Primary Financial

a history of bright futures

It's a new day

2010 Annual Report

A Letter from the Chairman and President

Dear Owners:

2010 was an important year for Primary Financial Company LLC (Primary Financial) and our corporate credit union owners. Changes to the corporate credit union landscape, including updates to the rules and regulations that govern corporate credit unions, required adjustments by all of us connected to the credit union movement. However, despite such changes, Primary Financial continued to be a valuable investment for our owners and those who rely on SimpliCD as an effective investment and liquidity solution.

Proudly, in spite of the changes in our industry, 2010 marked another successful year for Primary Financial. Thanks to support from our owners, and the continued support of our SimpliCD investors and issuers, Primary Financial ended the year in a strong financial position, earning more than $6.4 million in net income. We also ended the year with $6.8 billion in assets under management. As we look to the future, we see an opportunity for Primary Financial, and our signature SimpliCD product, to be an even more important resource to our owners as an effective off-balance-sheet investment solution and liquidity source for their members.

As an effective off-balance-sheet investment solution for our owners, SimpliCD is a trusted, convenient investment tool that can be leveraged without bloating balance sheet totals and negatively affecting important regulatory ratios. Additionally, SimpliCD serves as a valuable liquidity option for those who may need to generate funds quickly. As evidence of this, credit union outstanding placements increased more than 10 percent in 2010, and for the first time ever reached more than $1 billion.

Over the last 15 years, Primary Financial's strong national network has come to represent a stable source of funding for those looking for liquidity and investment options. But the true value of SimpliCD is the service we provide. We provide an expert staff that works on behalf of our owners and clients to achieve the results they need, and the results they deserve.

As a final note, in 2010 there were changes to Primary Financial's ownership structure. This was due to the National Credit Union Administration's (NCUA) conservation and subsequent liquidation of five corporate credit unions who, at the time, owned a portion of Primary Financial. This NCUA

Board of Directors
(left to right)

Lee Butke
President & CEO,
Corporate One FCU
Mark Solomon
President & CEO,
Primary Financial Company LLC
Jay Murray
President & CEO,
Mid-Atlantic Corporate FCU
Greg Moore
Chairman, Primary Financial
Board of Directors
President & CEO,
Georgia Central CU

action resulted in the involuntary transfer to the NCUA of the 36 units the five corporates formerly held in our company. In February 2011, working with the NCUA, we completed the process of redeeming those 36 units that were involuntarily transferred. While this change comes during a period of transition for all corporate credit unions, the good news for our owners is their ownership stake in Primary Financial has been enhanced by this transaction.

Our deepest appreciation goes to our owners for their continued support of Primary Financial and SimpliCD. We'd also like to thank our board and staff for their dedication to this company and their hard work on behalf of our owners and clients. Like many of you, Primary Financial is embracing the changes we witnessed in 2010; we are positive about the opportunities on the horizon, and ready to move forward and welcome the new day that is before us.

Greg S. Moore
Chairman, Primary Financial Board of Directors
President & CEO, Georgia Central CU

Mark D. Solomon
President and CEO,
Primary Financial Company LLC

The Value of Full Service

Primary Financial provides a proven-effective investment solution and liquidity option to credit unions and other financial institutions through our signature product—SimpliCD. For financial institutions looking for a convenient and turnkey option for investing substantial funds in federally insured certificates of deposits (CDs), or those needing to generate funds quickly, it doesn't get any easier than SimpliCD.

And that is the differentiating factor only SimpliCD can provide — ease of use. Unlike rate service providers, SimpliCD is a full service solution, created to provide financial institutions with a trusted investment and liquidity resource that provides a competitive yield as well as convenience. In 2010, despite being in a constricted market, we placed more than $4 billion in CD sales on behalf of our investors, which simultaneously generated more than $4 billion in liquidity for our issuers. This resulted in ending the year with more than $6.8 billion in outstanding placements. Best of all, investors and issuers who leveraged SimpliCD to meet their business needs did so effortlessly.

With SimpliCD, investors don't have to call or investigate multiple issuers to find competitive rates, nor do they have to do all the necessary work that coincides with managing such an investment; the professionals at Primary Financial do the work. We search our powerful network for the best rates and execute a single transaction settlement. Plus, each portfolio account is monitored, with comprehensive reports of holdings, settlement dates, rates and interest issued to investors.

Similarly, when financial institutions are in need of liquidity, one phone call allows them to issue CDs and publish rates to a nationwide network of potential investors. There is no hassle with SimpliCD, and no fee to see what other financial institutions are showing to attract investors. The work is done by the professionals at Primary Financial who shop the market for issuers. Additionally, Primary Financial can save issuers time and money. Instead of opening multiple accounts for multiple depositors, issuers only need to send one signature card and one interest check. Primary Financial handles the rest.

$4.0 billion in certificate of deposit placements in 2010

$6.8 billion in outstandings at December 31, 2010

$4.0 billion in liquidity raised for issuers in 2010

Cooperative Infrastructure with a National Reach

Primary Financial is one of the nation's leading credit union service organizations (CUSOs), and is jointly owned by 22 corporate credit unions. Our owners, along with other credit union-related entities, are co-brokers of SimpliCD, and serve to provide Primary Financial with a proven successful infrastructure and delivery model, offering what no other brokered certificate of deposit program can offer — access to nearly every credit union in the country.

As an effective off-balance-sheet investment solution and source of liquidity, SimpliCD is even more of a resource for our co-brokers and their members in today's changing regulatory environment. In fact, Primary Financial saw an increase in use from credit unions throughout 2010, which resulted in a 10 percent increase in outstandings from this target market alone, topping more than $1 billion last year. As a result of this continued growth, Primary Financial's payments to our co-brokers reached $9.5 million in 2010.

Primary Financial's entire network now includes more than 4,400 SimpliCD investors and 2,500 issuers who realize the power and profit of our program. More investors in SimpliCD are advantageous for our issuers, as issuers then have access to a larger pool of investors from which to generate funds while investors benefit from a program that offers competitive rates from issuers.

When co-brokers pair their marketing and sales efforts with our back office support, it's proven to be a perfect match. And, Primary Financial is confident that the future holds a host of opportunities for our owners, their members and financial institutions across the country. When financial institutions participate in SimpliCD they are tapping into a powerful network of relationships unlike any other that is proven to benefit everyone involved.

4,400 investor relationships at December 31, 2010

2,500 issuer relationships at December 31, 2010

$9.5 million in payments to co-brokers in 2010

A New Day

Our strategic focus on strengthening our relationships with our co-brokers, investors and issuers has proven beneficial for Primary Financial. With $6.4 million in net income and $6.8 billion in assets under management as of December 31, 2010, Primary Financial had a strong 2010.

Looking ahead, Primary Financial sees continued opportunity to grow our issuer and investor relationships. As a sound off-balance-sheet solution and source of liquidity, there is no doubt we will become a more critical resource for our co-brokers as we help them serve the liquidity and investing needs of their members. SimpliCD is an especially convenient and reliable liquidity resource, and an excellent alternative to tapping into lines of credit or taking out a loan. By issuing through the SimpliCD program, credit unions and other financial institutions are able to continue serving their member/clients by fulfilling their demands for liquidity. Additionally, with expanded coverage on deposits at insured institutions, investors can continue to place additional funds in a single institution through SimpliCD.

We remain committed to providing the superior service, competitive rates and ease of use that both our investors and issuers have come to expect. In 2011, Primary Financial will continue to work diligently to ensure SimpliCD is a successful investment and liquidity option for our co-brokers and clients, whose combined support fuels our success.

$6.49 million in net income in 2010

$6.8 billion in assets under management at December 31, 2010

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, 2010 and December 31, 2009, and the related statements of income, 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, 2010 and 2009, 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

March 8, 2011

Balance Sheets

	December 31,	
Assets	**2010**	**2009**
Cash and cash equivalents	$ 23,532,627	$ 17,427,311
Gross spreads receivable	20,434,173	22,848,009
Advances to customers	100,000	
Goodwill	5,215,108	4,738,279
Other assets	827,977	752,962
TOTAL ASSETS	$ 50,109,885	$ 45,766,561
Liabilities and Members' Equity		
Liabilities:		
Deferred spreads	$ 9,994,177	$ 10,936,275
Co-broker spreads payable	9,844,363	11,253,022
Amounts due to customers	5,066,191	4,803,516
Accounts payable and accrued expenses	449,612	509,548
TOTAL LIABILITIES	25,354,343	27,502,361
Members' Equity:		
Terminating member-owners	7,050,000	
Continuing member-owners	17,705,542	18,264,200
TOTAL MEMBERS' EQUITY	24,755,542	18,264,200
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 50,109,885	$ 45,766,561

See accompanying notes to financial statements.

Statements of Income

	Year ended December 31, 2010	2009
Revenue		
Spread income:		
Gross spread income	$ 19,882,244	$ 24,466,909
Co-broker spread	(9,531,433)	(11,246,336)
NET SPREAD INCOME	10,350,811	13,220,573
Interest and other income	49,487	12,484
TOTAL REVENUE	10,400,298	13,233,057
Expenses		
Salaries and benefits	1,997,614	2,571,115
Office operations and occupancy	492,171	524,729
Settlement processing	506,335	641,144
Professional and other outside services	751,297	537,391
Other	161,539	210,530
TOTAL EXPENSES	3,908,956	4,484,909
NET INCOME	$ 6,491,342	$ 8,748,148

Statements of Changes in Members' Equity

	Continuing Member-Owners	Terminating Member-Owners	Total Members' Equity
Balance at January 1, 2009	$ 9,516,052		$ 9,516,052
Net income	8,748,148		8,748,148
Balance at December 31, 2009	18,264,200		18,264,200
Net income	6,491,342		6,491,342
Terminating member-owners	(7,050,000)	$ 7,050,000	
Balance at December 31, 2010	$ 17,705,542	$ 7,050,000	$ 24,755,542

See accompanying notes to financial statements.

Statements of Cash Flows

	Year Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net income	$ 6,491,342	$ 8,748,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	156,403	145,805
Net change in:		
Gross spreads receivable	2,413,836	(4,814,362)
Advances to customers	(100,000)	100,000
Deferred spreads	(942,098)	2,281,017
Co-broker spreads payable	(1,408,659)	2,420,656
Amounts due to customers	262,675	(2,159,122)
Other, net	50,789	(459,115)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,924,288	6,263,027
Cash flows from investing activities:		
Payment of royalties to Corporate One	(476,611)	(771,912)
Purchase of property and equipment	(342,361)	(33,414)
NET CASH USED IN INVESTING ACTIVITIES	(818,972)	(805,326)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,105,316	5,457,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,427,311	11,969,610
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$23,532,627	$17,427,311

See accompanying 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), owned by its members — 22 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.

(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 and Cash Equivalents

Cash and cash equivalents include demand deposits with Corporate One Federal Credit Union (Corporate One) and other financial institutions plus short-term certificates of deposit. At December 31, 2010 and 2009, demand deposits held in interest-bearing accounts at Corporate One totaled $21.3 million and $16.8 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

The goodwill relates 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 2010 or 2009.

(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:

	2010	**2009**
Equipment	$ 1,136,117	$ 806,694
Furniture and fixtures	71,365	58,428
Total cost	1,207,482	865,122
Less: Accumulated depreciation	712,445	556,042
Net Fixed Assets	$ 495,037	$ 309,080

(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.

(j) Subsequent Event

Management has performed an analysis of activities and transactions subsequent to December 31, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2010. Management has performed such analysis through March 8, 2011. In September 2010, the NCUA announced the planned liquidations of five corporate credit unions, who were member-owners of the Company. This action by the NCUA resulted in an involuntary transfer of these members' 36 units of the Company to the NCUA. In accordance with the Operating Agreement, the Company notified the NCUA in November 2010 of its intent to exercise its rights to redeem such transferred units. On February 24, 2011, the Company completed the redemption by exchanging $7,050,000 for the 36 units.

(k) Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the year ended December 31, 2010. These reclassifications had no effect on revenues and net income.

(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. These additional payments are considered compensatory and are expensed as incurred. Such expense was $509,500 and $704,400 in 2010 and 2009, respectively, and is included in co-broker spread in the accompanying statements of income. Prior to March 2010, Corporate One earned 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 Company will continue to make royalty payments for all placements originated before March 2010. Such payments will continue until 2014. The total of such additional goodwill was $476,800 and $686,900 in 2010 and 2009, 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 $185,600 in 2010 and $178,500 in 2009.

(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, 2010 and 2009, 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.

2011	$ 25,453
2012	25,453
2013	26,414

(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, 2010 and 2009.

(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 $148,800 in 2010 and $153,500 in 2009.

Primary has non-qualified deferred compensation agreements with certain employees. Under such agreements the Company pays the premiums on life insurance policies that are owned by the employees. Under the terms of the agreements, though the employees own the policies, they are not fully vested in the cash value of such policies until 2021, and the unvested cash value is pledged to the Company under a collateral assignment. Expense associated with these agreements was $140,600 in 2010 and $102,500 in 2009.

In addition, the Company has a long-term retention agreement with an executive officer. Under the terms of the agreement, there are service and performance vesting provisions that, if met, provide for payout to the executive in 2017. Primary is accruing the expected cost of the agreement over the service period. Expense related to this agreement was $64,000 in 2010.

2010 Annual Report

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