the Company's consolidated financial statements.
The change in measurement of segment information increased total assets in the Corporate and Other Distributed Products segment and decreased total assets in the Term Life Insurance segment by approximately $109.2 million and $91.5 million as of June 30, 2013 and December 31, 2012, respectively. The amount of segment revenues and

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segment income (loss) before income taxes reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment were approximately $(1.1) million and $0.6 million for the three months ended June 30, 2013 and 2012, respectively, and approximately $(0.5) million and $1.6 million for the six months ended June 30, 2013 and 2012, respectively.

Long-lived assets and results of operations by country were as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Long-lived assets by country:		
United States	$83,740	$82,724
Canada	603	450
Total long-lived assets	$84,343	$83,174

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Revenues by country:				
United States	$255,467	$246,703	$504,835	$477,460
Canada	56,840	53,822	115,917	109,666
Total revenues	$312,307	$300,525	$620,752	$587,126
Income before income taxes by country:				
United States	$50,061	$54,265	$94,192	$102,038
Canada	17,385	17,656	33,486	33,348
Total income before income taxes	$67,446	$71,921	$127,678	$135,386

(3) Investments

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

	June 30, 2013			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available for sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$7,405	$612	$(84)	$7,933
Foreign government	111,641	8,621	(2,264)	117,998
States and political subdivisions	31,151	2,421	(231)	33,341
Corporates	1,167,945	93,099	(11,781)	1,249,263
Mortgage- and asset-backed securities	257,855	16,609	(878)	273,586
Total fixed-maturity securities[1]	1,575,997	121,362	(15,238)	1,682,121
Equity securities	31,079	7,080	(434)	37,725
Total fixed-maturity and equity securities	$1,607,076	$128,442	$(15,672)	$1,719,846

(1) Includes approximately $1.6 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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	December 31, 2012			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available for sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$6,722	$812	$—	$7,534
Foreign government	101,171	16,238	(17)	117,392
States and political subdivisions	31,176	3,596	(19)	34,753
Corporates	1,265,179	134,710	(2,763)	1,397,126
Mortgage- and asset-backed securities	307,334	23,999	(1,124)	330,209
Total fixed-maturity securities(1)	1,711,582	179,355	(3,923)	1,887,014
Equity securities	29,955	7,529	(337)	37,147
Total fixed-maturity and equity securities	$1,741,537	$186,884	$(4,260)	$1,924,161

(1) Includes approximately $1.6 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

The net effect on stockholders' equity of unrealized gains and losses on available-for-sale securities was as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Net unrealized investment gains (losses) including foreign currency translation adjustment and other-than-temporary impairments:		
Fixed-maturity and equity securities	$112,770	$182,624
Currency swaps	85	97
Foreign currency translation adjustment	678	(7,456)
Other-than-temporary impairments	1,612	1,592
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	115,145	176,857
Deferred income taxes	(40,301)	(61,899)
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax	$74,844	$114,958

We also maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying value of the fixed-maturity securities classified as trading securities were approximately $12.4 million and $7.8 million as of June 30, 2013 and December 31, 2012, respectively.

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

As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately $19.8 million and $20.5 million as of June 30, 2013 and December 31, 2012, respectively.

We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our balance sheet. We also accept collateral in the form of cash, all of which we reinvest. For loaned securities involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability representing our obligation to return the collateral. We continue to carry the lent securities as investment assets on our balance sheet during the terms of the loans, and we do not report them as sales. Cash collateral received and reinvested was approximately $86.3 million and $139.9 million as of June 30, 2013 and December 31, 2012, respectively.

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The scheduled contractual maturity distribution of the available-for-sale fixed-maturity portfolio at June 30, 2013 follows:

	June 30, 2013	
	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$164,309	$168,837
Due after one year through five years	485,498	521,599
Due after five years through 10 years	634,810	680,791
Due after 10 years	33,525	37,308
	1,318,142	1,408,535
Mortgage- and asset-backed securities	257,855	273,586
Total fixed-maturity securities	$1,575,997	$1,682,121

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

Investment Income. The components of net investment income were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Fixed-maturity securities	$22,648	$23,797	$45,858	$49,559
Equity securities	292	244	564	467
Policy loans and other invested assets	327	261	647	611
Cash and cash equivalents	73	111	161	246
Market return on deposit asset underlying 10% reinsurance agreement	(1,061)	574	(498)	1,604
Gross investment income	22,279	24,987	46,732	52,487
Investment expenses	(1,252)	(1,382)	(2,489)	(2,785)
Net investment income	$21,027	$23,605	$44,243	$49,702

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	$3,022	$4,506	$4,755	$6,542
Gross losses from sales	(448)	(56)	(451)	(57)
Gross gains from securities transferred from available-for-sale to trading	—	323	—	323
Gross losses from securities transferred from available-for-sale to trading	—	(6)	—	(6)
Other-than-temporary impairment losses	(1)	(127)	(72)	(341)
Gains (losses) from bifurcated options	895	(319)	1,522	(9)
Net realized investment gains (losses)	$3,468	$4,321	$5,754	$6,452
Supplemental information:				
Gross realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	$2,573	$4,640	$4,232	$6,461
Tax expense (benefit) associated with realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	$901	$1,624	$1,481	$2,261

Proceeds from sales or other redemptions	$145,014	$196,096	$223,607	$338,883

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Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment ("OTTI"). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity. For additional information, see Note 3 (Investments) to the consolidated and combined financial statements in our 2012 Annual Report.

Investments in fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately $348.4 million and $111.9 million as of June 30, 2013 and December 31, 2012, respectively.

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

	June 30, 2013					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$3,368	$(84)	4	$—	$—	—
Foreign government	40,325	(2,219)	56	477	(45)	1
States and political subdivisions	6,760	(231)	9	—	—	—
Corporates	227,604	(9,348)	262	10,623	(2,433)	15
Mortgage- and asset-backed securities	30,771	(449)	40	7,913	(429)	8
Total fixed-maturity securities	308,828	(12,331)		19,013	(2,907)	
Equity securities	4,871	(434)	8	—	—	—
Total fixed-maturity and equity securities	$313,699	$(12,765)		$19,013	$(2,907)	

	December 31, 2012					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
Foreign government	$5,146	$(17)	12	$—	$—	—
States and political subdivisions	1,498	(19)	3	—	—	—
Corporates	70,176	(1,189)	58	7,055	(1,574)	11
Mortgage- and asset-backed securities	15,367	(22)	18	6,409	(1,102)	10
Total fixed-maturity securities	92,187	(1,247)		13,464	(2,676)	
Equity securities	1,461	(147)	6	522	(190)	1
Total fixed-maturity and equity securities	$93,648	$(1,394)		$13,986	$(2,866)	

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

	June 30, 2013		December 31, 2012	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	$75	$373	$165	$712

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Impairments on fixed-maturity securities not in default	$1	$126	$72	$340
Impairments on equity securities	—	1	—	1
Total impairment charges	$1	$127	$72	$341

The securities noted above were considered to be other-than-temporarily impaired due to adverse credit events, such as news of an impending filing for bankruptcy; analyses of the issuer’s most recent financial statements or other information in which liquidity deficiencies, significant losses and large declines in capitalization were evident; or analyses of rating agency information for issuances with severe ratings downgrades that indicated a significant increase in the possibility of default.

As of June 30, 2013, the unrealized losses on our invested asset portfolio were largely caused by interest rate sensitivity and, to a lesser extent, changes in credit spreads. We believe that fluctuations caused by interest rate movement have little bearing on the recoverability of our investments. The sharp increase in interest rates during the second quarter of 2013 contributed to the declines in fair value of our invested asset portfolio. Because we have the ability to hold these investments until a market price recovery or maturity and we have no present intention to dispose of them, we do not consider these investments to be other-than-temporarily impaired.

Net impairment losses recognized in earnings were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Impairment losses related to securities which the Company does not intend to sell or more-likely-than-not will not be required to sell:				
Total OTTI losses recognized	$5	$161	$20	$861
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)	(4)	(76)	(19)	(563)
Net impairment losses recognized in earnings for securities which the Company does not intend to sell or more-likely-than-not will not be required to sell before recovery	1	85	1	298
OTTI losses recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery	—	42	71	43
Net impairment losses recognized in earnings	$1	$127	$72	$341

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The roll-forward of the credit-related losses recognized in income for all fixed-maturity securities still held follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Cumulative OTTI credit losses recognized for securities still held, beginning of period	$14,242	$15,544	$14,171	$17,403
Additions for OTTI securities where no credit losses were recognized prior to the beginning of the period	—	10	71	10
Additions for OTTI securities where credit losses have been recognized prior to the beginning of the period	1	116	1	330
Reductions due to sales, maturities or calls of credit impaired securities	—	(911)	—	(2,984)
Cumulative OTTI credit losses recognized for securities still held, end of period	$14,243	$14,759	$14,243	$14,759

Derivatives. We use foreign currency swaps to reduce our foreign exchange risk attributable to investments held by our subsidiaries in debt securities that are denominated in a currency other than its functional currency. The aggregate notional balance and fair value of these currency swaps follow:

	June 30, 2013	December 31, 2012
	(In thousands)	
Aggregate notional balance of currency swaps	$5,878	$5,878
Aggregate fair value of currency swaps	(1,754)	(2,048)

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

The embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. As of June 30, 2013 and December 31, 2012, the fair value of these bifurcated options was approximately $12.4 million and $10.2 million, respectively.

We have a deferred loss related to closed forward contracts that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was approximately $26.4 million as of June 30, 2013 and December 31, 2012. While we have no current intention to do so, these deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations.

(4) Fair Value of Financial Instruments

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

- Level 1. Quoted prices for identical instruments in active markets. Level 1 primarily consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments;
- Level 2. Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. Various inputs are considered in deriving the fair

value of the underlying financial instrument, including interest rate, credit spread, and foreign exchange rates. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions

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are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and certain non-exchange-traded derivatives, such as currency swaps and forwards; and

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

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

The estimated fair value and hierarchy classifications for assets and liabilities that are measured at fair value on a recurring basis were as follows:

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	$—	$7,933	$—	$7,933
Foreign government	—	117,998	—	117,998
States and political subdivisions	—	33,341	—	33,341
Corporates	1,248	1,243,800	4,215	1,249,263
Mortgage- and asset-backed securities	—	269,416	4,170	273,586
Total fixed-maturity securities	1,248	1,672,488	8,385	1,682,121
Equity securities	25,048	12,629	48	37,725
Trading securities	—	12,359	—	12,359
Separate accounts	—	2,435,740	—	2,435,740
Total fair value assets	$26,296	$4,133,216	$8,433	$4,167,945
Fair value liabilities:				
Currency swaps	$—	$1,754	$—	$1,754
Separate accounts	—	2,435,740	—	2,435,740
Total fair value liabilities	$—	$2,437,494	$—	$2,437,494

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	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	$—	$7,534	$—	$7,534
Foreign government	—	117,392	—	117,392
States and political subdivisions	—	34,753	—	34,753
Corporates	1,301	1,392,446	3,379	1,397,126
Mortgage- and asset-backed securities	—	328,415	1,794	330,209
Total fixed-maturity securities	1,301	1,880,540	5,173	1,887,014
Equity securities	26,608	10,491	48	37,147
Trading securities	—	7,762	—	7,762
Separate accounts	—	2,618,115	—	2,618,115
Total fair value assets	$27,909	$4,516,908	$5,221	$4,550,038
Fair value liabilities:				
Currency swaps	$—	$2,048	$—	$2,048
Separate accounts	—	2,618,115	—	2,618,115
Total fair value liabilities	$—	$2,620,163	$—	$2,620,163

In assessing fair value of our investments, we use a third-party pricing service for approximately 94% of our securities. The remaining securities are primarily thinly traded securities valued using models based on observable inputs on public corporate spreads having similar tenors (e.g., sector, average life and quality rating) and liquidity and yield based on quality rating, average life and treasury yields. All observable data inputs are corroborated by independent third-party data. In the absence of sufficient observable inputs, we utilize non-binding broker quotes, which are reflected in our Level 3 classification as we are unable to evaluate the valuation technique(s) or significant inputs used to develop the quotes. Therefore, we do not internally develop the quantitative unobservable inputs used in measuring the fair value of Level 3 investments. However, we do corroborate pricing information provided by our third-party pricing servicing by performing a review of selected securities. Our review activities include obtaining detailed information about the assumptions, inputs and methodologies used in pricing the security; documenting this information; and corroborating it by comparison to independently obtained prices and or independently developed pricing methodologies.

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

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

Where specific market information is unavailable for certain securities, pricing models produce estimates of fair value primarily using Level 2 inputs along with certain Level 3 inputs. These models include matrix pricing. The pricing matrix uses current treasury rates and credit spreads received from third-party sources to estimate fair value. The credit spreads incorporate the issuer's industry- or issuer-specific credit characteristics and the security's

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time to maturity, if warranted. Remaining unpriced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of non-binding broker quotes.

The roll-forward of the Level 3 assets measured at fair value on a recurring basis was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Level 3 assets, beginning of period	$4,256	$10,916	$5,221	$6,937
Net unrealized gains (losses) included in other comprehensive income	(189)	(504)	(166)	(336)
Net realized gains (losses) included in realized investment gains (losses), including other-than-temporary impairment losses	69	45	130	(40)
Purchases	3,906	1,117	4,383	2,416
Sales	(5)	—	(15)	—
Settlements	(174)	(384)	(699)	(738)
Transfers into Level 3	986	—	986	2,951
Transfers out of Level 3	(416)	(1,059)	(1,407)	(1,059)
Level 3 assets, end of period	$8,433	$10,131	$8,433	$10,131

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, quoted prices for similar instruments in markets that are not active, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2013 and 2012. In addition, there were no transfers between Level 1 and Level 3 during the three and six months ended June 30, 2013 and 2012.

Invested assets included in the transfer from Level 3 to Level 2 during the three and six months ended June 30, 2013 and 2012 primarily were fixed-maturity investments for which we were able to obtain independent pricing quotes based on observable inputs. Invested assets included in the transfer from Level 2 to Level 3 during the three and six months ended June 30, 2013 and 2012 primarily were fixed-maturity investments for which we were unable to corroborate independent broker quotes with observable market data.

The table below is a summary of the estimated fair value for financial instruments.

	June 30, 2013		December 31, 2012	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
Assets:				
Fixed-maturity securities	$1,682,121	$1,682,121	$1,887,014	$1,887,014
Equity securities	37,725	37,725	37,147	37,147
Trading securities	12,359	12,359	7,762	7,762
Policy loans	25,784	25,784	24,613	24,613
Deposit asset underlying 10% reinsurance agreement	109,218	109,218	91,524	91,524
Separate accounts	2,435,740	2,435,740	2,618,115	2,618,115
Liabilities:				
Notes payable	$374,457	$396,777	$374,433	$418,777
Currency swaps	1,754	1,754	2,048	2,048
Separate accounts	2,435,740	2,435,740	2,618,115	2,618,115

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

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Recurring fair value measurements. Estimated fair values of investments in fixed-maturity securities are principally a function of current spreads and interest rates that are corroborated by independent third-party data. Therefore, the fair values presented are indicative of amounts we could realize or settle at the respective balance sheet date. We do not necessarily intend to dispose of or liquidate such instruments prior to maturity. Trading securities, which primarily consist of fixed-maturity securities, are carried at fair value. Equity securities, including common and non-redeemable preferred stocks, are carried at fair value. Currency swaps are stated at fair value. Segregated funds in separate accounts are carried at the underlying value of the variable insurance contracts, which is fair value.
Nonrecurring fair value measurements. Policy loans, which are categorized as Level 3 fair value measurements, are carried at the unpaid principal balances. The fair value of policy loans approximate the unpaid principal balances as the timing of repayment is uncertain and the loans are collateralized by the amount of the policy. The deposit asset underlying the 10% reinsurance agreement represents the value of the assets necessary to back the economic reserves held in support of the reinsurance agreement. The carrying value of this deposit asset approximates fair value, which is categorized as Level 3 in the fair value hierarchy. Notes payable represent our publicly-traded senior notes and are valued as a Level 2 fair value measurement using the quoted market price for our notes.
The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximate their fair values due to the short-term nature of these instruments. Consequently, such financial instruments are not included in the above table.

(5) Reinsurance

On March 31, 2010, we entered into certain reinsurance transactions with affiliates of Citigroup and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. Reinsurance ceded arrangements do not relieve the Company of its primary obligation to the policyholder. We monitor the concentration of credit risk we have with any reinsurer, as well as the financial condition of the reinsurers. Details on in force life insurance follow:

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Direct life insurance in force	$679,002,725	$675,164,992
Amounts ceded to other companies	(601,755,831)	(599,133,626)
Net life insurance in force	$77,246,894	$76,031,366
Percentage of reinsured life insurance in force	89%	89%

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

	June 30, 2013		December 31, 2012	
	Reinsurance receivable	A.M. Best rating	Reinsurance receivable	A.M. Best rating
	(In thousands)			
Prime Reinsurance Company(1)	$2,535,448	NR	$2,505,157	NR
Financial Reassurance Company 2010, Ltd.(1)	336,592	NR	352,073	NR
American Health and Life Insurance Company(1)	173,763	A-	174,905	A-
Swiss Re Life & Health America Inc.(2)	253,333	A+	266,841	A+
SCOR Global Life Reinsurance Companies	150,481	A	161,876	A
Generali USA Life Reassurance Company	117,566	A-	117,284	A-
Transamerica Reinsurance Companies	103,728	A+	108,237	A+
Munich American Reassurance Company	100,191	A+	101,349	A+
Korean Reinsurance Company	85,722	A	86,287	A
RGA Reinsurance Company	74,005	A+	72,230	A+
All other reinsurers	62,429	-	58,955	-
Due from reinsurers	$3,993,258		$4,005,194	

NR – not rated

(1) Reinsurers are affiliates of Citigroup. Amounts shown are net of their share of the reinsurance receivable from other reinsurers.

(2) Includes amounts ceded to Lincoln National Life Insurance and 100% retroceded to Swiss Re Life & Health America Inc.

(6) Notes Payable

Notes payable consisted of the following:

	June 30, 2013		December 31, 2012	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Senior notes payable, due July 15, 2022	$375,000	4.75 %	$375,000	4.75 %
Original issuance discount remaining on notes payable	(543)		(567)	
Total notes payable	$374,457		$374,433	

On July 16, 2012, we issued $375.0 million in principal amount of senior unsecured notes in a public offering (the "Senior Notes"), and used a portion of the net cash proceeds to repay a $300.0 million note to Citigroup in whole at a redemption price equal to 100% of the outstanding principal amount. We were in compliance with the covenants of the Senior Notes at June 30, 2013. No events of default occurred on the Senior Notes during the six months ended June 30, 2013.

Further discussion on the Company’s notes payable is included in Note 9 (Notes Payable) to our consolidated and combined financial statements within our 2012 Annual Report.

(7) Stockholders’ Equity

A reconciliation of the number of shares of our common stock follows.

	Six months ended June 30,	
	2013	2012
	(In thousands)	
Common stock, beginning of period	56,374	64,883
Shares of restricted common stock issued, net	289	438
Shares of common stock issued upon lapse of restricted stock units ("RSUs")	783	712

Common stock retired	(2,942)	(6,165)
Common stock, end of period	54,504	59,868

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The above reconciliation excludes RSUs issued to our sales force, our Canadian subsidiaries' employees, and our non-employee directors, which do not have voting rights. As the restrictions on the RSUs lapse, we issue common shares with voting rights. As of June 30, 2013, we had a total of approximately 1.2 million RSUs outstanding.

On June 3, 2013, we repurchased 2,488,621 shares of our common stock and warrants to purchase 4,103,110 shares of our common stock beneficially owned by certain private equity funds managed by Warburg Pincus LLC ("Warburg Pincus") at a purchase price of $34.67 per outstanding share and at a purchase price for the warrants equal to $16.67 per underlying share. The per-share purchase price was determined based on the closing price of our common stock on May 28, 2013, which was the execution date of the agreement to repurchase the shares, and the purchase price per warrant was equal to the per-share purchase price less the warrant exercise price of $18.00 per underlying share. The aggregate purchase price for the shares and warrants was approximately $154.7 million. Warburg Pincus no longer owns an equity interest in the Company. Proceeds from the ordinary dividend of $150.0 million paid on May 7, 2013 from Primerica Life to the Parent Company were used to fund the repurchase transaction.

(8) Earnings Per Share

The Company has outstanding common stock and equity awards that consist of restricted stock, RSUs and stock options. In addition, warrants to purchase 4,103,110 shares of our common stock at an exercise price of $18.00 per underlying share were outstanding until we repurchased and retired these warrants on June 3, 2013. The restricted stock and outstanding RSUs maintain non-forfeitable dividend rights that result in dividend payment obligations on a one-to-one ratio with common shares for any future dividend declarations. These restricted stock and outstanding RSUs are deemed participating securities for purposes of calculating earnings per share ("EPS").

As a result of issuing restricted stock and outstanding RSUs that are deemed participating securities, we calculate EPS using the two-class method. Under the two-class method, we allocate earnings to common shares (excluding unvested restricted stock) and vested RSUs outstanding for the period. Earnings attributable to unvested participating securities, along with the corresponding share counts, are excluded from EPS as reflected in our condensed consolidated statements of income.

In calculating basic EPS, we deduct any dividends and undistributed earnings allocated to unvested restricted stock and unvested RSUs from net income and then divide the result by the weighted-average number of common shares, fully vested restricted stock, and fully vested RSUs outstanding for the period.

We determine the potential dilutive effect of warrants and stock options outstanding on EPS using the treasury-stock method. Under this method, we determine the proceeds that would be received from the exercise of the warrants and stock options outstanding, which includes cash received for the exercise price, the remaining unrecognized stock option compensation expense and the resulting effect on the income tax deduction from the exercise of stock options. We then use the average market price of our common shares during the period the warrants and stock options were outstanding to determine how many shares we could repurchase with the proceeds raised from the exercise of the warrants and stock options outstanding. The net incremental share count issued represents the potential dilutive securities. We then reallocate earnings to common shares, fully vested restricted stock and fully vested RSUs outstanding by incorporating the increased fully diluted share count to determine diluted EPS.

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The calculation of basic and diluted EPS follows.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per-share amounts)			
Basic EPS				
Numerator:				
Net income	$43,490	$46,180	$82,335	$87,936
Income attributable to unvested participating securities	(552)	(1,111)	(1,602)	(2,498)
Net income used in calculating basic EPS	$42,938	$45,069	$80,733	$85,438
Denominator:				
Weighted-average vested shares	56,511	61,531	56,553	63,332
Basic EPS	$0.76	$0.73	$1.43	$1.35
Diluted EPS				
Numerator:				
Net income	$43,490	$46,180	$82,335	$87,936
Income attributable to unvested participating securities	(542)	(1,092)	(1,566)	(2,457)
Net income used in calculating diluted EPS	$42,948	$45,088	$80,769	$85,479
Denominator:				
Weighted-average vested shares	56,511	61,531	56,553	63,332
Dilutive effect of incremental shares to be issued for warrants outstanding	1,338	1,156	1,574	1,149
Weighted-average shares used in calculating diluted EPS(1)	57,849	62,687	58,127	64,481
Diluted EPS	$0.74	$0.72	$1.39	$1.33

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(1) Stock options granted to employees on February 20, 2013 to purchase 134,222 shares of common stock were outstanding as of June 30, 2013 but were not included in the computation of diluted EPS, because the impact from the exercise would be anti-dilutive. There were no outstanding stock options as of June 30, 2012. See Note 9 (Share-Based Compensation) for more information regarding stock options.

(9) Share-Based Compensation

The Company has outstanding equity awards under its Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, unrestricted stock, as well as cash-based awards. In addition to time-based vesting requirements, awards granted under the OIP also may be subject to specified performance criteria. Since 2010, the Company has issued equity awards to our management (officers and other key employees), non-employee directors, and sales force leaders under the OIP. As of June 30, 2013, we had approximately 3.0 million shares available for future grants under this plan.

Employee Share-Based Compensation

Restricted Stock and RSUs. The Company has granted shares of restricted stock to management of its U.S. based subsidiaries and RSUs to management of its Canadian subsidiaries (collectively, "management restricted stock awards"). Members of the Board of Directors were granted shares of restricted stock prior to 2013 and were granted RSUs on May 22, 2013 (collectively, "director restricted stock awards"). All of our outstanding management restricted stock awards and the director restricted stock awards granted prior to 2013 have time-based vesting requirements, with equal and annual graded vesting over three years. RSUs granted to members of the Board of Directors in 2013 have time-based vesting requirements that lapse on May 21, 2014 and contain post-vesting sale restrictions until the director no longer serves on our Board. All of our outstanding management and director restricted stock awards are eligible for dividends or dividend equivalents regardless of vesting status. During the six months ended June 30, 2013, we granted annual equity compensation of approximately 319,000 management and director restricted stock awards under the OIP with a weighted-average grant date fair value of $32.72 per share.

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In connection with our granting of management and director restricted stock awards, we recognized expense and tax benefit offsets as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Expense for management and director restricted stock awards granted in 2010	$ 175	$ 3,192	$ 3,200	$ 6,267
Expense for management and director restricted stock awards granted in 2011	732	742	1,499	1,541
Expense for management and director restricted stock awards granted in 2012	921	929	1,883	1,503
Expense for management and director restricted stock awards granted in 2013	834	—	1,236	—
Total management and director restricted stock awards expense	$ 2,662	$ 4,863	$ 7,818	$ 9,311
Tax benefit associated with total management and director restricted stock awards expense	$ 886	$ 1,183	$ 2,167	$ 2,229

As of June 30, 2013, total compensation cost not yet recognized in our financial statements related to management and director restricted stock awards with time-based vesting conditions yet to be reached was approximately $17.6 million, and the weighted-average period over which cost will be recognized was approximately two years.

Stock Options. On February 20, 2013, the Company granted stock options under the OIP to certain of its executive officers with a fair market value equal to approximately one-third of the executive officer's total annual equity compensation. The remaining annual equity compensation for these executive officers were granted in the form of management restricted stock awards discussed above. A total of 134,222 stock options was granted with an exercise price of $32.63, which was equal to the fair market value of our common stock on that date, and they expire 10 years from the date of grant. These options have time-based restrictions with equal and annual graded vesting over a three-year period. The fair market value of the options on the grant date and the compensation expense that will be recognized over the vesting period was approximately $1.1 million. For the three months ended June 30, 2013, compensation expense and related tax benefits recognized for these stock option awards were approximately $93,000 and $33,000, respectively. For the six months ended June 30, 2013, compensation expense and related tax benefits recognized for these stock option awards were approximately $134,000 and $47,000, respectively.

No options were exercised during the three and six months ended June 30, 2013, and no options are expected to be exercised earlier than the first scheduled vesting date of March 1, 2014.

Non-Employee Share-Based Compensation

Restricted Stock Units. Quarterly incentive awards to our sales force leaders ("agent equity awards") have performance-based vesting requirements for which the grant and the service period occur within the same calendar quarter. These awards are granted in the form of RSUs that vest upon the conclusion of short-term quarterly contests and are subject to sale restrictions expiring over the three years subsequent to vesting. Because the awards are subject to sale restrictions following their vesting, their fair value is discounted to reflect a corresponding illiquidity discount. These awards are an incremental direct cost of successful acquisitions or renewals of life insurance policies that result directly from and are essential to the policy acquisition(s) and would not have been incurred had the policy acquisition(s) not occurred, and therefore are deferred and amortized in the same manner as other deferred policy acquisition costs.

In connection with these awards, we recognized and deferred expense as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Quarterly incentive awards expense recognized currently	$ —	$ —	$ —	$ —

Quarterly incentive awards expense deferred	4,335	1,652	8,141	3,425
Concurrent tax benefit of deferred expense	1,372	470	2,606	1,030

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As of June 30, 2013, all agent equity awards were fully vested with the exception of quarterly incentive awards granted during the second quarter of 2013 that vested on July 1, 2013. As such, any related compensation cost not recognized as either expense or deferred acquisition costs in our financial statements as of and through June 30, 2013 is immaterial.

(10) Commitments and Contingent Liabilities

The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. As such, the Company is unable to estimate the possible loss or range of loss that may result from these matters.

Effective March 31, 2012, Peach Re entered into a Credit Facility Agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the statutory accounting-based reserves (commonly referred to as Regulation XXX reserves) related to level premium term life insurance policies ceded to Peach Re from Primerica Life under the Peach Re Coinsurance Agreement.

Under the Credit Facility Agreement, Deutsche Bank issued a letter of credit in the initial amount of $450.0 million with a term of approximately fourteen years (the "LOC") for the benefit of Primerica Life, the direct parent of Peach Re. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum amount of $510.0 million in 2014. Pursuant to the terms of the Credit Facility Agreement, in the event amounts are drawn under the LOC by Primerica Life, Peach Re will be obligated, subject to certain limited conditions, to reimburse Deutsche Bank for the amount of any draws and interest thereon. Peach Re has collateralized its obligations to Deutsche Bank by granting it a security interest in all of its assets with the exception of amounts held in a special account established to meet minimum asset thresholds required by state regulatory authorities. As of June 30, 2013, the Company was in compliance with all financial covenants under the Credit Facility Agreement.

Further discussion on the Company’s letter of credit is included Note 15 (Commitments and Contingent Liabilities) to our consolidated and combined financial statements within our 2012 Annual Report.

Beginning in late 2011, numerous arbitration claims were filed with the Financial Industry Regulatory Association ("FINRA") against our subsidiary, PFS Investments, and certain of its registered representatives seeking unspecified damages arising from the allegation that the representatives improperly recommended that the claimants transfer their retirement benefits from the Florida Retirement System's defined benefit plan to its defined contribution plan. The arbitrations have been brought by a law firm in Miami, Florida, that engaged in efforts to solicit public employees to bring these claims against us.

Currently, there are 22 pending arbitrations. We have completed three arbitrations. In two arbitrations, the public employee received no monetary award. In a third arbitration, the panel dismissed the claims against our representative but awarded a monetary judgment that was individually immaterial to the Company and considerably less than the amount sought by the claimant. Nevertheless, we have filed a motion to vacate the award. In addition to the arbitrations, seven lawsuits alleging the same claims against PFS Investments and certain of its registered representatives are pending in Miami-Dade County Circuit Court, and one lawsuit is pending in Federal Court for the Middle District of Florida. The total number of claimants in the pending arbitrations and the lawsuits, some of which have multiple claimants, is 91. The law firm representing the claimants has stated that it expects to file cases on behalf of approximately 100 additional public employees. Most of the claims arose between 2002 and 2008, and may be susceptible to statute of limitations defenses. In August 2012, a Palm Beach County Circuit Court case brought by the same law firm against PFS Investments and making similar claims was dismissed on statute of limitations grounds. An appeal of that decision is pending.

We believe we have meritorious defenses to the claims, and we intend to vigorously defend against them. Despite our defenses, we will incur significant costs, and possibly liabilities, defending and/or resolving these claims. At this time, we are unable to reasonably estimate a range of potential losses.

The treasury departments of 24 U.S. states and the District of Columbia have each engaged one of two common third party firms to conduct audits of the Company and its subsidiaries for compliance with unclaimed property laws. The insurance departments of five of those states and one additional state have each engaged a common third party firm to examine the claims settlement and policy administration practices of Primerica Life and NBLIC, which includes examinations for compliance with unclaimed property laws. If instances of noncompliance are identified during the audits, the Company could be required to make additional payments. Additionally, the State of West Virginia Treasurer has sued Primerica Life and many other insurance companies, alleging violations of the West

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Virginia unclaimed property act. Other jurisdictions may pursue similar inquiries, audits, examinations and litigation. The audits and examinations are expected to take significant time to complete, and the Company cannot reasonably estimate the impact of additional costs or liabilities that could result from the resolution of these audits and litigation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the "Parent Company") and its subsidiaries (collectively, "we", "us" or the "Company") for the period from December 31, 2012 to June 30, 2013. As a result, the following discussion should be read in conjunction with MD&A and the consolidated and combined financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2012, ("2012 Annual Report"). This discussion contains forward-looking statements that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to those discussed under the heading "Risk Factors" in the 2012 Annual Report. Actual results may differ materially from those contained in any forward-looking statements.
This MD&A is divided into the following sections:

- Business Overview
- Critical Accounting Estimates
- Factors Affecting Our Results
- Results of Operations
- Financial Condition
- Liquidity and Capital Resources

Business Overview

We are a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We have two primary operating segments, Term Life Insurance and Investment and Savings Products, and a third segment, Corporate and Other Distributed Products.
Term Life Insurance. We distribute the term life insurance products that we originate through our three issuing life insurance company subsidiaries: Primerica Life Insurance Company ("Primerica Life"); National Benefit Life Insurance Company ("NBLIC"); and Primerica Life Insurance Company of Canada ("Primerica Life Canada"). Our in force term insurance policies have level premiums for the stated term period. As such, the policyholder pays the same amount each year. Initial policy term periods are between 10 and 35 years. While premiums are guaranteed to remain level during the initial term period (up to a maximum of 20 years in the United States), our claim obligations generally increase as our policyholders age. In addition, we incur significant upfront costs in acquiring new insurance business. Our deferral and amortization of policy acquisition costs and reserving methodology are designed to match the recognition of premium revenues with the timing of policy lapses and the payment of expected claims obligations.
Our Term Life Insurance segment results are primarily driven by sales and policies in force, accuracy of our pricing assumptions, terms and use of reinsurance, investment income, and expenses. On March 31, 2010, we entered into certain reinsurance transactions with affiliates of Citigroup Inc. ("Citigroup") (collectively, the "Citigroup reinsurers") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009 (the "Citigroup reinsurance transactions"). We continue to administer all policies subject to these coinsurance agreements. Subsequent to the Citigroup reinsurance transactions, the revenues and earnings of our Term Life Insurance segment initially declined in proportion to the amount of revenues and earnings historically associated with the book of term life insurance policies that we ceded to the Citigroup reinsurers. As we have added new in force business, our revenues and earnings have grown from these initial levels. With each

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successive period, we expect revenue and earnings growth to continue to decelerate as the size of our in force book grows and incremental sales have a reduced marginal effect on the size of the then-existing in force book.
Investment and Savings Products. We distribute mutual funds, managed accounts, annuities and segregated funds. In the United States, we distribute mutual fund and managed accounts products and variable and fixed annuity products of several third-party companies. In Canada, we offer our own Primerica-branded mutual funds, as well as mutual funds of other companies, and segregated funds, which are underwritten by Primerica Life Canada.
Results in our Investment and Savings Products segment are driven by sales of mutual funds and annuities, the value of assets in client accounts for which we earn ongoing service, distribution and advisory fees and the number of fee generating accounts for which we provide administration functions or retirement plan custodial services. While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period are affected by changes in the overall mix of products within these broad categories.
Corporate and Other Distributed Products. Our Corporate and Other Distributed Products segment consists primarily of revenues and expenses related to other distributed products, including various insurance products, prepaid legal services as well as credit information and debt referral services. These products are distributed pursuant to distribution arrangements with third parties, except for certain life and disability insurance products underwritten by NBLIC, our New York life insurance subsidiary, that are not distributed through our independent agent sales force. In addition, our Corporate and Other Distributed Products segment includes corporate income (including net investment income) and expenses not allocated to other segments, interest expense on our notes payable and realized gains and losses on our invested asset portfolio.

Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting policies are described in Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) to our consolidated and combined financial statements included in our 2012 Annual Report. The most significant items on the balance sheet are based on fair value determinations, accounting estimates and actuarial determinations which are susceptible to changes in future periods and which affect our results of operations and financial position.
The estimates that we deem to be most critical to an understanding of our results of operations and financial position are those related to the valuation of investments, deferred policy acquisition costs ("DAC"), future policy benefit reserves and corresponding amounts due from reinsurers, litigation, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management’s analyses and judgments. Subsequent experience or use of other assumptions could produce significantly different results.
Accounting Policy Change. During the six months ended June 30, 2013, there have been no changes in the accounting methodology for items that we have identified as critical accounting estimates. For additional information regarding critical accounting estimates, see the Critical Accounting Estimates section of MD&A included in our 2012 Annual Report.

Factors Affecting Our Results

Economic Environment. The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.
Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits’ perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels affect how consumers evaluate their savings and debt management plans. In addition, interest rates and equity market returns impact

consumer demand for the savings and investment products we distribute. The effects of these trends and conditions are discussed in the Results of Operations section below.

Independent Sales Force. Our ability to increase the size of our sales force is largely based on the success of our recruiting efforts and our ability to train and motivate recruits to obtain licenses to sell life insurance. We believe that recruitment and licensing levels are important advance indicators of sales force trends, and growth in recruiting and licensing is usually indicative of future growth in the overall size of the sales force. Recruiting results do not always result in commensurate changes in the size of our licensed sales force because new recruits may obtain the requisite licenses at rates above or below historical levels.

Details on new recruits and life-licensed sales representative activity were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
New recruits	50,358	48,976	96,706	107,527
New life-licensed sales representatives	8,875	9,786	16,040	17,436

Year-over-year recruiting of new representatives was relatively consistent during the three months ended June 30, 2013 but decreased during the six months ended June 30, 2013. Recruiting of new representatives for the six months ended June 30, 2012 benefited from special incentive programs and competitions in the first quarter of 2012. Due to the typical lag in licensing of new recruits, new life-licensed sales representatives then benefited from those programs through the second quarter of 2012. Recruiting and new life-licensed sales representatives in 2013 reflect more typical levels for periods that did not have these special incentive programs and competitions.

The size of our life-licensed insurance sales force was as follows:

	June 30, 2013	March 31, 2013	December 31, 2012
Life-licensed insurance sales representatives	92,227	90,917	92,373

The life-licensed sales force increased since the first quarter of 2013 primarily due to lower non-renewals and terminations, as well as a sequential increase in new life licensed representatives in the second quarter of 2013.

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Average number of life-licensed sales representatives	91,849	90,461	91,655	90,329
Number of new policies issued	57,622	60,583	107,978	116,728
Average monthly rate of new policies issued per life-licensed sales representative	.21x	.22x	.20x	.22x

The average monthly rate of new policies issued per life-licensed sales representative declined slightly during the three and six months ended June 30, 2013 as 2012 life insurance policy sales benefited from warm market leads generated from strong recruiting in the first quarter of 2012.

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

- Persistency. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When persistency is lower than our pricing assumptions, we must accelerate the amortization of DAC. The resultant increase in amortization expense is offset by a corresponding release of reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The reserves associated with any given policy will change over the term of such policy. As a general matter, reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and claims expense may be greater or less than the increase in amortization expense and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels will impact results to the extent actual experience deviates from the persistency assumptions used to price our products.
- Mortality. Our profitability is affected to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance.
- Investment Yields. We use investment yield rates based on yields available at the time a policy is issued. For policies issued in 2010 and after, we have been using an increasing interest rate assumption to reflect the historically low interest rate environment. Both DAC and the reserve liability increase with the assumed investment yield rate. Since DAC is higher than the reserve liability in the early years of a policy, a lower assumed investment yield generally will result in lower profits. In the later years, when the reserve liability is higher than DAC, a lower assumed investment yield generally will result in higher profits. These assumed investment yields, which like other pricing assumptions are locked in at issue, impact the timing but not the aggregate amount of DAC and reserve changes. Actual investment yields will impact net investment income allocated to the Term Life Insurance segment, but will not impact DAC or the reserve liability.

Reinsurance. We use reinsurance extensively, which has a significant effect on our results of operations. Since the mid-1990s, we have reinsured between 60% and 90% of the mortality risk on our U.S. term life insurance policies on a quota share yearly renewable term ("YRT") basis. In Canada, we previously utilized reinsurance arrangements similar to the U.S. in certain years and reinsured only face amounts above $500,000 in other years. However, in the first quarter of 2012, we entered into a YRT reinsurance arrangement in Canada similar to our U.S. program that reinsures 80% of the face amount for every policy sold. YRT reinsurance permits us to set future mortality at contractual rates by policy class. To the extent actual mortality experience is more or less favorable than the contractual rate, the reinsurer will earn incremental profits or bear the incremental cost, as applicable. In contrast to coinsurance, which is intended to eliminate all risks (other than counterparty risk of the reinsurer) and rewards associated with a specified percentage of the block of policies subject to the reinsurance arrangement, the YRT reinsurance arrangements we enter into are intended only to reduce volatility associated with variances between estimated and actual mortality rates.

The effect of our reinsurance arrangements on ceded premiums and benefits and expenses on our statement of income follows:

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

- Benefits and claims. Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded. Coinsurance also reduces the change in future policy benefit reserves in direct proportion to the percentage ceded while YRT reinsurance does not significantly impact benefit reserves.

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- Amortization of DAC. Amortization of DAC is reduced on a pro-rata basis for the coinsured business, including the business reinsured with Citigroup. There is no impact on amortization of DAC associated with our YRT contracts.
- Insurance expenses. Insurance expenses are reduced by the allowances received from coinsurance, including the business reinsured with Citigroup. There is no impact on insurance expenses associated with our YRT contracts.

We may alter our reinsurance practices at any time due to the unavailability of YRT reinsurance at attractive rates or the availability of alternatives to reduce our risk exposure. We presently intend to continue ceding approximately 90% of our U.S. mortality risk on new business and approximately 80% of our Canadian mortality risk on new business.

Net investment income. Term Life Insurance segment net investment income is composed of allocated net investment income. Net investment income is allocated to the Term Life segment based on the book value of the invested assets necessary to meet statutory reserve requirements and our targeted capital objectives. Net investment income is also impacted by the performance of our invested asset portfolio, which can be affected by interest rates, credit spreads and the mix of invested assets.

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

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

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

Asset values in client accounts. We earn marketing and distribution fees (trail commissions or, with respect to U.S. mutual funds, 12b-1 fees) on mutual fund and annuity assets in the United States and Canada. In the United States, we also earn investment advisory fees on assets in the managed accounts program. In Canada, we earn management fees on certain mutual fund assets and on the segregated funds for which we serve as investment manager. Asset values are influenced by new product sales, ongoing contributions to existing accounts, redemptions and the change in market values in existing accounts. While we offer a wide variety of asset classes and investment styles, our clients' accounts are primarily invested in equity funds.

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

Sales mix. While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period will be affected by changes in the overall mix of products within these categories. Examples of changes in the sales mix that influence our results include the following:

- sales of annuity products in the United States will generate higher revenues in the period such sales occur than sales of other investment products that either generate lower upfront revenues or, in the case of managed accounts and segregated funds, no upfront revenues;
- sales of a higher proportion of managed accounts and segregated funds products will generally extend the time over which revenues can be earned because we are entitled to higher revenues based on assets under management for these accounts in lieu of upfront revenues; and
- sales of a higher proportion of mutual fund products and the composition of the fund families sold will impact the timing and amount of revenue we earn given the marketing, support, recordkeeping and custodial services we perform for the various mutual fund products we distribute.

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Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. NBLIC also underwrites a mail-order student life policy and a short-term disability benefit policy, neither of which is distributed by our sales force, and has in force policies from several discontinued lines of insurance. Corporate and Other Distributed Products segment net investment income is composed of two elements: the remainder of net investment income not allocated to our Term Life Insurance segment and the market return associated with the deposit asset underlying the 10% reinsurance agreement with the Citigroup reinsurers ("10% Reinsurance Agreement").

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

Capital Structure. Our financial results have also been affected by changes in our capital structure, including the issuance of $375.0 million in principal amount of senior unsecured notes issued in 2012 (the "Senior Notes") and the concurrent repayment of a $300.0 million note payable issued to Citigroup, as well as share repurchases and other financing arrangements during 2012 and 2013. For additional information regarding factors affecting our results, see Factors Affecting Our Results in our 2012 Annual Report.

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Results of Operations

Primerica, Inc. and Subsidiaries Results. Our results of operations were as follows:

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	$577,208	$570,073	$7,135	1 %	$1,148,107	$1,131,110	$16,997	2 %
Ceded premiums	(417,450)	(415,815)	1,635	*	(828,054)	(833,978)	(5,924)	(1)%
Net premiums	159,758	154,258	5,500	4 %	320,053	297,132	22,921	8 %
Commissions and fees	116,857	106,759	10,098	9 %	228,837	210,656	18,181	9 %
Net investment income	21,027	23,605	(2,578)	(11)%	44,243	49,702	(5,459)	(11)%
Realized investment gains (losses), including other-than-temporary impairment losses	3,468	4,321	(853)	(20)%	5,754	6,452	(698)	(11)%
Other, net	11,197	11,582	(385)	(3)%	21,865	23,184	(1,319)	(6)%
Total revenues	312,307	300,525	11,782	4 %	620,752	587,126	33,626	6 %
Benefits and expenses:								
Benefits and claims	69,770	68,925	845	1 %	144,016	136,858	7,158	5 %
Amortization of DAC	30,112	28,205	1,907	7 %	61,364	54,736	6,628	12 %
Sales commissions	57,638	51,475	6,163	12 %	112,686	101,192	11,494	11 %
Insurance expenses	28,094	24,589	3,505	14 %	55,236	47,033	8,203	17 %
Insurance commissions	5,424	6,458	(1,034)	(16)%	11,490	14,954	(3,464)	(23)%
Interest expense	8,793	8,506	287	3 %	17,588	15,416	2,172	14 %
Other operating expenses	45,030	40,446	4,584	11 %	90,694	81,551	9,143	11 %
Total benefits and expenses	244,861	228,604	16,257	7 %	493,074	451,740	41,334	9 %
Income before income taxes	67,446	71,921	(4,475)	(6)%	127,678	135,386	(7,708)	(6)%
Income taxes	23,956	25,741	(1,785)	(7)%	45,343	47,450	(2,107)	(4)%
Net income	$43,490	$46,180	$(2,690)	(6)%	$82,335	$87,936	$(5,601)	(6)%

*Less than 1% or not meaningful

Results for the Three and Six Months Ended June 30, 2013 and 2012

Total revenues. The increase in revenues for the three and six months ended June 30, 2013 compared to the three and six months ended June 30, 2012 was primarily due to the increase in our Investment and Savings Product segment, which was largely driven by higher sales and higher client asset values. Also contributing to the increase was results from our Term Life Insurance segment largely reflecting incremental premiums on new term life insurance policies issued subsequent to the Citigroup reinsurance transactions ("New Term"). The decrease in net investment income largely occurred in our Corporate and Other Distributed Products segment as described below.

Total benefits and expenses. Total benefits and expenses for the three and six months ended June 30, 2013 increased year-over-year primarily as a result of the growth in revenue-related costs, which include sales commissions, certain insurance expenses, amortization of DAC, and benefits and claims. Additionally, other operating expenses increased primarily due to legal fees and expenses, as well as charges related to the relocation to our new corporate headquarters. Higher interest expense for the six months ended June 30, 2013 was driven mostly by the redundant reserve financing executed in March 2012. These higher expenses were partially offset by declines in insurance commissions reflecting a higher portion of commissions being deferred for our agent incentive programs.

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Income taxes. Our effective income tax rate of 35.5% during the three and six months ended June 30, 2013, respectively, remained consistent with our effective income tax rate of 35.8% and 35.1% during the three and six months ended June 30, 2012, respectively.

For additional information, see the Segment Results discussions below.

Segment Results

As disclosed in Note 2 (Segment Information) of the notes to the condensed consolidated financial statements, Primerica changed its measurement of segment information to allocate the deposit asset underlying the 10% reinsurance agreement with Citigroup, as well as the related mark-to-market adjustments included in the calculation of its effective yield, to the Corporate and Other Distributed Products segment instead of the Term Life Insurance segment beginning in the second quarter of 2013. Prior period results have been adjusted to reflect this reclassification.

Term Life Insurance Segment Results. Our results for the Term Life Insurance segment were as follows:

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	$559,035	$550,330	$8,705	2 %	$1,111,069	$1,092,487	$18,582	2 %
Ceded premiums	(414,222)	(412,038)	2,184	1 %	(822,076)	(826,597)	(4,521)	(1)%
Net premiums	144,813	138,292	6,521	5 %	288,993	265,890	23,103	9 %
Allocated net investment income	16,934	16,112	822	5 %	33,604	31,742	1,862	6 %
Other, net	7,435	7,755	(320)	(4)%	14,419	15,301	(882)	(6)%
Total revenues	169,182	162,159	7,023	4 %	337,016	312,933	24,083	8 %
Benefits and expenses:								
Benefits and claims	61,688	59,984	1,704	3 %	127,235	117,493	9,742	8 %
Amortization of DAC	25,777	22,547	3,230	14 %	53,642	46,480	7,162	15 %
Insurance commissions	1,062	2,314	(1,252)	(54)%	2,261	5,891	(3,630)	(62)%
Insurance expenses	24,508	21,782	2,726	13 %	48,353	41,499	6,854	17 %
Interest expense	4,250	4,381	(131)	(3)%	8,502	7,166	1,336	19 %
Total benefits and expenses	117,285	111,008	6,277	6 %	239,993	218,529	21,464	10 %
Income before income taxes	$51,897	$51,151	$746	1 %	$97,023	$94,404	$2,619	3 %

Results for the Three Months Ended June 30, 2013 and 2012

Net premiums. The increase in net premiums is primarily due to the continued addition of New Term in force business, partially offset by the run off of business subject to the Citigroup reinsurance transactions. While ceded premiums supporting YRT reinsurance programs for New Term are less than 20% of direct premiums, ceded premiums for the block of business coinsured by Citigroup are more than 80% of direct premiums. As a result, as we continue to build New Term and the block coinsured by Citigroup continues to run off, net premiums will continue to grow faster than direct premiums, albeit at a declining rate of growth. The increase in net premiums was partially offset by prior year reprocessed reinsurance transactions of approximately $6.7 million, which decreased ceded

premiums and contributed to an increase in net premiums in the prior year period and did not reoccur for the three months ended June 30, 2013.
Benefits and claims. Benefits and claims increased primarily due to the growth in New Term business. Additionally, second quarter 2013 claims were consistent with historical experience and higher than the favorable experience in the second quarter of 2012. The effect of prior year reprocessed reinsurance transactions increased benefits and claims by approximately $6.0 million for the three months ended June 30, 2012 and did not reoccur during 2013.

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Amortization of DAC. The increase in amortization of DAC was primarily attributable to growth in New Term business along with the impact of higher agent compensation deferrals due to incentive program changes made in prior periods.
Insurance commissions. The decrease in insurance commissions was driven largely by a higher rate of commission deferrals consistent with agent incentive program changes.
Insurance expenses. The increase in insurance expenses is mainly due to higher premium-related taxes, licenses and fees, as well as the run-off of expense allowances received under the Citigroup reinsurance agreements. Also contributing to the increase was higher employee compensation costs.
Results for the Six Months Ended June 30, 2013 and 2012
Net premiums. Net premium growth was primarily driven by the factors impacting net premiums as discussed above in the three-month comparison.
Benefits and claims. Benefits and claims increased primarily due to the growth in net premiums consistent with discussion in the three-month comparison.
Amortization of DAC. The increase in amortization of DAC was primarily attributable to the items discussed above in the three-month comparison. Also, during the six months ended June 30, 2012, amortization of DAC included a reduction of approximately $2.0 million for commission payments previously incurred but not billed on in force business ceded to the Citigroup reinsurers, which did not reoccur in the first half of 2013.
Insurance commissions. The decrease in insurance commissions was consistent with the decrease discussed in the three-month comparison.
Insurance expenses. The increase in insurance expenses is mainly due to the factors discussed in the three-month comparison, as well as higher costs in support of our independent sales force and increased spending for information technology contracts.
Interest expense. Interest expense increased primarily due to the redundant reserve financing executed in March 2012.
Product Sales and Face Amount In Force. We issued 57,622 new policies during the three months ended June 30, 2013, compared to 60,583 new policies for the same period in 2012. We issued 107,978 new policies during the six months ended June 30, 2013, compared to 116,728 new policies for the same period in 2012. Sales of our term life insurance products were higher for the three and six months ended June 30, 2012 primarily attributable to strong recruiting in the first quarter of 2012.
The changes in the face amount of our in force book of term life insurance policies were as follows:

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in millions)							
Face amount in force, beginning of period	$670,414	$664,423	$5,991	1 %	$670,412	$664,955	$5,457	1 %
Issued face amount	17,798	18,307	(509)	(3)%	33,507	35,290	(1,783)	(5)%
Terminations	(13,139)	(14,322)	(1,183)	(8)%	(28,056)	(30,629)	(2,573)	(8)%
Foreign currency	(718)	(384)	(334)	87 %	(1,508)	(1,592)	84	(5)%
Face amount in force, end of period	$674,355	$668,024	$6,331	1 %	$674,355	$668,024	$6,331	1 %

For the three and six months ended June 30, 2013, issued face amount declined consistent with the decline in the number of policies issued. Terminations decreased in both the second quarter and first half of 2013 compared to the prior year periods as a result of modestly better persistency.

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Investment and Savings Product Segment Results. Investment and Savings Products segment results were as follows:

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in thousands)							
Revenues:								
Commissions and fees:								
Sales-based revenues	$51,838	$47,267	$4,571	10 %	$101,263	$91,726	$9,537	10 %
Asset-based revenues	49,436	43,750	5,686	13 %	96,864	87,472	9,392	11 %
Account-based revenues	9,589	9,494	95	1 %	19,043	18,867	176	1 %
Other, net	2,498	2,456	42	2 %	4,913	5,036	(123)	(2)%
Total revenues	113,361	102,967	10,394	10 %	222,083	203,101	18,982	9 %
Expenses:								
Amortization of DAC	3,876	2,880	996	35 %	6,768	6,103	665	11 %
Insurance commissions	2,330	2,252	78	3 %	4,605	4,401	204	5 %
Sales commissions:								
Sales-based	36,731	33,285	3,446	10 %	72,134	64,885	7,249	11 %
Asset-based	17,778	15,032	2,746	18 %	34,415	29,777	4,638	16 %
Other operating expenses	25,158	20,074	5,084	25 %	50,320	39,621	10,699	27 %
Total expenses	85,873	73,523	12,350	17 %	168,242	144,787	23,455	16 %
Income before income taxes	$27,488	$29,444	$(1,956)	(7)%	$53,841	$58,314	$(4,473)	(8)%

Supplemental information on the underlying metrics that drove results follows.

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in millions and accounts in thousands)							
Product sales:								
Retail mutual funds	$723	$590	$133	23 %	$1,435	$1,202	$233	19 %
Annuities and other	473	500	(27)	(5)%	954	929	25	3 %
Total sales-based revenue generating product sales	1,196	1,090	106	10 %	2,389	2,131	258	12 %
Managed accounts	58	40	18	45 %	114	63	51	81 %
Segregated funds and other	64	64	—	*	180	188	(8)	(4)%
Total product sales	$1,318	$1,194	$124	10 %	$2,683	$2,382	$301	13 %
Average client asset values:								
Retail mutual funds	$26,041	$23,724	$2,317	10 %	$25,606	$23,709	$1,897	8 %
Annuities and other	10,898	8,972	1,926	21 %	10,603	8,845	1,758	20 %
Managed accounts	786	326	460	141 %	719	269	450	167 %
Segregated funds	2,601	2,527	74	3 %	2,613	2,513	100	4 %
Total average client asset values	$40,326	$35,549	$4,777	13 %	$39,541	$35,336	$4,205	12 %
Average number of fee-generating accounts:								
Recordkeeping accounts	2,522	2,583	(61)	(2)%	2,529	2,585	(56)	(2)%
Custodial accounts	1,946	1,948	(2)	*	1,943	1,947	(4)	*

*Less than 1% or not meaningful

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Results for the Three Months Ended June 30, 2013 and 2012

Total revenues. The increase in commissions and fees was largely attributable to higher mutual fund sales driven by customer demand for these products in light of improved market performance. The rise in average client asset values, which was indicative of favorable market performance during the current quarter, also contributed to the increase in commissions and fees in the form of higher asset-based revenues.

Amortization of DAC. For the three months ended June 30, 2013, underperformance in Canadian markets in relation to our return expectations on client asset values resulted in higher DAC amortization attributable to lower anticipated future revenue on Canadian segregated funds.

Sales commissions. Higher sales-based commissions in the three months ended June 30, 2013 were primarily the result of the increase in sales-based revenues discussed above. The increase in asset-based commissions during the three months ended June 30, 2013 was consistent with the increase in asset-based revenues, when excluding segregated funds. The relevant costs associated with asset-based revenue from segregated funds are recorded within insurance commissions and amortization of DAC.

Other operating expenses. Other operating expenses increased primarily due to increased legal fees and expenses as well as growth-related costs. The increase in legal fees and expenses was primarily due to approximately $3.3 million of expenses recorded in the second quarter of 2013 attributable to defending claims alleged by certain participants in the Florida Retirement System's defined benefit plan. See Note 10 (Commitments and Contingent Liabilities) to our condensed consolidated financial statements for more information.

Results for the Six Months Ended June 30, 2013 and 2012

Total revenues. The increase in commissions and fees was driven mostly by the factors described in the three-month comparison along with higher fixed-indexed annuities sales, which were attributed to higher customer demand.

Sales commissions. Higher sales-based commissions in the six months ended June 30, 2013 were primarily the result of the increase in sales-based revenues discussed above. The increase in asset-based commissions during the six months ended June 30, 2013 was consistent with the increase discussed in the three-month comparison.

Other operating expenses. Other operating expenses increased due to the same factors discussed in the three-month comparison. The increase in legal fees and expenses was primarily due to approximately $7.2 million of expenses recorded in the first half of 2013 attributable to defending claims alleged by certain participants in the Florida Retirement System's defined benefit plan. See Note 10 (Commitments and Contingent Liabilities) to our condensed consolidated financial statements for more information.

Asset Values in Client Accounts

Changes in asset values in client accounts were as follows:

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	2012	$	%	2013	2012	$	%
	(Dollars in millions)							
Asset values, beginning of period	$39,853	$36,279	$3,574	10 %	$37,386	$33,664	$3,722	11 %
Inflows	1,318	1,194	124	10 %	2,683	2,382	301	13 %
Redemptions	(1,188)	(1,144)	44	4 %	(2,493)	(2,377)	116	5 %
Change in market value, net and other	183	(1,043)	1,226	*	2,590	1,617	973	60 %
Asset values, end of period	$40,166	$35,286	$4,880	14 %	$40,166	$35,286	$4,880	14 %

*Less than 1% or not meaningful

The increase in asset values for three and six months ended June 30, 2013 was primarily attributable to favorable market performance. The growth in inflows was consistent with the increase in sales volume for the quarter-to-date and year-to-date periods. The rate of redemptions relative to average client asset values for the three and six months ended June 30, 2013 remained consistent with the prior year period.

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Corporate and Other Distributed Products Segment Results. Corporate and Other Distributed Products segment results were as follows:

	Three months ended June 30, 2013	2012	Change $	%	Six months ended June 30, 2013	2012	Change $	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	$18,173	$19,743	$(1,570)	(8)%	$37,038	$38,623	$(1,585)	(4)%
Ceded premiums	(3,228)	(3,777)	(549)	(15)%	(5,978)	(7,381)	(1,403)	(19)%
Net premiums	14,945	15,966	(1,021)	(6)%	31,060	31,242	(182)	(1)%
Commissions and fees	5,994	6,248	(254)	(4)%	11,667	12,591	(924)	(7)%
Allocated net investment income	4,093	7,493	(3,400)	(45)%	10,639	17,960	(7,321)	(41)%
Realized investment gains (losses), including other-than-temporary impairment losses	3,468	4,321	(853)	(20)%	5,754	6,452	(698)	(11)%
Other, net	1,264	1,371	(107)	(8)%	2,533	2,847	(314)	(11)%
Total revenues	29,764	35,399	(5,635)	(16)%	61,653	71,092	(9,439)	(13)%
Benefits and expenses:								
Benefits and claims	8,082	8,941	(859)	(10)%	16,781	19,365	(2,584)	(13)%
Amortization of DAC	459	2,778	(2,319)	(83)%	954	2,153	(1,199)	(56)%
Insurance commissions	2,032	1,892	140	7%	4,624	4,662	(38)	(1)%
Insurance expenses	3,586	2,807	779	28%	6,883	5,534	1,349	24%
Sales commissions	3,129	3,158	(29)	(1)%	6,137	6,530	(393)	(6)%
Interest expense	4,543	4,125	418	10%	9,086	8,250	836	10%
Other operating expenses	19,872	20,372	(500)	(2)%	40,374	41,930	(1,556)	(4)%
Total benefits and expenses	41,703	44,073	(2,370)	(5)%	84,839	88,424	(3,585)	(4)%
Loss before income taxes	$(11,939)	$(8,674)	$3,265	38%	$(23,186)	$(17,332)	$5,854	34%

Results for the Three Months Ended June 30, 2013 and 2012

Total revenues. Total revenues decreased for the three months ended June 30, 2013 primarily due to lower net investment income. The decline in net investment income can be attributed to lower yield and higher allocation to the Term Life segment, as well as a decline in market value of the deposit asset underlying our 10% Reinsurance Agreement. Sharp rises in interest rates drove a reduction in the fair market value of securities held in the deposit asset, which resulted in a loss of approximately $1.1 million for the three months ended June 30, 2013. Lower net premiums on non-term life insurance policies underwritten by our New York subsidiary also contributed to the decline in total revenues.

Total benefits and expenses. The decrease in DAC amortization was attributable to estimate adjustments for the student life block of insurance products recognized in the prior year period with no such adjustments recorded in the current year period. The decrease in benefits and claims is primarily due to lower claims on non-term life insurance policies underwritten by our New York subsidiary.

Results for the Six Months Ended June 30, 2013 and 2012

Total revenues. Total revenues decreased for the six months ended June 30, 2013 primarily due to lower net investment income generated by a lower yield and higher allocation to the Term Life segment. Net investment income also decreased due to the loss recognized on the deposit asset underlying our 10% Reinsurance Agreement during the three months ended June 30, 2013. Lower commissions and fees resulting from the termination of our loan business also contributed to the decline in total revenues.

Total benefits and expenses. The decreases in benefits and claims and amortization of DAC for the six months ended June 30, 2013 are primarily due to the same factors discussed in the three-month comparison. Other operating expenses decreased year-over-year largely due to lower stock compensation costs related to the vesting

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of restricted stock granted in connection with our initial public offering, partially offset by charges related to the relocation to our new corporate headquarters and higher other compensation costs.

Financial Condition

Investments. We have an investment committee composed of members of our senior management team that is responsible for establishing and maintaining our investment guidelines and supervising our investment activity. We follow a conservative investment strategy designed to emphasize the preservation of our invested assets and provide adequate liquidity for the prompt payment of claims. To meet business needs and mitigate risks, our investment guidelines provide restrictions on our portfolio's composition, including limits on asset type, sector limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types. Additionally, to ensure adequate liquidity for payment of claims, we take into account the maturity and duration of our invested asset portfolio and our general liability profile.

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

The composition and duration of our portfolio will vary depending on several factors, including the yield curve and our opinion of the relative value among various asset classes. The average rating and average approximate duration of our fixed-maturity portfolio were as follows:

	June 30, 2013	December 31, 2012
Average rating of our fixed-maturity portfolio	A	A
Average duration of our fixed-maturity portfolio	3.9 years	3.9 years
Average book yield of our fixed-maturity portfolio	5.29%	5.32%

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

	June 30, 2013		December 31, 2012	
	Amortized cost	%	Amortized cost	%
	(Dollars in thousands)			
AAA	$277,306	17%	$317,104	18%
AA	122,576	8%	132,021	8%
A	363,077	23%	403,029	24%
BBB	738,773	47%	777,719	45%
Below investment grade	84,574	5%	88,422	5%
Not rated	2,050	*	1,049	*
Total	$1,588,356	100%	$1,719,344	100%

*Less than 1%

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

	June 30, 2013			
Issuer	Cost or amortized cost	Fair value	Unrealized gain	Credit rating
	(Dollars in thousands)			
Government of Canada	$32,844	$33,036	$192	AAA
General Electric Co	23,364	26,624	3,260	AA-
International Business Machines Corp	12,590	13,000	410	AA-
Province of Ontario Canada	9,993	11,121	1,128	AA-
Iberdrola SA	9,454	10,543	1,089	BBB
National Rural Utilities Cooperative	7,690	10,410	2,720	A+
Province of Quebec Canada	7,252	8,168	916	A+
Bank of America Corp	7,135	7,883	748	A-
ArcelorMittal	7,032	7,814	782	BB+
Vale SA	7,098	7,790	692	A-
Total – ten largest holdings	$124,452	$136,389	$11,937	
Total – fixed-maturity and equity securities	$1,619,441	$1,732,205		
Percent of total fixed-maturity and equity securities	8 %	8 %		

For additional information on our invested asset portfolio, see Note 3 (Investments) to our condensed consolidated financial statements.

Liquidity and Capital Resources

Dividends and other payments to us from our subsidiaries are our principal sources of cash. The amount of dividends paid by our subsidiaries is dependent on their capital needs to fund future growth and applicable regulatory restrictions. The primary uses of funds by the Parent Company include the payment of general operating expenses, the payment of dividends, and the payment of interest on outstanding debt. At June 30, 2013, the Parent Company had cash and invested assets of approximately $43.1 million.

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

Our distribution and underwriting of term life insurance place significant demands on our liquidity, particularly when we experience growth. We pay a substantial majority of the sales commission during the first year following the sale of a policy. Our underwriting activities also require significant cash outflows at the inception of a policy's term. However, we anticipate that cash flows from our businesses, including our existing block of term life policies and our investment and savings products, will continue to provide us with sufficient liquidity to meet our operating requirements over the next 12 months.

We may seek to enhance our liquidity position or capital structure through borrowings from third-party sources, sales of debt or equity securities, reserve financings or some combination of these sources. Additionally, we believe that cash flows from our businesses and potential sources of funding, as described above, will sufficiently support the long-term liquidity needs of the Company.

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Significant Transactions. On April 18, 2013, Primerica Life declared an ordinary dividend of $150.0 million to the Parent Company, which was paid in cash on May 7, 2013. Following the dividend payment, Primerica Life had ordinary dividend capacity of approximately $81.3 million for the remainder of 2013.

On June 3, 2013, we used funds from the ordinary dividend from Primerica Life, as well as other funds, to repurchase 2,488,621 shares of our common stock and warrants to purchase 4,103,110 shares of our common stock beneficially owned by certain private equity funds managed by Warburg Pincus LLC ("Warburg Pincus") at a purchase price of $34.67 per outstanding share and at a purchase price for the warrants equal to $16.67 per underlying share. The per-share purchase price was determined based on the closing price of our common stock on May 28, 2013, which was the execution date of the agreement to repurchase the shares, and the purchase price per warrant was equal to the per-share purchase price less the warrant exercise price of $18.00 per underlying share. The aggregate purchase price for the shares and warrants was approximately $154.7 million. Warburg Pincus no longer owns an equity interest in the Company.

Cash Flows. Cash flows from operating activities are affected primarily by the timing of premiums received, commissions and fees received, benefits paid, commissions paid to sales representatives, administrative and selling expenses, investment income, and cash taxes.

We typically generate positive cash flows from operating activities, as premiums, net investment income, commissions and fees collected from our insurance and investment and savings products exceed benefits, commissions and operating expenses paid, and we invest the excess.

The components of the change in cash and cash equivalents were as follows:

	Six months ended June 30,		Change
	2013	2012	$
	(In thousands)		
Net cash provided by (used in) operating activities	$52,504	$11,679	$40,825
Net cash provided by (used in) investing activities	129,544	126,748	2,796
Net cash provided by (used in) financing activities	(175,087)	(166,445)	8,642
Effect of foreign exchange rate changes on cash	(1,090)	2	(1,092)
Change in cash and cash equivalents	$5,871	$(28,016)	$33,887

Operating Activities. The change in operating cash flows compared with the prior year period was primarily driven by the timing of payments with reinsurers in our Term Life business in 2012.

Investing Activities. The increase in investing cash inflows as compared to the same period a year ago was primarily driven by higher maturities and lower purchases of fixed-maturity securities to accumulate cash to fund 2013 share repurchases. The increase was partially offset by purchases of property and equipment related to the move of our corporate headquarters in 2013.

Financing Activities. The increase in net cash used in financing activities was primarily due to higher quarterly shareholder dividends and higher share and warrant repurchases during the six months ended June 30, 2013. The increase was partially offset by payments for deferred financing costs related to the redundant reserve financing executed during the first quarter of 2012.

Notes Payable. On July 16, 2012, we publicly issued $375.0 million in principal amount of Senior Notes and used a portion of the net cash proceeds to repay a $300.0 million note to Citigroup in whole at a redemption price equal to 100% of the outstanding principal amount. We issued the Senior Notes at a price of 99.843% and an annual rate of 4.75%, payable semi-annually in arrears on January 15 and July 15. The Senior Notes mature July 15, 2022.

We were in compliance with the covenants of the Senior Notes at June 30, 2013. No events of default occurred during the six months ended June 30, 2013.

We calculate our debt-to-capital ratio by dividing total long-term debt by the sum of stockholders' equity and total long-term debt. As of June 30, 2013, our debt-to-capital ratio was 24.6%.

Rating Agencies. There have been no changes to Primerica, Inc.'s senior debt ratings or Primerica Life's financial strength ratings since December 31, 2012.

Risk-Based Capital. The NAIC has established risk-based capital ("RBC") standards for U.S. life insurers, as well as a risk-based capital model act (the "RBC Model Act") that has been adopted by the insurance regulatory authorities. The

RBC Model Act requires that life insurers annually submit a report to state regulators regarding their

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RBC based upon four categories of risk: asset risk; insurance risk; interest rate risk and business risk. The capital requirement for each is determined by applying factors that vary based upon the degree of risk to various asset, premiums and reserve items. The formula is an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action.

As of June 30, 2013, our U.S. life insurance subsidiaries had statutory capital substantially in excess of the applicable statutory requirements to support existing operations and to fund future growth.

In Canada, an insurer's minimum capital requirement is overseen by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and determined as the sum of the capital requirements for five categories of risk: asset default risk; mortality/morbidity/lapse risks; changes in interest rate environment risk; segregated funds risk and foreign exchange risk. Primerica Life Canada is in compliance with Canada's minimum capital requirements as of June 30, 2013, as determined by OSFI.

Short-term Borrowings. We had no short-term borrowings as of or during the six months ended June 30, 2013.

Off-Balance Sheet Arrangements. See Note 10 (Commitments and Contingent Liabilities) to our condensed consolidated financial statements for information regarding our letter of credit.

Contractual Obligations Update. There have been no material changes in contractual obligations from those disclosed in the 2012 Annual Report.

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," "v "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, 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 the investment grade credit ratings for our senior unsecured debt;
- 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;
- the failure of, or legal challenges to, the support tools we provide to our sales force;

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- heightened standards of conduct or more stringent licensing requirements for our sales representatives;
- inadequate policies and procedures regarding suitability review of client transactions;
- the inability of our subsidiaries to pay dividends or make distributions;
- our ability to generate and maintain a sufficient amount of working capital;
- our non-compliance with the covenants of our senior unsecured debt;
- legal and regulatory investigations and actions concerning us or our sales representatives;
- the loss of key personnel;
- the failure of our information technology systems, breach of our information security or failure of our business continuity plan; and
- fluctuations in Canadian currency exchange rates.

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 and debt securities.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in our exposures to market risk since December 31, 2012. For details on the Company's interest rate, foreign currency exchange, and credit risks, see "Item 7A. Quantitative and Qualitative Information About Market Risks" in our 2012 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.
We are involved from time to time in legal disputes, regulatory inquires and arbitration proceedings in the normal course of business. Additional information regarding certain legal proceedings to which we are a party is described in Note 10 (Commitments and Contingent Liabilities) to our condensed consolidated financial statements and such information is incorporated herein by reference. As of the date of this report, we do not believe any pending legal proceeding to which Primerica or any of its subsidiaries is a party is required to be disclosed pursuant to this item.

ITEM 1A. RISK FACTORS.
The Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2012 are incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.
During the quarter ended June 30, 2013, we repurchased shares of our common stock as follows:

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
April 1 - 30, 2013	357,424		$32.78	—	—
May 1 - 31, 2013	—		—	—	—
June 1 - 30, 2013	2,488,621		34.67	—	—
Total	2,846,045	(1)	$34.43	—	—

(1) Primarily consists of 2,488,621 shares of our outstanding common stock repurchased at $34.67 per share from certain private equity funds managed by Warburg Pincus LLC on June 3, 2013. The remaining shares represent those surrendered to us to pay the tax withholding obligations of employees in connection with the lapsing of restriction on restricted shares and restricted stock units.

ITEM 6. EXHIBITS.
The agreements included as exhibits to this report are included to provide you with information regarding the terms of these agreements and are not intended to provide any other factual or disclosure information about the Company or its subsidiaries, our business or the other parties to these agreements. These agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the application agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to our investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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

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Exhibit Number	Description	Reference
3.1	Restated Certificate of Incorporation of the Registrant.	Incorporated by reference to Exhibit 3.1 to Primerica’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (Commission File No. 001-34680).
3.2	Amended and Restated Bylaws of the Registrant.	Incorporated by reference to Exhibit 3.2 to Primerica’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (Commission File No. 001-34680).
4.1	Indenture, dated as of July 16, 2012, between Primerica, Inc. and Wells Fargo Bank, National Association, as trustee.	Incorporated by reference to Exhibit 4.1 to Primerica's Current Report on Form 8-K dated July 11, 2012 (Commission File No. 001-34680).
4.2	First Supplemental Indenture, dated as of July 16, 2012, between Primerica, Inc. and Wells Fargo Bank, National Association, as trustee.	Incorporated by reference to Exhibit 4.2 to Primerica's Current Report on Form 8-K dated July 11, 2012 (Commission File No. 001-34680).
4.3	Form of 4.750% Senior Notes due 2022.	Incorporated by reference to Exhibit 4.3 (included in Exhibit 4.2 filed herewith) to Primerica's Current Report on Form 8-K dated July 11, 2012 (Commission File No. 001-34680).
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by D. Richard Williams, Chairman of the Board and Co-Chief Executive Officer.	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by John A. Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer.	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
31.3	Rule 13a-14(a)/15d-14(a) Certification, executed by Alison S. Rand, Executive Vice President and Chief Financial Officer.	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by D. Richard Williams, Chairman of the Board and Co-Chief Executive Officer, John A. Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer, and Alison S. Rand, Executive Vice President and Chief Financial Officer.	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.INS*	XBRL Instance Document(1)	Furnished to the Securities and Exchange Commission as part of this Quarterly Report.
101.SCH*	XBRL Taxonomy Extension Schema	Furnished to the Securities and Exchange Commission as part of this Quarterly Report.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase	Furnished to the Securities and Exchange Commission as part of this Quarterly Report.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase	Furnished to the Securities and Exchange Commission as part of this Quarterly Report.
101.LAB*	XBRL Taxonomy Extension Label Linkbase	Furnished to the Securities and Exchange Commission as part of this Quarterly Report.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase	

Furnished to the Securities and Exchange Commission as part of this Quarterly Report.

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

[1] Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended June 30, 2013, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

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

	Primerica, Inc.
August 7, 2013	/s/ Alison S. Rand Alison S. Rand Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)