2008 Annual Report

A Letter from the Chairman and President

2008 was an outstanding year for Primary Financial Company LLC (Primary Financial). We experienced record earnings and growth, and returned more to our investors and co-brokers in 2008 than in any other year. We are proud that SimpliCD was a beacon of light for its investors, issuers and co-brokers during what was otherwise a very challenging financial year.

In 2003, our owners had the vision to unite and collectively offer a comprehensive brokered CD solution to credit unions. The wisdom of that decision was truly validated last year as we experienced explosive growth. Our net income reached nearly $4 million; we topped $8.8 billion in certificate sales and outstanding placements exceeded $8 billion. There is no doubt the SimpliCD light shined bright in 2008.

(L-R): Lew Lambert, Chairman President, Eagan Operations, Members United Corporate FCU; Mark Solomon, President and CEO, Primary Financial

Our success was a simple combination of several factors. Our owners, corporate credit unions, continued to rally around our signature SimpliCD product, helping us significantly expand market share among credit unions as a successful and trusted investment resource and an effective tool for generating liquidity.

Additionally, SimpliCD continued to pay investors competitive rates, making it a great complement to other offerings at corporate credit unions. SimpliCD also received a boost when, in October, the federal deposit insurance agencies expanded insurance coverage on deposits at insured institutions to $250,000 through 2009. The ability to place additional funds in a single institution allowed credit unions to increase earnings even more.

Board of Directors

(L-R): Lee Butke, President & CEO, Corporate One FCU; Kathy Garner, President - Northwest Regional Office, Southwest Corporate FCU; Greg Moore, President & CEO, Georgia Central CU

It is with much gratitude that we thank our corporate owners for their continued support. We'd also like to thank our board and staff for all of their hard work during a very robust year. It is because of this continued commitment along with the patronage of our thousands of credit union investors that we are confident as we look to a bright future in 2009.

Lew Lambert, Chairman
President, Eagan Operations, Members United Corporate FCU

Mark Solomon
President and CEO, Primary Financial

Rising to the Top

Primary Financial is a credit union service organization (CUSO) jointly owned by 27 corporate credit unions. Our owners, who also serve as co-brokers of our signature SimpliCD product, provide us with a proven successful infrastructure and delivery model. By leveraging their access to credit unions, our corporate owners have been able to make Primary Financial one of the most widely supported CUSOs in the country. As proof, more than 50 percent of the nation's credit unions have agreements in place with Primary Financial, and more than 40 percent of all U.S. credit unions conducted business with Primary Financial during 2008.

SimpliCD allows credit unions to either invest substantial funds securely in federally insured CDs or generate liquidity quickly by issuing CDs to a nationwide market of potential investors. SimpliCD is turnkey; offering investors and issuers an easy-to-use, hassle free experience complemented by superior service. Proudly, we managed the payment of more than $215 million in interest to investors in 2008, and helped credit unions generate more than $650 million in liquidity.

With one phone call to their corporate, credit unions can easily diversify their portfolios and earn competitive yields on federally insured jumbo certificates through SimpliCD. We do all of the work while investors receive free performance reviews, single transaction settlement and concise daily and monthly statements. Similarly, when financial institutions need liquidity quickly, one phone call is all that is needed to post their deposit offerings to our nationwide network of investors and generate funds.

In short, SimpliCD is the solution for financial institutions looking to manage CD investments in a simpler way while earning competitive rates or generating liquidity with ease.

2,224 issuer relationships

SimpliCD, Primary Financial's signature offering, is rising to the top of its class. A convenient and easy-to-use program with great rates promoted through a trusted network of resellers has proved to be a formula for success. SimpliCD's light could not be dimmed in 2008.

4,158 investor relationships

Fueling Success

More than 3,200 credit unions leveraged the power of SimpliCD in 2008. As cooperative partners that provide low-cost financial services, liquidity and payment products to credit unions across the nation, our corporate owners have stressed the value of the SimpliCD program.

When credit unions need to generate liquidity or diversify their portfolios and earn competitive yields, increasinglty they look to SimpliCD. SimpliCD continues to enhance our owners' investment offerings. It's turnkey, trusted and easy-to-use — but without the support of the corporates who sell it, SimpliCD wouldn't be the success it is today.

As a result of more credit unions investing with SimpliCD, the program becomes more appealing to issuers as well, as issuers can gain access to a larger pool of investors from which to generate funds. As the SimpliCD light grows brighter, it creates more opportunity for everyone involved.

Best of all, since our corporate credit union owners are owned by credit unions, Primary Financial's earnings further enrich the cooperative network, strengthening the credit union movement. As a result of our success in 2008, payments to our co-brokers increased by 350 percent over 2007, reaching more than $7 million last year, exclusive of our first capital distribution of $1.1 million.

When financial institutions participate in SimpliCD, they are tapping into a powerful network of relationships unlike any other that is geared to benefit everyone involved.

Helped credit unions generate

$650 million

in liquidity

Our unique infrastructure is a strategic strength, offering what no other brokered certificate of deposit program can offer — access to nearly every credit union in the country through a powerful network of corporate credit unions. Our owners are fueling our success for future prosperity.

Fees returned to co-brokers

$7.1 million

Interest paid to investors

$215 million

On the Horizon

2008 was a blockbuster year for Primary Financial. We placed more than $8.8 billion in certificates. As the year closed, we were managing $8 billion in assets, and achieved record net income of $3.9 million. The conditions that increased participation in SimpliCD remain present as we enter 2009, which should lead to another solid year.

Market conditions present opportunities in 2009 to experience a similar volume of activity as we experienced in 2008. As current economic challenges persist, the appeal of SimpliCD as a simple, profitable investment tool and resource for generating liquidity will continue to attract participation.

Primary Financial will focus on fostering relationships with our existing issuers as we also look to gain new ones. Additionally, we will further strengthen our relationships with investors by continuing the level of superior service to which they have become accustomed. We are intent on keeping the momentum from 2008 going well into the future for the benefit of our investors, issuers and, of course, our corporate credit union owners.

Primary Financial has a history of bright futures. With each passing year, we gain more ground, achieve more success and shine brighter than the year before. We expect nothing less in 2009.

Amount of assets under management

$8 billion

2008 certificate placements

$8.8 billion

Independent Auditors' Report

To the Board of Directors of
Primary Financial Company LLC

We have audited the balance sheets of Primary Financial Company LLC as of December 31, 2008 and December 31, 2007, and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Primary Financial Company LLC as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CONDIT AND ASSOCIATES LLC

February 27, 2009

Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Cash	$ 11,969,610	$ 4,344,162
Gross spreads receivable	18,033,647	5,635,508
Advances to customers	100,000	100,000
Goodwill and other intangible assets	4,051,336	3,688,304
Other assets	636,978	633,429
TOTAL ASSETS	$ 34,791,571	$ 14,401,403
Liabilities and Members' Equity		
Liabilities:		
Deferred spreads	$ 8,655,258	$ 2,564,926
Co-broker spreads payable	8,832,366	2,890,592
Amounts due to customers	6,962,638	1,887,280
Accounts payable and accrued expenses	825,257	322,922
TOTAL LIABILITIES	25,275,519	7,665,720
Members' Equity	9,516,052	6,735,683
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 34,791,571	$ 14,401,403

See accompanying notes to financial statements.

Statements of Operations

	Year Ended December 31, 2008	2007
Revenue		
Spread income:		
Gross spread income	$ 15,288,299	$ 4,054,226
Co-broker spread	(7,134,805)	(2,145,260)
NET SPREAD INCOME	8,153,494	1,908,966
Interest and other income	41,324	97,030
TOTAL REVENUE	8,194,818	2,005,996
Expenses		
Salaries and benefits	2,533,118	1,208,139
Office operations and occupancy	508,191	411,565
Settlement processing	495,245	146,197
Professional and other outside services	431,100	321,123
Other	256,795	208,256
TOTAL EXPENSES	4,224,449	2,295,280
NET INCOME (LOSS)	$ 3,970,369	$ (289,284)

See accompanying notes to financial statements.

Statements of Changes in Members' Equity

		Members' Equity
Balance at January 1, 2007	$	7,024,967
Net loss		(289,284)
Balance at December 31, 2007		6,735,683
Net income		3,970,369
Distribution to members ($10,000 per unit)		(1,190,000)
Balance at December 31, 2008	$	9,516,052

See accompanying notes to financial statements.

Statements of Cash Flows

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash flows from operating activities:		
Net income (loss)	$ 3,970,369	$ (289,284)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net amortization	60,826	86,508
Depreciation	145,758	145,169
Net change in:		
Gross spreads receivable	(12,397,729)	(2,102,873)
Advances to customers		(100,000)
Other assets	(83,354)	(64,874)
Deferred spreads	6,090,332	1,011,438
Co-broker spreads payable	5,941,750	1,115,091
Amounts due to customers	5,075,358	823,329
Accounts payable and accrued expenses	363,168	(165,702)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,166,478	458,802
Cash flows from investing activities:		
Payment of royalties to Corporate One	(285,076)	(71,640)
Purchase of property and equipment	(65,954)	(137,576)
Distribution to members	(1,190,000)	
NET CASH USED IN INVESTING ACTIVITIES	(1,541,030)	(209,216)
NET INCREASE IN CASH	7,625,448	249,586
CASH AT BEGINNING OF PERIOD	4,344,162	4,094,576
CASH AT END OF PERIOD	$ 11,969,610	$ 4,344,162

See accompanying notes to financial statements.

Notes to Financial Statements

(1) ORGANIZATION

Primary Financial Company LLC (the Company) is a multiple-member limited liability company and is a corporate credit union service organization (CUSO) of its members — 27 corporate credit unions. The Company was established in accordance with the regulations of the National Credit Union Administration (NCUA) and the Ohio Revised Code. Because of its structure, the Company is not subject to federal or state income tax.

The Company is registered with the State of Ohio as a licensed securities dealer. The Company brokers non-negotiable certificates of deposit through a turnkey program called SimpliCD, which enables its customers to invest in federally insured certificates of deposit. As part of this service, the Company places certificates and collects principal and interest on behalf of its customers. The Company earns a spread over the term of the certificates for performing the services of the SimpliCD program.

The Company sells SimpliCD via its co-broker network. The co-brokers, most of which are the corporate credit unions that are also the owners, earn a portion of the spread for certificates of deposit they sell.

The Company's office located at 3260 Middle Road, Columbus, Indiana, 47203, has been designated an Office of Supervisory Jurisdiction (OSJ) of CU Investment Solutions Inc. (ISI), a member of the Financial Industry Regulatory Authority (FINRA). As an OSJ, the Company is subject to the jurisdiction of the Securities and Exchange Commission under the Securities and Exchange Act of 1934.

Notes to Financial Statements

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(b) Cash

Cash represents demand deposits with Corporate One Federal Credit Union (Corporate One) and other financial institutions. At December 31, 2008 and 2007, demand deposits held in interest-bearing accounts at Corporate One totaled $814,000 and $3.88 million, respectively.

(c) Gross Spreads Receivable and Deferred Spreads

Gross spreads receivable represents the total amount of spread the Company expects to receive from the placement of certificates of deposit over the term of the certificates. This receivable is recorded upon placement of the certificates, along with the corresponding deferred spreads and co-broker spreads payable. The deferred spreads are recognized as revenue over the term of the certificates.

(d) Advances to Customers

The Company generally receives the proceeds of its customers' maturing certificates of deposit from the certificate issuer and remits the proceeds to the customer on the maturity date. Occasionally, there is a slight delay in the receipt of principal from the issuer. In those instances, as a service to its customers, the Company advances the principal to its customers.

(e) Goodwill and Identifiable Intangible Assets

The goodwill and identifiable intangible assets relate to the 2003 purchase of the Company from Corporate One. Goodwill is not amortizable but is subject to an annual impairment test. The annual impairment test involves comparing the fair value of the Company to its carrying amount. If the fair value exceeds the carrying amount, goodwill is considered not to be impaired. The fair value of the Company is an estimate, as no ready market exists for the ownership interests of the Company. Such estimate of fair value is calculated based upon the present value of estimated future cash flows. There were no impairment losses in 2008 or 2007. Identifiable intangible assets consist of acquired co-broker relationships and are amortized straight-line over their estimated useful lives of five years. Accumulated amortization of the identifiable intangible asset was $459,200 and $398,000 at December 31, 2008 and 2007, respectively. The identifiable intangible asset was fully amortized at December 31, 2008.

(f) Other Assets

Included in other assets are accounts receivable, prepaid accounts and fixed assets. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. Maintenance and repairs are expensed as incurred. Fixed assets at December 31 are summarized as follows:

	2008	2007
Equipment	$773,279	$707,325
Furniture and Fixtures	58,428	58,428
Total Cost	831,707	765,753
Less: Accumulated depreciation	410,237	294,770
Net Fixed Assets	$421,470	$470,983

(g) Co-broker Spreads Payable

Co-broker spreads payable represents the amount of spread the Company expects the co-brokers will earn over the life of the certificates sold by the co-brokers.

(h) Amounts Due to Customers

Amounts due to customers represents interest that the Company has received on behalf of its customers, but has not yet remitted to its customers.

(i) Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there currently are such matters that will have a material effect on the financial statements.

Notes to Financial Statements

(j) Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the year ended December 31, 2008. These reclassifications had no effect on revenue and net income (loss).

(3) RELATED PARTY TRANSACTIONS

In conjunction with the purchase of the business in 2003, the Company agreed to make additional payments to Corporate One, the seller. For 12 years from the purchase date, the Company agreed to pay Corporate One amounts above the spread it pays to corporate co-brokers for placements of certificates of deposit. The Company, for five years, also agreed to pay Corporate One a portion of the spread on all certificates placed by certain co-brokers that were placing certificates at the time of the purchase. This five-year period ended August 31, 2008. These additional payments are considered compensatory and are expensed as incurred. Such expense was $763,900 and $363,200 in 2008 and 2007, respectively, and is included in co-broker spread in the accompanying statements of operations. For 12 years from the purchase date, the Company also agreed to pay Corporate One a royalty on all other co-broker placements through the Company, including all placements by new co-brokers. These royalties are considered additional purchase consideration and have been recorded as additional goodwill. The total of such additional goodwill was $424,200 and $92,100 in 2008 and 2007, respectively.

Corporate One performs accounting and marketing services for the Company under a support services contract. The contract is a one-year contract with provisions for automatic annual renewals. Expense related to this agreement was $171,600 in 2008 and $165,000 in 2007.

(4) COMMITMENTS AND CONTINGENCIES

The Company and Corporate One have an agreement whereby Corporate One has extended an $8 million line of credit to the Company to be used to facilitate the settlement of customer transactions. The credit line is secured by the assets of the Company. The interest rate on the credit line is equal to the rate Corporate One charges other borrowers under similar lending agreements. At December 31, 2008 and 2007, no advances were outstanding on the credit line.

The Company leases various office facilities under operating leases that range in term from one to three years. The minimum annual rentals related to these agreements are as follows.

2009	$19,000
2010	19,000
2011	19,500

(5) NET CAPITAL REQUIREMENT

The Company, as a licensed securities dealer with the State of Ohio, is required to maintain net capital, as defined, of at least $25,000. The Company was in compliance with this requirement at December 31, 2008 and 2007.

(6) RETIREMENT PLANS

The Company's employees participate in a defined contribution plan in which the Company contributed a total of 11.5 percent of the participant's eligible compensation to the participant's account in the plan. Employees can also contribute a portion of their compensation on a pre- or post-tax basis. Retirement expense was approximately $152,000 in 2008 and $100,900 in 2007.

Primary Financial
a history of bright futures

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