

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

FORM 10-Q

(Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2019

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 001-38945

VERICITY, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

8700 W. Bryn Mawr Avenue, Suite 900S, Chicago Illinois
(Address of principal executive offices)

46-2348863

(I.R.S. Employer
Identification No.)

60631
(Zip Code)

Registrant's telephone number, including area code: (312) 288-0073

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name on each exchange on which registered</u>
Common Stock, Par Value \$0.001 per share	VERY	NASDAQ Capital Market

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. YES NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of Registrant's Common Stock outstanding as of November 14, 2019 was 14,875,000.

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Part 1. Financial Information
Item I. Financial Statements
Vericity, Inc.
Interim Condensed Consolidated Balance Sheets
(dollars in thousands)

	<u>September 30,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS:		
Investments:		
Fixed maturities – available-for-sale – at fair value (amortized cost; \$301,130 and \$304,303)	\$ 323,727	\$ 306,586
Equity securities – available-for-sale – at fair value (cost; \$104 and \$99)	104	99
Equity securities – trading – at fair value (cost; \$6,223 and \$6,328)	5,298	4,823
Short-term investments - at fair value (amortized cost; \$71,190 and \$0)	71,204	—
Mortgage loans (net of valuation allowances of \$53 and \$236)	53,112	50,830
Limited partnership interests	—	118
Policyholder loans	5,874	5,623
Total investments	<u>459,319</u>	<u>368,079</u>
Cash and cash equivalents	79,589	20,984
Accrued investment income	2,592	2,985
Reinsurance recoverable	134,073	136,601
Deferred policy acquisition costs	85,681	84,567
Commissions and agent balances (net of allowances of \$567 and \$562)	10,697	1,864
Intangible assets	1,655	1,716
Deferred income tax assets, net	7,584	10,663
Other assets	25,507	27,511
Total assets	<u><u>806,697</u></u>	<u><u>654,970</u></u>
LIABILITIES AND EQUITY:		
Liabilities:		
Future policy benefits and claims	334,558	320,397
Policyholder account balances	88,947	93,051
Other policyholder liabilities	22,363	25,738
Policy dividend obligations	11,656	9,383
Reinsurance liabilities and payables	6,297	6,167
Long-term debt	15,037	10,294
Short-term debt	3,840	3,072
Other liabilities	15,318	14,678
Total liabilities	<u>498,016</u>	<u>482,780</u>
Commitments and contingencies		
Equity:		
Common stock, \$.001 par value, 30,000,000 shares authorized, 14,875,000 shares, issued and outstanding	15	—
Additional paid-in capital	132,818	—
Retained earnings	165,757	174,558
Accumulated other comprehensive income (loss)	10,091	(2,368)
Total equity	<u>308,681</u>	<u>172,190</u>
Total liabilities and equity	<u><u>\$ 806,697</u></u>	<u><u>\$ 654,970</u></u>

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Operations
(dollars in thousands, except earnings per share)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(Unaudited)		(Unaudited)	
REVENUES:				
Net insurance premiums	\$ 24,424	\$ 22,360	\$ 73,304	\$ 65,462
Net investment income	4,177	3,817	11,678	11,281
Net realized investment (losses) gains	(213)	12	736	133
Earned commissions	4,540	3,420	13,435	10,115
Insurance lead sales	1,650	1,838	4,529	6,143
Other income	39	36	180	193
Total revenue	<u>34,617</u>	<u>31,483</u>	<u>103,862</u>	<u>93,327</u>
BENEFITS AND EXPENSES:				
Life, annuity, and health claim benefits	16,243	13,484	48,573	40,075
Interest credited to policyholder account balances	900	929	2,538	2,718
Operating costs and expenses	23,554	18,232	60,817	53,260
Amortization of deferred policy acquisition costs	3,029	2,714	9,551	8,330
Other expenses	20	40	62	123
Total benefits and expenses	<u>43,746</u>	<u>35,399</u>	<u>121,541</u>	<u>104,506</u>
(Loss) income from operations before income tax	(9,129)	(3,916)	(17,679)	(11,179)
Income tax (benefit) expense	(591)	(1,051)	(307)	(1,915)
Net (loss) income	<u>\$ (8,538)</u>	<u>\$ (2,865)</u>	<u>\$ (17,372)</u>	<u>\$ (9,264)</u>

Pro forma earnings per share for the periods

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(Unaudited)		(Unaudited)	
Weighted average shares outstanding	14,875,000	14,875,000	14,875,000	14,875,000
Basic earnings per share	\$ (0.57)	\$ (0.19)	\$ (1.17)	\$ (0.62)
Diluted earnings per share	\$ (0.57)	\$ (0.19)	\$ (1.17)	\$ (0.62)

The pro forma earnings per common share—basic and diluted—presented on the above Consolidated Statements of Operations and Comprehensive Income (Loss) is intended to depict the impact of the Conversion because neither Vericity, Inc., nor the Predecessor, had, prior to the Conversion, any outstanding common shares. The above table presents the pro forma net loss and weighted average common shares outstanding used in the computation of earnings per common share and earnings per common share – assuming dilution.

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(dollars in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(Unaudited)		(Unaudited)	
Net (loss) income	\$ (8,538)	\$ (2,865)	\$ (17,372)	\$ (9,264)
Comprehensive income (loss):				
Net unrealized gains (losses) on investments	3,153	(1,156)	12,459	(8,980)
Total comprehensive income (loss)	3,153	(1,156)	12,459	(8,980)
Total comprehensive (loss) income	<u>\$ (5,385)</u>	<u>\$ (4,021)</u>	<u>\$ (4,913)</u>	<u>\$ (18,244)</u>

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Changes in Equity
(dollars in thousands)

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
	(Unaudited)	
COMMON STOCK		
Balance – beginning of period	\$ —	\$ —
Common stock issued	15	—
Balance – end of period	<u>\$ 15</u>	<u>\$ —</u>
ADDITIONAL PAID-IN CAPITAL		
Balance – beginning of period	\$ —	\$ —
Proceeds net of offering costs	132,818	—
Balance – end of period	<u>\$ 132,818</u>	<u>\$ —</u>
RETAINED EARNINGS		
Balance – beginning of period	\$ 174,558	\$ 188,405
Cumulative effect adjustment from changes in accounting guidance, net of tax	8,571	—
Balance after adjustments – beginning of period	183,129	188,405
Net (loss) income	(17,372)	(9,264)
Balance – end of period	<u>\$ 165,757</u>	<u>\$ 179,141</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance – beginning of period	\$ (2,368)	\$ 7,798
Other comprehensive income (loss) attributable to the Company	12,459	(8,980)
Balance – end of period	<u>\$ 10,091</u>	<u>\$ (1,182)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 308,681</u>	<u>\$ 177,959</u>

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (17,372)	\$ (9,264)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization and other non-cash items	1,228	1,305
Interest credited to policyholder account balances	2,538	2,718
Deferred income tax	(233)	(1,943)
Realized investment gains	(736)	(133)
Interest expense	803	316
Change in:		
Trading securities	(268)	(288)
Accrued investment income	393	508
Reinsurance recoverable	2,528	3,851
Deferred policy acquisition costs	(1,114)	(2,309)
Commissions and agent balances	(263)	211
Other assets	(3,447)	(1,139)
Insurance liabilities	8,499	2,924
Other liabilities	707	(1,282)
Net cash (used) provided by operating activities	<u>(6,737)</u>	<u>(4,525)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales, maturities and repayments of:		
Fixed maturity securities	74,202	53,097
Equity securities	—	10
Mortgage loans	2,439	785
Limited partnerships	152	3,323
Purchases of:		
Fixed maturity securities	(71,012)	(46,969)
Short-term investments	(71,001)	—
Mortgage loans	(4,508)	(8,423)
Limited partnerships	(38)	—
Change in policyholder loans, net	(251)	321
Other investments, net	(3,406)	(3,599)
Net cash (used) provided by investing activities	<u>(73,423)</u>	<u>(1,455)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock in initial public offering, net of underwriting commission and offering costs	140,572	—
Debt issued	9,934	13,371
Debt repaid	(5,226)	(3,584)
Deposits to policyholder account balances	346	498
Withdrawals from policyholder account balances	(6,861)	(6,222)
Net cash provided (used) by financing activities	<u>138,765</u>	<u>4,063</u>
Net increase (decrease) in cash and cash equivalents	58,605	(1,917)
Cash and cash equivalents – beginning of period	20,984	11,766
Cash and cash equivalents – end of period	<u>\$ 79,589</u>	<u>\$ 9,849</u>
Supplemental cash flow information		
Non-cash transactions		
Cumulative effect adjustment from changes in accounting guidance, net of tax	\$ 8,571	—
Registration costs included in other assets at December 31, 2018	7,739	—

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Notes to Interim Condensed Consolidated Financial Statements
(dollars in thousands)

Note 1 – Summary of Significant Accounting Policies

Description of Business

Vericity, Inc. (the Company) is a Delaware corporation organized to be the stock holding company for Members Mutual Holding Company (Members Mutual) and its subsidiaries. On August 7, 2019, Vericity, Inc. completed the initial public offering of 14,875,000 shares of its common stock at a price of \$10.00 per share (the IPO). The IPO was conducted in connection with the conversion of Members Mutual from mutual to stock form and the acquisition by Vericity, Inc. of all of the capital stock of Members Mutual following its conversion to stock form after its plan of conversion and amended and restated articles of incorporation were approved at a special meeting of eligible members on August 6, 2019 (the Conversion). As a result of the Conversion, Vericity, Inc. became the holding company for converted Members Mutual and its indirect subsidiaries, including Fidelity Life Association (Fidelity Life) and Efinancial, LLC.

Vericity, Inc. operates as a holding company and currently has no other business operations. Fidelity Life is an Illinois-domiciled life insurance company that was founded in 1896. Fidelity Life markets life insurance products through independent and affiliated distributors and is licensed in the District of Columbia and all states, except New York and Wyoming. Efinancial, LLC (Efinancial) markets life and other products for non-affiliated insurance companies and sells life products for Fidelity Life.

The accompanying interim condensed consolidated financial statements present the accounts of Vericity, Inc. and subsidiaries for the three and nine months ended September 30, 2019 and September 30, 2018 and at September 30, 2019 and December 31, 2018. These interim condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2018. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Basis of Presentation

These interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated results of operations for the interim periods presented are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from this report, as is permitted by such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2018, and notes thereto, included in the Form S-1.

Use of Estimates

The preparation of interim condensed consolidated 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 those estimates. The more significant estimates employed in the preparation of the interim condensed consolidated financial statements include the determination of the valuation of investments in fixed maturities and equity securities, investment impairments, the valuation of deferred tax assets, future policy benefits and other policyholder liabilities.

Short-Term Investments

Short-term investments are classified as available-for-sale and are reported at fair value. Changes in fair value are reported as unrealized gains or losses and are a component of accumulated other comprehensive income (AOCI), net of applicable deferred income taxes. Fair value is based on quoted market prices, when available. When quoted market prices are not available, fair value is estimated by discounting fixed maturity securities cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments, and by independent pricing sources. See Note 7 for further discussion on inputs and assumptions used to estimate fair value.

Revenue Recognition

We adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 606”) on January 1, 2019. The majority of our revenue-generating arrangements are premiums received from insurance contracts and therefore are excluded from the scope of ASU 606. Life and health insurance contract premiums are recognized as income when due from policyholders. Deposits on deposit-type contracts are entered directly as a liability when cash is received.

Commission revenue from the sale of insurance products by Efinancial is recognized once the insurance policy is issued by the insurance company and accepted by the customer (policy placement) and recorded as commission receivable, net of any advances received. Provision is made for commission revenue that, based on experience, will ultimately not be earned due to the customer discontinuing the underlying insurance policy. Commission revenue that Efinancial earns from the sale of insurance products where Efinancial acts as the general agent (wholesale distribution) is recorded net of related commission expense paid to the writing agency.

Our primary revenue-generating arrangements that are within the scope of ASU 606 are our brokerage arrangements with third-parties. In these arrangements, our customer is the insurance carrier and we have a single performance obligation to place a policy for the insurance carrier. Our performance obligation is satisfied at the point in time when the policy is placed, which is the point in time when the customer obtains control over the policy and has the right to use and obtain the benefits from the policy. In these arrangements, depending on the number of years the policy is in force, a significant majority of our consideration is received in the first year. In addition to the first-year consideration, depending on the specific carrier and product involved, we may also be entitled to renewal commissions over the period of time the policy remains in force. Our consideration is variable based on the amount of time we estimate a policy will remain in force. We estimate the amount of variable consideration that we expect to receive based on our historical experience or carrier experience to the extent available, industry data and our expectations as to future persistency rates. Additionally, we consider application of the constraint and only recognize the amount of variable consideration that we believe is probable to be received and will not be subject to a significant revenue reversal. We monitor and update this estimate at each reporting date.

Because we recognize revenue prior to being entitled to the payment for these renewal commissions, we recognize a contract asset; however, we have determined that the amount of our contract asset is immaterial. Additionally, because our brokerage arrangements consist of a single performance obligation that is satisfied at the point in time that policies are placed, we do not have

any remaining performance obligations in our contracts with customers. We have evaluated our arrangements and concluded that none of our brokerage arrangements include a significant financing component, and therefore do not adjust revenue for the time value of money. We have determined that any contract costs (e.g., costs to obtain or costs to fulfill) related to our brokerage arrangements are immaterial.

Our Chief Operating Decision Maker makes decisions by analyzing our segment information, which is included in Note 10. For internal decision-making purposes and external reporting purposes, we do not disaggregate revenue beyond our segment information and believe that any further disaggregation is immaterial.

Insurance lead sales include the sale of potential life insurance customer leads to outside parties including agencies and unaffiliated insurers. Sales of leads are recorded at the time the lead data is transferred to the customer and recorded as a receivable, net of allowance for returns.

Accounting Standards Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The guidance is effective for interim and annual periods beginning after December 15, 2017. The core principle of the updated guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments, changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The standard excludes from its scope the accounting for insurance contracts, financial instruments, and certain other agreements that are governed under other GAAP guidance. The Company adopted the new revenue guidance effective January 1, 2019 using the modified retrospective approach.

The cumulative effect changes to the Interim Condensed Consolidated Balance Sheet for the adoption of the updated guidance on January 1, 2019 were as follows:

	<u>Balance at December 31,</u>	<u>Adoption Adjustment</u>	<u>Balance at January 1,</u>
	<u>2018</u>	<u>Topic 606</u>	<u>2019</u>
ASSETS:			
Commissions and agent balances	\$ 1,864	\$ 8,571	\$ 10,435
Deferred income tax assets, net	\$ 10,663	—	\$ 10,663
Retained earnings	\$ 174,558	\$ 8,571	\$ 183,129

The impact of adoption on the Interim Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and Interim Condensed Consolidated Balance Sheets as of September 30, 2019 were as follows:

	Three Months Ended September 30, 2019		
	Before Adoption Adjustment	Adoption Adjustment Effect	After Adoption Adjustment
REVENUES:			
Earned commissions	\$ 4,587	\$ (47)	\$ 4,540
Total revenue	34,664	(47)	34,617
(Loss) income from operations before income tax	\$ (9,082)	\$ (47)	\$ (9,129)
Income tax (benefit) expense	(591)	—	(591)
Net (loss) income	\$ (8,491)	\$ (47)	\$ (8,538)
Nine Months Ended September 30, 2019			
REVENUES:			
Earned commissions	\$ 13,283	\$ 152	\$ 13,435
Total revenue	103,710	152	103,862
(Loss) income from operations before income tax	\$ (17,831)	\$ 152	\$ (17,679)
Income tax expense (benefit)	(307)	—	(307)
Net (loss) income	\$ (17,524)	\$ 152	\$ (17,372)
As of September 30, 2019			
ASSETS:			
Commissions and agent balances	\$ 10,545	\$ 152	\$ 10,697
Deferred income tax assets, net	\$ 7,584	\$ —	\$ 7,584
LIABILITIES AND EQUITY:			
Liabilities	\$ —	\$ —	\$ —
Equity	\$ —	\$ —	\$ —
Retained earnings	\$ 165,605	\$ 152	\$ 165,757

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated guidance requires changes to the current financial instruments reporting model and is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company expects that the primary effects of the new guidance will be around the accounting for equity investments. All equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification for changes in fair value reported in other comprehensive income (loss) for equity securities with readily determinable fair values. Under the new guidance, changes in the fair value of equity securities will be reported as net realized investment gains (losses) in the Company's consolidated Statement of Operations.

Note 2 – Investments

The Company continuously monitors its investment strategies and individual holdings with consideration of current and projected market conditions, the composition of the Company's liabilities, projected liquidity and capital investment needs, and compliance with investment policies and state regulatory guidelines.

Available-for-Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses, fair value, and Other Than Temporary Impairments (OTTI) loss included in AOCI of fixed maturities available-for-sale are as follows:

	September 30, 2019				
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	OTTI Losses
Fixed maturities, available-for-sale					
U.S. government and agencies	\$ 16,308	\$ 2,272	\$ —	\$ 18,580	\$ —
U.S. agency mortgage-backed	40,295	1,136	(32)	41,399	—
State and political subdivisions	20,643	2,137	(1)	22,779	—
Corporate and miscellaneous	137,171	16,018	(707)	152,482	—
Foreign government	131	37	—	168	—
Residential mortgage-backed securities	7,075	491	(13)	7,553	(277)
Commercial mortgage-backed securities	19,724	1,077	(3)	20,798	—
Asset-backed securities	59,783	408	(223)	59,968	—
Total fixed maturities, available-for-sale	<u>\$ 301,130</u>	<u>\$ 23,576</u>	<u>\$ (979)</u>	<u>\$ 323,727</u>	<u>\$ (277)</u>

	December 31, 2018				
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	OTTI Losses
Fixed maturities, available-for-sale					
U.S. government and agencies	\$ 11,459	\$ 1,181	\$ (129)	\$ 12,511	\$ —
U.S. agency mortgage-backed	32,811	332	(562)	32,581	—
State and political subdivisions	23,334	694	(117)	23,911	—
Corporate and miscellaneous	155,372	5,972	(4,428)	156,916	—
Foreign government	131	11	—	142	—
Residential mortgage-backed securities	9,786	374	(75)	10,085	(269)
Commercial mortgage-backed securities	16,409	56	(313)	16,152	—
Asset-backed securities	55,001	117	(830)	54,288	—
Total fixed maturities, available-for-sale	<u>\$ 304,303</u>	<u>\$ 8,737</u>	<u>\$ (6,454)</u>	<u>\$ 306,586</u>	<u>\$ (269)</u>

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Maturities of mortgage-backed and asset-backed securities may be substantially shorter than their contractual maturity because they may require monthly principal installments and such loans may prepay principal. The amortized cost and fair value of fixed maturities available-for-sale by contractual maturity, are presented in the following table:

	September 30, 2019	
	Amortized Cost	Fair Value
Due in one year or less	\$ 11,853	\$ 12,005
Due after one year through five years	35,033	36,739
Due after five years through ten years	28,360	30,494
Due after ten years	98,829	114,593
Securities not due at a single maturity date — primarily mortgage and asset-backed securities	127,055	129,896
Total fixed maturities, available-for-sale	<u>\$ 301,130</u>	<u>\$ 323,727</u>

Fixed maturities with a carrying value of \$5,159 and \$4,273 were on deposit with governmental authorities as required by law at September 30, 2019 and December 31, 2018, respectively.

The Company's fixed maturities portfolio was primarily composed of investment grade securities, defined as a security having a rating of Aaa, Aa, A, or Baa from Moody's, AAA, AA, A, or BBB from Standard & Poor's, or National Association of Insurance Commissioners (NAIC) rating of NAIC 1 or NAIC 2. Investment grade securities comprised 98.2% and 94.0% of the Company's total fixed maturities portfolio at September 30, 2019 and December 31, 2018, respectively.

Short-Term Investments

The Company owns \$71,204 of U.S. Treasury bills which mature in the first quarter 2020. These bills were purchased after completion of the IPO and the amortized cost of these securities at September 30, 2019 was \$71,190.

Mortgage Loans

The Company makes investments in commercial mortgage loans. The Company, along with other investors, owns a pro rata share of each loan. The Company participates in 32 such investment instruments with ownership shares ranging from 3.1% to 30.0% of the trust at September 30, 2019. The Company owns a share of 292 mortgage loans with a loan average balance of \$182 and a maximum exposure related to any single loan of \$555. Mortgage loan holdings are diversified by geography and property type as follows:

	September 30, 2019		December 31, 2018	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Retail	\$ 17,103	32.2%	\$ 16,081	31.5%
Office	12,488	23.5%	12,446	24.4%
Industrial	8,635	16.2%	7,742	15.2%
Mixed use	6,296	11.8%	6,526	12.8%
Apartments	4,238	8.0%	4,118	8.1%
Medical office	3,191	6.0%	2,905	5.7%
Other	1,214	2.3%	1,248	2.3%
Gross carrying value of mortgage loans	53,165	100.0%	51,066	100.0%
Valuation allowance	(53)		(236)	
Net carrying value of mortgage loans	\$ 53,112		\$ 50,830	

	September 30, 2019		December 31, 2018	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	\$ 13,296	25.0%	\$ 12,223	23.9%
East North Central	12,196	22.7%	11,262	22.1%
South Atlantic	11,777	22.2%	12,105	23.7%
West North Central	4,339	8.2%	4,067	8.0%
Mountain	4,191	7.9%	4,357	8.5%
Middle Atlantic	2,852	5.4%	2,714	5.3%
East South Central	3,165	6.0%	2,903	5.7%
New England	137	0.3%	144	0.3%
Pacific	1,212	2.3%	1,291	2.5%
Gross carrying value of mortgage loans	53,165	100.0%	51,066	100.0%
Valuation allowance	(53)		(236)	
Net carrying value of mortgage loans	\$ 53,112		\$ 50,830	

During the nine months ended September 30, 2019 and 2018, \$4,508 and \$8,423 of new mortgage loans were purchased respectively, which did not include second lien mortgage loans. There were no taxes, assessments, or any amounts advanced that were not included in the mortgage loan balances at September 30, 2019 and December 31, 2018. At September 30, 2019, and December 31, 2018, the Company had 5 and 6 mortgage loans with a total carrying value of \$530 and \$617 that were in a restructured status, respectively. There were no impairments for mortgage loans at September 30, 2019 and December 31, 2018.

The changes in the valuation allowance for commercial mortgage loans were as follows:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018
Beginning balance	\$ 236	\$ 268
Net decrease in valuation allowance	(183)	(32)
Ending balance	<u>\$ 53</u>	<u>\$ 236</u>

At September 30, 2019 and December 31, 2018, the Company had no mortgage loans that were on nonaccrual status.

At September 30, 2019 and December 31, 2018, the Company had a commitment to make investments in mortgage loans in the amount of \$452 and \$4,397, respectively.

Limited Partnerships

In 2019, the Company sold all outstanding positions in limited partnerships, which were \$118 at December 31, 2018. The Company has no outstanding funding commitments as of September 30, 2019.

Net Investment Income

The sources of net investment income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest from:				
Fixed maturities - available-for-sale	\$ 3,171	\$ 3,423	\$ 9,613	\$ 10,241
Policyholder loans	80	85	292	242
Mortgage loans	715	551	1,999	1,603
Short-term investments	188	—	188	—
Cash and cash equivalents	284	34	390	87
Dividends on equity securities	107	106	314	299
Gross investment income	4,545	4,199	12,796	12,472
Investment expense	(368)	(382)	(1,118)	(1,191)
Net investment income	<u>\$ 4,177</u>	<u>\$ 3,817</u>	<u>\$ 11,678</u>	<u>\$ 11,281</u>

Investment expenses include investment management fees, some of which include incentives based on market performance, custodial fees and internal costs for investment-related activities.

Net Realized Investment (Losses) Gains

The sources of realized investment (losses) gains are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Investment (losses) gains from:				
Fixed maturities - available-for-sale	\$ 198	\$ (43)	\$ 351	\$ 207
Equity securities, trading	(440)	98	207	(107)
Mortgage loans	40	(35)	213	18
Limited partnerships	1	6	(4)	53
Investment expenses	(12)	(14)	(31)	(38)
Total net realized investment (losses) gains	<u>\$ (213)</u>	<u>\$ 12</u>	<u>\$ 736</u>	<u>\$ 133</u>

Other-Than-Temporary Declines in Fair Value

The Company regularly reviews its investments portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. A fixed maturity security is other-than-temporarily impaired if the fair value of the security is less than its amortized cost basis and the Company either intends to sell the fixed maturity security or it is more likely than not the

Company will be required to sell the fixed maturity security before recovery of its amortized cost basis. For all other securities in an unrealized loss position in which the Company does not expect to recover the entire amortized cost basis, the security is deemed to be other-than-temporarily impaired for credit reasons.

Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. The Company has developed a consistent methodology and has identified significant inputs for determining whether an OTTI loss has occurred. Some of the factors considered in evaluating whether a decline in fair value is other-than-temporary are the financial condition and prospects of the issuer, payment status, the probability of collecting scheduled principal and interest payments when due, credit ratings of the securities, and the duration and severity of the decline.

The credit loss component of a fixed maturity security impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists and the security is considered to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is determined to be other-than-temporarily impaired for credit reasons and is recognized as an OTTI loss in earnings. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized as OTTI in other comprehensive (loss) income.

A rollforward of the cumulative credit losses on fixed maturity securities are as follows:

	September 30, 2019	December 31, 2018
Beginning balance of credit losses on fixed maturity securities	\$ 828	\$ 828
Reduction of credit losses related to securities sold during period	—	—
Ending balance of credit losses on fixed maturity securities	<u>\$ 828</u>	<u>\$ 828</u>

Unrealized Losses for Fixed Maturities

The Company's fair value and gross unrealized losses for fixed maturities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous gross unrealized loss position are as follows:

September 30, 2019	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. agency mortgage-backed	\$ 1,612	\$ (3)	\$ 2,235	\$ (29)	\$ 3,847	\$ (32)
State and political subdivisions	258	(1)	—	—	258	(1)
Corporate and miscellaneous	4,497	(357)	3,044	(350)	7,541	(707)
Residential mortgage-backed	392	(12)	7	(1)	399	(13)
Commercial mortgage-backed	1,098	(3)	—	—	1,098	(3)
Asset-backed securities	24,053	(168)	1,559	(55)	25,612	(223)
Total fixed maturities	<u>\$ 31,910</u>	<u>\$ (544)</u>	<u>\$ 6,845</u>	<u>\$ (435)</u>	<u>\$ 38,755</u>	<u>\$ (979)</u>

	12 months or less		Longer than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities						
U.S. government and agencies	\$ 1,991	\$ (82)	\$ 1,469	\$ (47)	\$ 3,460	\$ (129)
U.S. agency mortgage-backed	11,420	(171)	12,565	(391)	23,985	(562)
State and political subdivisions	5,420	(63)	2,416	(54)	7,836	(117)
Corporate and miscellaneous	62,162	(3,359)	7,310	(1,069)	69,472	(4,428)
Residential mortgage-backed	4,667	(53)	621	(22)	5,288	(75)
Commercial mortgage-backed	4,948	(117)	4,357	(196)	9,305	(313)
Asset-backed securities	35,372	(703)	6,325	(127)	41,697	(830)
Total fixed maturities	<u>\$ 125,980</u>	<u>\$ (4,548)</u>	<u>\$ 35,063</u>	<u>\$ (1,906)</u>	<u>\$ 161,043</u>	<u>\$ (6,454)</u>

The indicated gross unrealized losses in all fixed maturity categories decreased to \$979 from \$6,454 at September 30, 2019 and December 31, 2018, respectively. Based on the Company's current evaluation of its fixed maturities in an unrealized loss position in accordance with our impairment policy, and the Company's current intentions regarding these securities, the Company concluded that these securities were not other-than-temporarily impaired.

Information and concentrations related to fixed maturities in an unrealized loss position are included below. The tables below include the number of fixed maturities in an unrealized loss position for greater than and less than 12 months and the percentage that were investment grade at September 30, 2019.

	Unrealized Losses 12 months or less				
	Total	Impairment is Less than 10% of Amortized Cost	Number of Securities Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	Percent Investment Grade
Fixed maturity securities					
U.S. agency mortgage-backed	5	5	—	—	100%
State and political subdivision	1	1	—	—	100%
Corporate and miscellaneous	18	14	4	—	33%
Residential mortgage-backed	3	3	—	—	—
Commercial mortgage-backed	3	3	—	—	67%
Asset-backed securities	39	39	—	—	92%
Total fixed maturities	<u>69</u>	<u>65</u>	<u>4</u>	<u>—</u>	

	Unrealized Losses greater than 12 months				
	Total	Impairment is Less than 10% of Amortized Cost	Number of Securities Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	Percent Investment Grade
Fixed maturity securities					
U.S. agency mortgage-backed	6	5	1	—	100%
Corporate and miscellaneous	7	6	1	—	29%
Residential mortgage-backed	1	1	—	—	—
Asset-backed securities	2	2	—	—	100%
Total fixed maturities	<u>16</u>	<u>14</u>	<u>2</u>	<u>—</u>	

Note 3 – Policy Liabilities

Future Policy Benefits

Future policy benefits represent the reserve for direct and assumed traditional life insurance policies and annuities in payout status.

The annuities in payout status are certain structured settlement contracts. The policy liability for structured settlement contracts of \$18,523 and \$16,145 at September 30, 2019 and December 31, 2018, respectively, is computed as the present value of contractually-specified future benefits. The amount included in the policy liability for structured settlements that are life contingent at September 30, 2019 and December 31, 2018, is \$13,573 and \$11,258, respectively.

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of \$4,453 and \$2,001 is included as part of the liability for structured settlements with respect to this deficiency at September 30, 2019 and December 31, 2018, respectively. The offset to this liability is recorded as a reduction of the unrealized capital gains included in AOCI.

Participating life insurance in force was 17.5% and 21.9% of the face value of total life at September 30, 2019 and December 31, 2018, respectively.

Note 4 – Reinsurance

The Company uses reinsurance to mitigate exposure to potential losses, provide additional capacity for growth, and provide greater diversity of business. For ceded reinsurance, the Company remains liable to the extent that reinsuring companies may not be able to meet their obligations under the reinsurance agreements. To manage the risk from failure of a reinsurer to meet its obligations, the Company periodically evaluates the financial condition of all of its reinsurers. No amounts have been recorded in the nine months ended September 30, 2019 and 2018 for amounts anticipated to be uncollectible or for the anticipated failure of a reinsurer to meet its obligations under the contracts.

Reinsurance recoverable is as follows:

	September 30, 2019	December 31, 2018
Ceded future policy benefits	\$ 114,965	\$ 117,035
Claims and other amounts recoverable	19,108	19,566
Ending balance	<u>\$ 134,073</u>	<u>\$ 136,601</u>

The reconciliation of direct premiums to net premiums is as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2019	2018	2019	2018
Direct premiums	\$ 37,462	\$ 35,999	\$ 111,190	\$ 105,590
Assumed premiums	6,776	5,987	18,686	15,125
Ceded premiums	(19,814)	(19,626)	(56,572)	(55,253)
Net insurance premiums	<u>\$ 24,424</u>	<u>\$ 22,360</u>	<u>\$ 73,304</u>	<u>\$ 65,462</u>

Net policy charges on universal life products were \$42, \$38, \$126 and \$126, for the three and nine months ended September 30, 2019 and 2018, respectively, and are included in other income.

At September 30, 2019 and December 31, 2018, reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately \$79,641 and \$83,299, respectively, and are included with policyholder account balances in the consolidated balance sheets.

Note 5 – Executive Compensation Plan

After completion of the IPO, unvested outstanding awards from the Company's long-term incentive plan (LTIP) which covered certain members of management and the Company's Board of Directors became fully vested. In the third quarter 2019, all LTIP related liabilities were paid to all eligible participants and the plan was terminated.

Note 6 – Closed Block

The Closed Block was formed at October 1, 2006 and contains all participating policies issued or assumed by Fidelity Life. The assets and future net cash flows of the Closed Block are available only for purposes of paying benefits, expenses and dividends of the Closed Block and are not available to the Company, except for an amount of additional funding that was established at the inception of the Closed Block. The additional funding was designed to protect the block against future experience, and if the funding is not required for that purpose, is subject to reversion to the Company in the future. Any reversion of Closed Block assets to the Company must be approved by the Illinois Department of Insurance (IDOI).

In October 2011, the IDOI approved a reversion of a portion of the initial funding that the Company had determined was not required to fund the Closed Block. The carrying value of the assets transferred from the Closed Block on October 31, 2011, the date of transfer, was \$4,397.

The assets and liabilities within the Closed Block are included in the Company's consolidated financial statements on the same basis as other accounts of the Company. The maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at September 30, 2019 and December 31, 2018 is \$9,757 and \$9,541 of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience, respectively.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block, which is referred to as the actuarial calculation. The actuarial calculation projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the actuarial calculation as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. At September 30, 2019 and December 31, 2018, the Company recognized a policyholder dividend obligation of \$11,656 and \$9,383, respectively, resulting from the excess of actual cumulative earnings over the expected cumulative earnings and from accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block.

The impacts on the Company's comprehensive (loss) income from recognizing a policyholder dividend obligation are as follows:

	September 30, 2019	December 31, 2018
Actual cumulative (loss) income earnings over expected cumulative earnings	\$ (8,835)	\$ (8,668)
Income tax (benefit) expense	(1,855)	(1,820)
Net (loss) income impact	(6,980)	(6,848)
Accumulated net unrealized investment (losses) gains	(2,821)	(715)
Income tax (benefit) expense	(592)	(150)
Other comprehensive (loss) income impact	(2,229)	(565)
Comprehensive (loss) income impact	<u>\$ (9,209)</u>	<u>\$ (7,413)</u>

Information regarding the Closed Block liabilities (assets) designated to the Closed Block is as follows:

	September 30, 2019	December 31, 2018
Closed Block Liabilities		
Future policy benefits and claims	\$ 47,364	\$ 58,468
Policyholder account balances	7,680	8,147
Other policyholder liabilities	2,264	3,856
Policyholder dividend obligations	11,656	9,383
Other (assets) liabilities	(1,071)	(1,061)
Total Closed Block liabilities	67,893	78,793
Assets Designated to the Closed Block		
Investments		
Fixed maturity securities - available-for-sale (amortized cost \$36,164 and \$34,631, respectively)	40,616	36,104
Policyholder loans	1,245	1,321
Total investments	41,861	37,425
Cash and cash equivalents	2,317	2,664
Premiums due and uncollected	2,182	2,595
Accrued investment income	428	450
Reinsurance recoverable	25,933	36,900
Deferred income tax assets, net	3,460	5,314
Total assets designated to the Closed Block	76,181	85,348
Excess of Closed Block assets over liabilities	8,288	6,555
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains (losses), net of income tax	3,517	1,164
Allocated to policyholder dividend obligations, net of income tax	(2,228)	(565)
Total amounts included in accumulated other comprehensive income	1,289	599
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of \$9,757 and \$9,541, respectively)	\$ (6,999)	\$ (5,956)
Policyholder Dividend Obligations		
	September 30, 2019	December 31, 2018
Beginning balance	\$ 9,383	\$ 11,097
Impact from earnings allocable to policyholder dividend obligations	167	47
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	2,106	(1,761)
Ending balance	\$ 11,656	\$ 9,383

Information regarding the Closed Block revenues and expenses is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Life insurance premiums	\$ 1,158	\$ 1,054	\$ 3,941	\$ 4,626
Net investment income	381	398	1,167	1,215
Realized investment gains	88	1	88	37
Total revenues	<u>1,627</u>	<u>1,453</u>	<u>5,196</u>	<u>5,878</u>
Benefits and expenses:				
Life and annuity benefits - including policyholder dividends of \$145, \$562, \$814 and \$1,208, respectively	1,338	789	3,828	3,948
Interest credited to policyholder account balances	48	54	146	156
General operating expenses	(250)	(43)	(99)	288
Total expenses	<u>1,136</u>	<u>800</u>	<u>3,875</u>	<u>4,392</u>
Revenues, net of expenses before provision for income tax expense	<u>491</u>	<u>653</u>	<u>1,321</u>	<u>1,486</u>
Income tax expense (benefit)	<u>103</u>	<u>137</u>	<u>277</u>	<u>312</u>
Revenues, net of expenses and provision for income tax expense	<u>\$ 388</u>	<u>\$ 516</u>	<u>\$ 1,044</u>	<u>\$ 1,174</u>

The Company charges the Closed Block with federal income taxes and state and local premium taxes, policy maintenance costs and investment management expenses relating to the Closed Block as provided in the Closed Block Memorandum.

The following table presents the amortized cost and fair value of the Closed Block fixed maturity securities portfolio by contractual maturity at September 30, 2019. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
Due in one year or less	\$ 3,598	\$ 3,629
Due after one year through five years	6,259	6,482
Due after five years through ten years	6,339	6,846
Due after ten years	18,506	22,187
Securities not due at a single maturity date — primarily mortgage and asset-backed securities	1,462	1,472
Total fixed maturities	<u>\$ 36,164</u>	<u>\$ 40,616</u>

Note 7 – Commitments and Contingencies

Litigation

The Company is subject to legal and regulatory actions in the ordinary course of its business. Management does not believe such litigation will have a material impact on the Company's interim condensed consolidated financial statements. The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible but not probable or, is probable but not reasonably able to be estimated, no accrual is established, but the matter, if material, is disclosed. We believe there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Federal Home Loan Bank of Chicago

The Company is a member of the Federal Home Loan Bank of Chicago (FHLBC). As a member, the Company is able to borrow on a collateralized basis from FHLBC which can be used as an alternative source of liquidity. FHLBC membership requires the Company to own member stock. At September 30, 2019, the Company held \$104 of FHLBC common stock which allows the Company to borrow up to \$2,311. Interest on borrowed funds is charged at variable rates established from time to time by FHLBC and depending on the borrowing option selected at the time of the borrowing. No amounts have been borrowed from the FHLBC as of September 30, 2019 and December 31, 2018.

Note 8 – Assets and Liabilities Measured at Fair Value

Fair value is the estimated price that would be received to sell assets in an orderly transaction between market participants at the measurement date. The Company attempts to establish fair value as an exit price consistent with transactions taking place under normal market conventions. The Company utilizes market observable information to the extent possible and seeks to obtain quoted market prices for all securities. If quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates including discounted cash flow models, prices from recently executed transactions of similar securities, or broker/dealer quotes.

Fair values for the Company's fixed maturities and equity securities are determined by management, utilizing prices obtained from third-party pricing services. Management reviews on an ongoing basis the reasonableness of the methodologies used by the pricing services to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. The main procedure the Company employs in fulfillment of this objective includes back-testing transactions, where past fair value estimates are compared to actual transactions executed in the market on similar dates.

The Company's assets and liabilities have been classified into a three-level hierarchy based on the priority of the inputs to the respective valuation technique. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and Level 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices for identical assets in active markets the Company can access. Level 1 assets include securities that are traded in an active exchange market.

Level 2 — This level includes fixed maturities priced principally by independent pricing services using observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most corporate debt securities and U.S. government and agency mortgage-backed securities that are valued by models using inputs that are derived principally from or corroborated by observable market data. Level 2 instruments also include a private placement equity fund.

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid assets for which significant inputs are unobservable in the market, such as structured securities and private placement bonds, that require significant management assumptions or estimation in the fair value measurement.

This hierarchy requires the use of observable market data when available.

Certain assets and liabilities are not carried at fair value on a recurring basis, including investments such as mortgage loans, intangible assets, future policy benefits excluding term life reserves and policyholder account balances. Accordingly, such items are only included in the fair value hierarchy disclosure when the items are subject to re-measurement at fair value after initial recognition (for example, when there is evidence of impairment) and the resulting re-measurement is reflected in the consolidated financial statements at the reporting date.

Recurring and Non-Recurring Fair Value Measurements

The Company's assets that are carried at fair value on a recurring and non-recurring basis, by fair value hierarchy level, are as follows:

September 30, 2019	Level 1	Level 2	Level 3	Total Fair Value
Recurring fair value measurements				
Financial instruments recorded as assets:				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ —	\$ 18,580	\$ —	\$ 18,580
U.S. agency mortgage-backed	—	41,399	—	41,399
State and political subdivisions	—	22,779	—	22,779
Corporate and miscellaneous	1,599	150,883	—	152,482
Foreign government	—	168	—	168
Residential mortgage-backed securities	—	7,553	—	7,553
Commercial mortgage-backed securities	—	20,798	—	20,798
Asset-backed securities	—	56,755	3,213	59,968
Total fixed maturities available-for-sale	1,599	318,915	3,213	323,727
Short-term investments	71,204	—	—	71,204
Equity securities, available-for-sale	—	104	—	104
Equity securities, trading	5,298	—	—	5,298
Total recurring assets	\$ 78,101	\$ 319,019	\$ 3,213	\$ 400,333
December 31, 2018				
Recurring fair value measurements				
Financial instruments recorded as assets:				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ —	\$ 12,510	\$ —	\$ 12,510
U.S. agency mortgage-backed	—	32,582	—	32,582
State and political subdivisions	—	23,911	—	23,911
Corporate and miscellaneous	1,637	142,507	12,773	156,917
Foreign government	—	142	—	142
Residential mortgage-backed securities	—	10,085	—	10,085
Commercial mortgage-backed securities	—	16,151	—	16,151
Asset-backed securities	—	53,366	922	54,288
Total fixed maturities available-for-sale	1,637	291,254	13,695	306,586
Short-term investments	—	—	—	—
Equity securities, available-for-sale	—	99	—	99
Equity securities, trading	4,823	—	—	4,823
Total recurring assets	\$ 6,460	\$ 291,353	\$ 13,695	\$ 311,508

Summary of Significant Valuation Techniques for Assets and Liabilities on a Recurring Basis

Level 1 securities include principally exchange-traded funds that are valued based on quoted market prices for identical assets.

All the fair values of the Company's fixed maturities, and equity securities within Level 2 are based on prices obtained from independent pricing services. All of the Company's prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type and region of the world, based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type and region. For fixed maturities that do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications which incorporate a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and U.S. Treasury curves. Specifically, for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Securities with validated quotes from pricing services are reflected within Level 2 of the fair value hierarchy, as they generally are based on observable pricing for similar assets or other market significant observable inputs.

Level 3 fair value classification consists primarily of investments in private placement securities where the fair value of the security is determined by a pricing service using spread matrix pricing which incorporates a discounted cash flow model where one or more of the significant inputs is unobservable in the marketplace. The remaining securities in Level 3 consist of corporate bonds whose fair values are determined by pricing models where there is a lack of transparency to one or more significant inputs, or broker/dealer quotes. The fair value of a broker-quoted asset is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant. The Company does not adjust broker quotes when used as the fair value measurement for an asset. At September 30, 2019, the Company held 3 securities priced using a broker/dealer quote that was within Level 3. The fair value of Level 3 liabilities is estimated on the discounted cash flow of contractual payments.

If the Company believes the pricing information received from third-party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. Historically, the Company has not challenged or updated the prices provided by third-party pricing services. However, any such updates by a pricing service to be more consistent with the presented market observations, or any adjustments made by the Company to prices provided by third-party pricing services would be reflected in the balance sheet for the current period.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). Net transfers in and/or out of Level 3 are reported as having occurred at the beginning of the period and are based on observable inputs received from pricing sources; therefore, all realized and unrealized gains and losses on these securities for the period are reflected in the table that follows. A summary of changes in fair value of Level 3 assets held at fair value on a recurring basis is as follows:

	Balance at January 1, 2019	Total gains (losses) included in:					Net Transfers	Balance at September 30, 2019
		Net Income (loss)	OCI	Purchases	Sales	Settlements		
Financial Assets								
Fixed maturities, available-for-sale								
Corporate and miscellaneous	\$ 12,773	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (12,773)	\$ —
Asset-backed securities	922	—	6	2,500	—	(215)	—	3,213
Total assets	<u>\$ 13,695</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ 2,500</u>	<u>\$ —</u>	<u>\$ (215)</u>	<u>\$ (12,773)</u>	<u>\$ 3,213</u>

	Balance at January 1, 2018	Total gains (losses) included in:					Net Transfers	Balance at December 31, 2018
		Net Income (loss)	OCI	Purchases	Sales	Settlements		
Financial Assets								
Fixed maturities, available-for-sale								
Corporate and miscellaneous	\$ 22,290	\$ —	\$ (607)	\$ —	\$ —	\$ (7,660)	\$ (1,250)	\$ 12,773
Asset-backed securities	1,000	—	—	—	—	(78)	—	922
Total assets	<u>\$ 23,290</u>	<u>\$ —</u>	<u>\$ (607)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (7,738)</u>	<u>\$ (1,250)</u>	<u>\$ 13,695</u>

The total change in unrealized investment gains (losses) presented in the preceding table represents unrealized gains (losses) only for the current year during which the applicable financial instruments were classified as Level 3. Securities may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. As a result of obtaining new observable market information, there were 29 transfers out of Level 3 into Level 2 in 2019 compared to 1 transfer in 2018. There were no transfers between other levels.

The following presents quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Valuations for assets and liabilities not presented in the tables below are primarily based on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. The quantitative detail of these unobservable inputs is neither provided nor reasonably available to the Company at the period presented.

September 30, 2019	Fair Value	Valuation technique	Unobservable Input(s)	Range (Weighted Average)
Asset-backed securities	\$ 3,213	Evaluated Pricing	Direct Observations & Observed Comparables	N/A
December 31, 2018	Fair Value	Valuation technique	Unobservable Input(s)	Range (Weighted Average)
Corporate and miscellaneous	\$ 12,773	Matrix pricing	Spreads off benchmark yields	99-110 bps (102 bps)

For the fixed maturities, an increase in spreads off benchmark yields would result in a lower fair value measurement.

Financial Instruments not Measured at Fair Value

The carrying amount and estimated fair values of the Company's financial instruments that are not measured at fair value on the consolidated balance sheets are as follows:

September 30, 2019	Carrying Value	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	\$ 53,112	\$ —	\$ —	\$ 49,972	\$ 49,972
Policyholder loans	5,874	—	—	7,695	7,695
Cash and cash equivalents	79,589	79,589	—	—	79,589
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	21,263	—	—	19,191	19,191
Long/short-term debt	18,877	—	—	21,438	21,438
Policyholder account balances	88,947	—	—	91,652	91,652
December 31, 2018	Carrying Value	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	\$ 50,830	\$ —	\$ —	\$ 46,629	\$ 46,629
Policyholder loans	5,623	—	—	7,355	7,355
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	18,774	—	—	17,090	17,090
Long/short-term debt	13,366	—	—	12,992	12,992
Policyholder account balances	93,051	—	—	88,513	88,513

The following methods and assumptions were used to estimate the fair value of these financial assets and liabilities.

Mortgage Loans — Fair value was based on the discounted value of future cash flows for all first mortgage loans adjusted for specific loan risk. The discount rate was based on the rate that would be offered for similar loans at the reporting date. Fair value excludes \$3,193 and \$3,262 of second and mezzanine mortgages carried at cost which fair value is not measurable at September 30, 2019 and December 31, 2018, respectively.

Policyholder Loans — Fair value of policyholder loans are estimated using discounted cash flows using risk-free interest rates with no adjustment for borrower credit risk as these loans are fully collateralized by the cash value of the underlying insurance policy.

Future Policy Benefits and Policyholder Account Balances — For deposit liabilities with interest rate guarantees greater than one year or with defined maturities, the fair value was estimated by calculating an average present value of expected cash flows over a broad range of interest rate scenarios using the current market risk-free interest rates adjusted for spreads required for publicly traded bonds issued by comparably rated insurers. For deposit liabilities with interest rate guarantees of less than one year, the fair value was based on the amount payable on demand at the reporting date.

Long/short-term debt — Fair value was calculated using the discounted value of future cash flows method. The discount rate was based on the rate that is commensurable to the level of risk. The carrying amounts reported on the consolidated balance sheets has been divided in to short and long-term based upon expected maturity dates.

Note 9 – Long and Short-term Debt

The Company originally entered into a financing arrangement with an external party in January 2018, from which the Company receives an advanced commission-based payment for certain insurance segment term policies sold through the Agency segment, in exchange for a level commission that is paid by the Company over the period the policy remains in-force. The Company's arrangement with the external party allows the Company to finance up to \$23,000 of commission. At September 30, 2019 and December 31, 2018, the Company had a net advance of \$17,560 and \$13,366, respectively, under this arrangement. At September 30, 2019, the Company expects to pay back the aggregate amounts as presented in the following table.

Due in one year or less	\$	3,840
Due after one year through two years		2,360
Due after two years through three years		2,143
Due after three years through four years		1,993
Due after four years through five years		1,880
Due after five years		14,804
Less discount		(8,143)
Total long/short-term debt	\$	<u>18,877</u>

Note 10 – Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), net of taxes are as follows:

	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized (Losses) Gains on Other Investments	Total
Balance at January 1, 2019	\$ 362	\$ (2,730)	\$ (2,368)
Other comprehensive income (loss)	—	15,772	15,772
Income tax (expense) benefit	—	(3,313)	(3,313)
Other comprehensive income (loss), net of tax	—	12,459	12,459
Balance at September 30, 2019	<u>\$ 362</u>	<u>\$ 9,729</u>	<u>\$ 10,091</u>

	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized (Losses) Gains on Other Investments	Total
Balance at January 1, 2018	\$ 362	\$ 7,436	\$ 7,798
Other comprehensive (loss) income	—	(11,367)	(11,367)
Income tax benefit (expense)	—	2,387	2,387
Other comprehensive (loss) income, net of tax	—	(8,980)	(8,980)
Balance at September 30, 2018	<u>\$ 362</u>	<u>\$ (1,544)</u>	<u>\$ (1,182)</u>

Note 11 – Business Segments

The Company's current operations were organized into three reportable segments: Insurance, Agency, and Corporate.

The Insurance segment is composed of three broad lines consisting of Direct Life, Closed Block, and Assumed Life and Annuities. Direct Life and the Closed Block are distinct operations; the assumed business and the small amount of structured settlements are all blocks in runoff from a prior management arrangement.

The Agency segment includes the insurance distribution operations of the Company and includes commission revenue from the sale of Fidelity Life products.

The Corporate segment includes certain expenses that are corporate expenses or that will benefit the overall organization and are not allocated to a segment. This segment also recognizes investment income on cash and invested assets held mainly as a result of the IPO.

All intercompany accounts and transactions have been eliminated in consolidation, including any profit or loss from the sale of Insurance segment products through the Agency segment.

The segment results are as follows:

	Three Months Ended September 30, 2019					Three Months Ended September 30, 2018				
	Insurance	Agency	Corporate	Eliminations	Total Consolidated	Insurance	Agency	Corporate	Eliminations	Total Consolidated
Net insurance premiums	\$ 24,424	\$ -	\$ -	\$ -	\$ 24,424	\$ 22,360	\$ -	\$ -	\$ -	\$ 22,360
Net investment income	3,792	-	476	(91)	4,177	3,839	-	81	(103)	3,817
Net realized investment (losses) gains	(213)	-	-	-	(213)	12	-	-	-	12
Earned commissions from external customers	-	4,540	-	-	4,540	-	3,420	-	-	3,420
Intersegment earned commissions	-	5,035	-	(5,035)	-	-	7,625	-	(7,625)	-
Other income	39	1,650	-	-	1,689	36	1,838	-	-	1,874
Total revenues	28,042	11,225	476	(5,126)	34,617	26,247	12,883	81	(7,728)	31,483
Life and annuity benefits	17,143	-	-	-	17,143	14,413	-	-	-	14,413
Operating costs and expenses	8,851	13,577	4,216	(3,090)	23,554	7,059	13,029	1,340	(3,196)	18,232
Amortization of deferred policy acquisition costs	4,256	-	-	(1,227)	3,029	3,835	-	-	(1,121)	2,714
Amortization of intangible assets	-	20	-	-	20	-	40	-	-	40
Total benefits and expenses	30,250	13,597	4,216	(4,317)	43,746	25,307	13,069	1,340	(4,317)	35,399
(Loss) income from operations before income tax	\$ (2,208)	\$ (2,372)	\$ (3,740)	\$ (809)	\$ (9,129)	\$ 940	\$ (186)	\$ (1,259)	\$ (3,411)	\$ (3,916)

	Nine Months Ended September 30, 2019					Nine Months Ended September 30, 2018				
	Insurance	Agency	Corporate	Eliminations	Total Consolidated	Insurance	Agency	Corporate	Eliminations	Total Consolidated
Net insurance premiums	\$ 73,304	\$ -	\$ -	\$ -	\$ 73,304	\$ 65,462	\$ -	\$ -	\$ -	\$ 65,462
Net investment income	11,328	-	651	(301)	11,678	11,355	-	211	(285)	11,281
Net realized investment (losses) gains	736	-	-	-	736	133	-	-	-	133
Earned commissions from external customers	-	13,435	-	-	13,435	-	10,115	-	-	10,115
Intersegment earned commissions	-	16,874	-	(16,874)	-	-	22,158	-	(22,158)	-
Other income	180	4,529	-	-	4,709	193	6,143	-	-	6,336
Total revenues	85,548	34,838	651	(17,175)	103,862	77,143	38,416	211	(22,443)	93,327
Life and annuity benefits	51,111	-	-	-	51,111	42,793	-	-	-	42,793
Operating costs and expenses	24,330	39,073	7,350	(9,936)	60,817	21,345	38,836	3,766	(10,687)	53,260
Amortization of deferred policy acquisition costs	12,930	-	-	(3,379)	9,551	11,691	-	-	(3,361)	8,330
Amortization of intangible assets	-	62	-	-	62	-	123	-	-	123
Total benefits and expenses	88,371	39,135	7,350	(13,315)	121,541	75,829	38,959	3,766	(14,048)	104,506
(Loss) income from operations before income tax	\$ (2,823)	\$ (4,297)	\$ (6,699)	\$ (3,860)	\$ (17,679)	\$ 1,314	\$ (543)	\$ (3,555)	\$ (8,395)	\$ (11,179)

	September 30, 2019				December 31, 2018			
	Insurance	Agency	Corporate	Total Consolidated	Insurance	Agency	Corporate	Total Consolidated
Total investments, cash and cash equivalents	\$ 397,129	\$ 1,924	\$ 139,855	\$ 538,908	\$ 386,254	\$ 590	\$ 2,219	\$ 389,063
Commissions and agent balances	(14,275)	24,972	-	10,697	(13,160)	15,024	-	1,864
Deferred policy acquisition costs	85,681	-	-	85,681	84,567	-	-	84,567
Intangible assets	-	1,655	-	1,655	-	1,716	-	1,716
Reinsurance recoverable	134,073	-	-	134,073	136,601	-	-	136,601
Deferred income tax (liabilities) assets, net	(9,299)	-	16,883	7,584	(6,548)	-	17,211	10,663
Other	22,381	3,255	2,463	28,099	18,468	2,584	9,444	30,496
Total assets	\$ 615,690	\$ 31,806	\$ 159,201	\$ 806,697	\$ 606,182	\$ 19,914	\$ 28,874	\$ 654,970

The Company's investment in equity method investees and the related equity income is attributable to the Corporate segment.

All the Company's significant revenues and long-lived assets are located in the United States, which is the Company's country of domicile.

Note 12 – Subsequent Events

On November 6, 2019, the Company announced that its Board of Directors had declared a special one-time cash distribution of \$6.25 per share to common stockholders of record on November 21, 2019, to be paid on December 6, 2019. Based on the current number of shares outstanding, the cash distribution is expected to total approximately \$93 million. The cash distribution was declared after the completion of a capital needs assessment undertaken by Vericity, Inc. management at the direction of the Board of Directors following the closing of the Company's IPO.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Forward-Looking Statements

This Form 10-Q contains "forward-looking" statements that are intended to enhance the reader's ability to assess our future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. In addition, statements that refer to our future financial performance, anticipated growth and trends in our business and in our industry and other characterizations of future events or circumstances are forward-looking statements. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different.

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs with respect to, among other things, future events and financial performance. Except as required under the federal securities laws, we do not intend, and do not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

The forward-looking statements include, among other things, those items listed below:

- future economic conditions in the markets in which we compete that could be less favorable than expected and could have impacts on demand for our products and services;
- our ability to grow and develop our Agency business through expansion of retail call centers, wholesale operations and other areas of opportunity;
- our ability to grow and develop our insurance business and successfully develop and market new products;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or organically;
- financial market conditions, including, but not limited to, changes in interest rates and the level and trends of stock market prices causing a reduction of investment income or realized losses and reduction in the value of our investment portfolios;
- increased competition in our businesses, including the potential impacts of aggressive price competition by other insurance companies, payment of higher commissions to agents that could affect demand for our insurance products and impact the ability to grow and retain agents in our Agency segment and the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products and services;
- the effect of legislative, judicial, economic, demographic and regulatory events in the jurisdictions where we do business;
- the effect of challenges to our patents and other intellectual property;
- costs, availability and collectability of reinsurance;
- the potential impact on our reported net income that could result from the adoption of future Accounting Standards issued by the Financial Accounting Standards Board or other standard-setting bodies;
- the inability to maintain or grow our strategic partnerships or our inability to realize the expected benefits from our relationship with the standby purchaser;
- the inability to manage future growth and integration of our operations; and
- changes in industry trends and financial strength ratings assigned by nationally recognized rating organizations.

You should review carefully the section captioned "Risk Factors" in our Form S-1 declared effective by the Securities and Exchange Commission on June 20, 2019 (File No. 333-231952), for a complete discussion of the material risks of an investment in our common stock.

Overview

We provide life insurance protection targeted to the middle American market. We believe there is a substantial unmet need for life insurance, particularly among domestic households with annual incomes of between \$50,000 and \$125,000, a market we refer to as our target Middle Market. We differentiate our product and service offerings through innovative product design and sales processes, with an emphasis on rapidly issued products that are not medically underwritten at the time of sale.

We conduct our business through our two operating subsidiaries, Fidelity Life, an Illinois-domiciled life insurance company, and Efinancial, a call center-based insurance agency. Efinancial sells Fidelity Life products through its own call center distribution platform, independent agents and other marketing organizations. Efinancial, in addition to offering Fidelity Life products, sells insurance products of unaffiliated carriers. We report our operating results in three segments: Agency, Insurance and Corporate.

Agency Segment

This segment primarily consists of the operations of Efinancial. Efinancial is a call center-based insurance agency that markets life insurance for Fidelity Life and unaffiliated insurance companies. Efinancial's primary operations are conducted through employee agents from two call center locations, which we refer to as our retail channel. In addition, Efinancial operates as a wholesale agency, assisting independent agents that seek to produce business for the carriers that Efinancial represents, which we refer to as our wholesale channel. The agency segment's main source of revenue is commissions earned on the sale of insurance policies sold through our retail and wholesale channels. Efinancial also generates data and click-through revenue (reported as part of Insurance Lead Sales on the related Statements of Operations) through its eCoverage web presence.

Agency segment expenses consist of marketing costs to acquire potential customers, salary and bonuses paid to our employee agents, salary and other costs of employees involved in managing the underwriting process for our insurance applications, sales management, agent licensing, training and compliance costs. Other Agency segment expenses include costs associated with financial and administrative employees, facilities rent, and information technology. After payroll, the most significant Agency segment expense is the cost of acquiring leads. We partially offset our sales leads expense through advertising revenues from individuals who click on specific advertisements while viewing one of our web pages, and through the resale of leads that are not well suited for our call center.

Insurance Segment

This segment consists of the operations of Fidelity Life. Fidelity Life underwrites primarily term life insurance through Efinancial and a diverse group of independent insurance distributors. Fidelity Life specializes in life insurance products that can be issued immediately or within a short period following a sales call, using non-medical underwriting at the time of policy issuance.

Fidelity Life engages in the following business lines:

Core Life - Our core life insurance business is the primary business of the insurance segment. Core life represents a significant portion of the insurance business written by Fidelity Life since it resumed independent operations in 2005. Our core life business consists of inforce policies that are considered to be of high strategic importance to Fidelity Life.

NonCore Life - Our noncore life business consists of: products that are currently being marketed but are not deemed to be of high strategic importance to the Company; inforce policies from product lines introduced since Fidelity Life resumed independent operations in 2005, but were subsequently discontinued; and an older annuity block of business that was not included in the Closed Block.

Closed Block - Our Closed Block represents all inforce participating insurance policies of Fidelity Life. The Closed Block was established in connection with our 2007 reorganization into a mutual holding company structure.

Annuities and Assumed Life. We have assumed reinsurance commitments with respect to annuity contract-holder deposits and a block of life insurance contracts that were ceded by former affiliates of Fidelity Life. On March 29, 2019, one of these former affiliates recaptured the majority of the assumed block of life business. The annuity deposits were ceded to Fidelity Life through two contracts entered into in the early 1990s. These annuity and assumed life deposits are now largely in runoff, with only minor amounts of new deposits each year. There are minimal remaining surrender charges associated with the assumed annuity contracts.

Insurance segment revenues consist of net insurance premiums, net investment income, and net realized gains (losses) on investments. We recognize premium revenue from our policyholders. We purchase reinsurance coverage to help manage the risk on our insurance policies by paying, or ceding, a portion of the policyholder premiums to the reinsurance company. Our net insurance premiums reflect amounts collected from policyholders, plus premiums assumed under reinsurance agreements less premiums ceded to reinsurance companies. Net investment income represents primarily interest income earned on fixed maturity security investments. We also realize gains and losses on sales of investment securities.

Insurance segment expenses consist of benefits paid to policyholders or their beneficiaries under life insurance policies. Benefit expenses also include additions to the reserve for future policyholder benefits to recognize our estimated future obligations under the policies. Benefit expenses are shown net of amounts ceded under our reinsurance contracts. Our insurance segment also incurs policy acquisition costs that consist of commissions paid to agents, policy underwriting and issue costs and variable sales costs. A portion of these policy acquisition costs are deferred and expensed over the life of the insurance policies acquired during the period. In addition to policy acquisition costs, we incur expenses that vary based on the number of contracts that we have in-force, or variable policy administrative costs. These variable costs consist of expenses paid to third-party administrators based on rates for each policy administered. Our insurance operations also incur overhead costs for functional and administrative staff to support insurance operations, financial reporting and information technology.

Corporate Segment

The results of this segment consist of net investment income and realized investment gains (losses) earned on nominal invested assets. We also include certain corporate expenses that are not allocated to our other segments, including expenses of Vericity, Inc., board expenses, executive management time spent on corporate matters, and financial reporting and auditing costs related to our consolidation and internal controls.

Critical Accounting Policies

Our critical accounting policies are described in Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our Interim Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q as well as the Company's Form S-1. The accounting policies discussed in this section are those that we consider to be the most critical to an understanding of our Interim Condensed Consolidated Financial Statements. The preparation of the Interim Condensed Consolidated Financial Statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures. We regularly evaluate our estimates and judgments based on historical experience, market indicators and other relevant factors and circumstances. Actual results may differ from these estimates under different assumptions or conditions and may affect our financial position and results of operations.

Results of Operations

The major components of operating revenues, benefits and expenses and net (loss) income were as follows:

Vericity, Inc. Consolidated Results of Operations (dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Net insurance premiums	\$ 24,424	\$ 22,360	\$ 73,304	\$ 65,462
Net investment income	4,177	3,817	11,678	11,281
Net realized investment (losses) gains	(213)	12	736	133
Earned commissions	4,540	3,420	13,435	10,115
Insurance lead sales	1,650	1,838	4,529	6,143
Other income	39	36	180	193
Total revenues	<u>34,617</u>	<u>31,483</u>	<u>103,862</u>	<u>93,327</u>
Benefits and Expenses				
Life, annuity, and health claim benefits	16,243	13,484	48,573	40,075
Interest credited to policyholder account balances	900	929	2,538	2,718
Operating costs and expenses	23,554	18,232	60,817	53,260
Amortization of deferred policy acquisition costs	3,029	2,714	9,551	8,330
Other expenses	20	40	62	123
Total benefits and expenses	<u>43,746</u>	<u>35,399</u>	<u>121,541</u>	<u>104,506</u>
(Loss) income before income taxes	(9,129)	(3,916)	(17,679)	(11,179)
Income tax (benefit) expense	(591)	(1,051)	(307)	(1,915)
Net (loss) income	<u>\$ (8,538)</u>	<u>\$ (2,865)</u>	<u>\$ (17,372)</u>	<u>\$ (9,264)</u>

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Total Revenues

For the three months ended September 30, 2019, total revenues were \$34.6 million compared to \$31.5 million for the three months ended September 30, 2018. This increase of \$3.1 million resulted from higher net insurance premiums and earned commissions primarily due to a shift in business from intersegment to external distributors, partially offset by lower net realized investment (losses) gains and a decrease in insurance lead sales.

Benefits and Expenses

For the three months ended September 30, 2019, total benefits and expenses were \$43.7 million compared to \$35.4 million for the three months ended September 30, 2018. This increase of \$8.3 million was primarily due to higher operating costs and expenses which includes \$5.9 million of accelerated vesting of incentive compensation related to the completion of the IPO, life, annuity, and health claim benefits and amortization of deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the three months ended September 30, 2019, we had a loss before taxes of \$9.1 million compared to a loss before taxes of \$3.9 million for the three months ended September 30, 2018. The higher loss of \$5.2 million was due to increased insurance operating costs and expenses, life, annuity, and health claim benefits, higher amortization of deferred policy acquisition and lower net realized investment gains and losses, partially offset by net insurance premiums.

Nine months ended September 30, 2019 Compared to the Nine months ended September 30, 2018

Total Revenues

For the nine months ended September 30, 2019, total revenues were \$103.9 million compared to \$93.3 million for the nine months ended September 30, 2018. This increase of \$10.6 million resulted from higher net insurance premiums, higher earned commissions primarily due to a shift in business from intersegment to external distributors and higher net realized investment gains, partially offset by a decrease in insurance lead sales.

Benefits and Expenses

For the nine months ended September 30, 2019, total benefits and expenses were \$121.5 million compared to \$104.5 million for the nine months ended September 30, 2018. This increase of \$17.0 million was primarily due to higher life, annuity, and health claim benefits, operating costs and expenses which includes \$5.9 million of accelerated vesting of incentive compensation related to the completion of the IPO, and amortization of deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2019, we had a loss before taxes of \$17.7 million compared to a loss before taxes of \$11.2 million for the nine months ended September 30, 2018. This increased loss of \$6.5 million was due to higher life, annuity, and health claim benefits, operating costs and expenses and amortization of deferred policy acquisition costs, partially offset by an increase in net insurance premiums and earned commissions.

Analysis of Segment Results

Reconciliation of Segment Results to Consolidated Results

The following analysis reconciles the reported segment results to the Vericity, Inc. total consolidated results. The main difference was the intercompany eliminations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
(Loss) income before income taxes by segment				
Agency operations	\$ (2,372)	\$ (186)	\$ (4,297)	\$ (543)
Insurance operations	(2,208)	940	(2,823)	1,314
Corporate operations	(3,740)	(1,259)	(6,699)	(3,555)
Eliminations	(809)	(3,411)	(3,860)	(8,395)
(Loss) income from operations before income taxes	(9,129)	(3,916)	(17,679)	(11,179)
Income tax (benefit) expense	(591)	(1,051)	(307)	(1,915)
Net (loss) income	\$ (8,538)	\$ (2,865)	\$ (17,372)	\$ (9,264)

Agency Segment

The results of our Agency segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
Revenue				
Earned commissions	\$ 9,575	\$ 11,045	\$ 30,309	\$ 32,273
Insurance lead sales	1,650	1,838	4,529	6,143
Total revenues	11,225	12,883	34,838	38,416
Expenses				
Operating costs and expenses	13,577	13,029	39,073	38,836
Amortization of intangibles	20	40	62	123
Total expenses	13,597	13,069	39,135	38,959
(Loss) income before income taxes	\$ (2,372)	\$ (186)	\$ (4,297)	\$ (543)

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Earned Commissions

For the three months ended September 30, 2019, earned commissions were \$9.6 million compared to \$11.0 million for the three months ended September 30, 2018. This decrease of \$1.4 million resulted from lower sales in our retail channel, which was primarily due to shift in business mix to more guaranteed issue products and lower agent headcount.

Insurance Lead Sales

For the three months ended September 30, 2019, insurance lead sales were \$1.7 million compared to \$1.8 million for the three months ended September 30, 2018. This decrease of \$0.1 million was primarily due to a management decision to reduce external lead sales and maximize retail channel sales.

Operating Costs and Expenses

For the three months ended September 30, 2019, operating costs and expenses were \$13.6 million compared to \$13.0 million for the three months ended September 30, 2018. This increase of \$0.6 million was primarily due to a \$1.2 million increase in overhead expenses, which includes \$0.9 million of accelerated vesting of incentive compensation related to the completion of the IPO partially offset by lower variable cost of sales of \$0.6 million, which was mainly driven by lower retail earned commissions.

(Loss) Income Before Income Taxes

For the three months ended September 30, 2019, the Agency segment incurred a net loss of \$2.4 million compared to net loss of \$0.2 million for the three months ended September 30, 2018. This increase in net loss of \$2.2 million was the result of lower earned commissions and higher operating costs and expenses.

Nine Months Ended September 30, 2019 Compared to the Nine months Ended September 30, 2018**Earned Commissions**

For the nine months ended September 30, 2019, earned commissions were \$30.3 million compared to \$32.3 million for the nine months ended September 30, 2018. This decrease of \$2.0 million resulted from lower sales in our retail channel, which was primarily due to shift in business mix to more guaranteed issue products and lower agent headcount, partially offset by growth in our wholesale channel.

Insurance Lead Sales

For the nine months ended September 30, 2019, insurance lead sales were \$4.5 million compared to \$6.1 million for the nine months ended September 30, 2018. This decrease of \$1.6 million was primarily due to a management decision to reduce external lead sales and maximize retail channel sales.

Operating Costs and Expenses

For the nine months ended September 30, 2019, operating costs and expenses were \$39.1 million compared to \$38.8 million for the nine months ended September 30, 2018. This increase of \$0.3 million was due to a \$1.9 million increase in overhead expenses, primarily due to \$0.9 million of accelerated vesting of incentive compensation related to the completion of the IPO and increases in non-agent staff costs partially offset by lower variable cost of sales of \$1.6 million, which was mainly driven by lower retail earned commissions.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2019, the Agency segment incurred a net loss of \$4.3 million compared to a net loss of \$0.5 million for the nine months ended September 30, 2018. This increase in net loss of \$3.8 million was the result of lower earned commissions, lower lead sales revenue, and higher operating costs and expenses.

Insurance Segment

The results of our Insurance segment were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>(dollars in thousands)</u>		<u>(dollars in thousands)</u>	
Revenue:				
Net insurance premiums	\$ 24,424	\$ 22,360	\$ 73,304	\$ 65,462
Net investment income	3,792	3,839	11,328	11,355
Net realized investment (losses) gains	(213)	12	736	133
Other income	39	36	180	193
Total revenues	28,042	26,247	85,548	77,143
Benefits and Expenses:				
Life and annuity benefits	16,243	13,484	48,573	40,075
Interest credited to policyholder account balances	900	929	2,538	2,718
Operating costs and expenses	8,851	7,059	24,330	21,345
Amortization of deferred policy acquisition costs	4,256	3,835	12,930	11,691
Total benefits and expenses	30,250	25,307	88,371	75,829
(Loss) income before income taxes	\$ (2,208)	\$ 940	\$ (2,823)	\$ 1,314

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Premium Revenues

For the three months ended September 30, 2019, net insurance premiums were \$24.4 million compared to \$22.4 million for the three months ended September 30, 2018. This increase of \$2.0 million in net insurance premiums was primarily due to growth in our core lines of \$2.2 million, mainly driven by increases in LifeTime Benefit Term (LBT) and Rapid Decision Term and increases of \$0.1 million in our non-core lines, and \$0.1 million in Closed Block, partially offset by a decrease of \$0.4 million in annuities and assumed life.

Net Realized Investment Gains (Losses)

See “Note 2 – “Investments” in the notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Life and Annuity Benefits

For the three months ended September 30, 2019, life and annuity claim benefits were \$16.2 million compared with \$13.5 million for the three months ended September 30, 2018. This increase of \$2.7 million was mainly attributable to an increase of \$2.3 million in net claims, resulting from \$2.5 million higher claim activity on certain core and non-core products and \$0.1 million in Closed Block.

Operating Costs and Expenses

For the three months ended September 30, 2019, operating costs and expenses were \$8.9 million compared to \$7.1 million for the three months ended September 30, 2018. This increase of \$1.8 million was due to accelerated vesting of incentive compensation related to the completion of the IPO.

Amortization of Deferred Policy Acquisition Costs

For the three months ended September 30, 2019, amortization of deferred policy acquisition costs was \$4.3 million compared to \$3.8 million for the three months ended September 30, 2018, reflecting an increase in our core lines of \$0.5 million and non-core lines of \$0.2 million, partially offset by a decrease in Closed Block of \$0.4 million.

Income (Loss) Before Income Taxes

For the three months ended September 30, 2019, net loss was \$2.2 million compared to net income of \$0.9 million for the three months ended September 30, 2018. The \$3.1 million decrease resulted primarily from a \$2.6 million increase in life and annuity benefits, \$1.8 million increase in operating costs and expenses, and an increase in amortization of deferred policy acquisition costs of \$0.5 million partially offset by an increase in premiums of \$2.0 million.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Premium Revenues

For the nine months ended September 30, 2019, net insurance premiums were \$73.3 million compared to \$65.5 million for the nine months ended September 30, 2018. This increase of \$7.8 million in net insurance premiums was primarily due to growth in our core lines of \$8.6 million, mainly driven by increases in LBT and Rapid Decision Term and \$1.3 million in our non-core lines, partially offset by a decrease in annuities and assumed life of \$1.4 million due to the recapture of a majority of this business and a decrease in Closed Block of \$0.7 million.

Net Realized Investment Gains (Losses)

See “Note 2 – “Investments” in the notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Life and Annuity Benefits

For the nine months ended September 30, 2019, life and annuity claim benefits were \$48.6 million compared with \$40.1 million for the nine months ended September 30, 2018. This increase of \$8.5 million was mainly attributable to an increase of \$7.7 million in net claim benefits resulting from \$7.0 million higher claim activity on certain core and non-core products, and \$1.6 million in annuities and assumed life, partially offset by a decrease of \$0.9 million in Closed Block. Change in benefit reserves increased \$0.8 million primarily due to growth in our core lines of \$3.9 million, partially offset by a decrease of \$3.2 million in annuities and assumed life primarily related to the recapture of the majority of an assumed life block of business.

Operating Costs and Expenses

For the nine months ended September 30, 2019, operating costs and expenses were \$24.3 million compared to \$21.3 million for the nine months ended September 30, 2018. This increase of \$3.0 million was due to \$1.8 million of accelerated vesting of incentive compensation related to the completion of the IPO and an increase in non-deferrable acquisition costs.

Amortization of Deferred Policy Acquisition Costs

For the nine months ended September 30, 2019, amortization of deferred policy acquisition costs was \$12.9 million compared to \$11.7 million for the nine months ended September 30, 2018, reflecting \$2.2 million increase from core and non-core lines, partially offset by \$1.0 million reduction in Closed Block.

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2019, net loss was \$2.8 million compared to net income of \$1.3 million for the nine months ended September 30, 2018. The decrease in net income of \$4.1 million resulted primarily from higher life and annuity benefits and interest credited to policyholders of \$8.3 million, higher general expenses of \$3.0 million and increased amortization of deferred policy acquisition costs of \$1.2 million, partially offset by increases in premiums of \$7.8 million and net realized capital gains of \$0.6 million.

Closed Block

The Closed Block was formed as of October 1, 2006 and contains all participating policies issued or assumed by Fidelity Life. The assets and future net cash flows of the Closed Block are available only for purposes of paying benefits, expenses and dividends of the Closed Block and are not available to the Company, except for an amount of additional funding that was established at inception. The additional funding was designed to protect the block against future adverse experience, and if the funding is not required for that purpose, it is subject to reversion to the Company in the future. Any reversion of Closed Block assets to the Company must be approved by the Illinois Department of Insurance.

The maximum future earnings to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at September 30, 2019 and December 31, 2018, are \$9.6 million and \$9.5 million, respectively, of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block which is referred to as the “glide path.” The glide path model projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the glide path as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block policies and the investment experience of the Closed Block assets. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. See “Note 5—Closed Block” in the accompanying notes to the interim condensed consolidated financial statements.

Corporate Segment

The results of the corporate segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
Revenue:				
Net investment income	\$ 476	\$ 81	\$ 651	\$ 211
Total revenue	476	81	651	211
Expenses:				
Operating costs and expenses	4,216	1,340	7,350	3,766
Total expenses	4,216	1,340	7,350	3,766
(Loss) before income taxes	\$ (3,740)	\$ (1,259)	\$ (6,699)	\$ (3,555)

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

(Loss) Income Before Income Taxes

For the three months ended September 30, 2019, the net loss increased \$2.4 million to \$3.7 million from a net loss of \$1.3 million for the three months ended September 30, 2018. The increase in the net loss is primarily related to the completion of the IPO and includes \$3.2 million of accelerated vesting of incentive compensation, partially offset by a \$0.4 million increase in net investment income.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

(Loss) Income Before Income Taxes

For the nine months ended September 30, 2019, the net loss increased \$3.1 million to \$6.7 million from a net loss of \$3.6 million for the nine months ended September 30, 2018. The increase in the net loss is primarily related to the completion of the IPO and includes \$3.2 million of accelerated vesting of incentive compensation, partially offset by a \$0.4 million increase in net investment income.

Intercompany Eliminations

The impact of the eliminations for intercompany transactions primarily consists of the sales by our Agency segment of life products of our insurance segment. The eliminations represent the amounts required to eliminate the intercompany transactions as recorded in our segment results, and in particular, to eliminate any intersegment profits resulting from such transactions. Our segment results follow the accounting principles and methods applicable to each segment as if the intercompany transactions were with unaffiliated organizations:

Revenue—our Agency segment recognizes all commission revenue to be paid for the first year that the policy is in force at the date that the insurance policy goes in force at the carrier.

Expense—our insurance segment recognizes the first-year commission as a policy acquisition cost, in proportion to the premiums earned from providing insurance coverage throughout the first year that the policy is in force. In addition, our insurance segment defers the amount by which the first-year commission acquisition costs exceed the ultimate renewal commission and records this amount as deferred acquisition cost that is amortized over the expected life of the policy.

Viewed at the segment level, because of the timing difference between the Agency segment's immediate recognition of commission revenue and the insurance segment's deferral and amortization of the commission expense over the expected life of the policy, all else being equal, the sale of a policy through our Agency segment results in an intersegment profit in an amount equal to the difference between the commission paid and the related amortization expense. However, in consolidation, two impacts occur. First, the intercompany revenue recognized by our Agency segment and the related deferred acquisition expense recorded by our insurance segment are eliminated. Second, we record deferred policy acquisition costs equal to that portion of commission deferred acquisition cost (DAC) that can be tied directly to Efinancial's expenses incurred in the successful placement of a policy. Therefore, in consolidation, the commission DAC recorded in our insurance segment is effectively reduced to reflect the elimination of that portion of commission DAC that results from Efinancial expenses that cannot be directly tied to the successful placement of a policy. The amount of eliminated commission DAC, which represents a majority of the commission DAC, is charged to current expense, and acquisition cost DAC is recorded at a reduced amount, which represents the amount of commission DAC that is eligible for deferral under GAAP.

The results of these elimination entries were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>(dollars in thousands)</u>		<u>(dollars in thousands)</u>	
Revenue:				
Net investment (loss) income	\$ (91)	\$ (103)	\$ (301)	\$ (285)
Earned commissions	(5,035)	(7,625)	(16,874)	(22,158)
Total revenues	(5,126)	(7,728)	(17,175)	(22,443)
Expenses:				
Commission expense	(3,090)	(3,196)	(9,936)	(10,687)
Operating costs and expenses				
Amortization of deferred policy acquisition costs	(1,227)	(1,121)	(3,379)	(3,361)
Total expenses	(4,317)	(4,317)	(13,315)	(14,048)
(Loss) before income taxes	\$ (809)	\$ (3,411)	\$ (3,860)	\$ (8,395)

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

For the three months ended September 30, 2019, the impact of intercompany eliminations on pre-tax income was a reduction of \$0.8 million compared to a \$3.4 million reduction for the three months ended September 30, 2018. This decrease in pre-tax loss of \$2.6 million was mainly due to lower volume of intersegment sales.

Nine months ended September 30, 2019 Compared to the Nine months ended September 30, 2018

For the nine months ended September 30, 2019, the impact of intercompany eliminations on pre-tax income was a reduction of \$3.9 million compared to a \$8.4 million reduction for the nine months ended September 30, 2018. This decrease in pre-tax loss of \$4.5 million was mainly due to lower volume of intersegment sales.

Investments

Investment Returns

We invest our available cash and funds that support our regulatory capital, surplus requirements and policy reserves in investment securities that are included in our insurance and corporate segments. We earn income on these investments in the form of interest on fixed maturity securities (bonds and mortgage loans) and dividends (equity holdings). Investment income is recorded as revenue, net of investment related expenses. The amount of net investment income that we recognize will vary depending on the amount of invested assets that we own, the types of investments, the interest rates earned and amount of dividends received on our investments.

Gains and losses on sales of investments are classified as “realized investment gains (losses)” and are recorded as revenue. Capital appreciation and depreciation caused by changes in the market value of investments classified as “available-for-sale” is recorded in accumulated other comprehensive income. The amount of investment gains and losses that we recognize depends on the amount of and the types of invested assets we own, and the market conditions related to those investments. Our cash needs can vary from time to time and could require that we sell invested assets to fund cash needs.

Investment Guidelines

Our investment strategy and guidelines are developed by management and approved by the Investment Committee of Fidelity Life’s board of directors. Our investment strategy related to our insurance segment is designed to maintain a well-diversified, high quality fixed income portfolio that will provide adequate levels of net investment income and liquidity to meet our policyholder obligations under our life insurance policies and our assumed annuity deposits. To help maintain liquidity, we establish the duration of invested assets within a tolerance to the policy liability duration. The investments of our insurance segment are managed with an emphasis on current income within quality and diversification constraints. The focus is on book yield of the fixed income portfolio as the anticipated portfolio yield is a key element used in pricing our insurance products and establishing policyholder crediting rates on our annuity contracts.

We apply our overall investment strategy and guidelines on a consolidated basis for purposes of monitoring compliance with our overall guidelines. Almost all of our investments (over 99%) are owned by Fidelity Life and are maintained in compliance with insurance regulations. Critical guidelines of our investment plan include:

- Asset concentration guidelines that limit the amount that we hold in any one issuer of securities,
- Asset quality guidelines applied on a portfolio basis and for individual issues that establish a minimum asset quality standard for portfolios and establish minimum asset quality standards for investment purchases and investment holdings,
- Liquidity guidelines that limit the amount of illiquid assets that can be held at any time, and
- Diversification guidelines that limit the exposure at any time to the total portfolio by investment sectors.

Our investment portfolios are all managed by third-party investment managers that specialize in insurance company asset management. These managers are selected based upon their expertise in the particular asset classes that we own. We contract with an investment management firm to provide overall assistance with oversight of our portfolio managers, evaluation of investment performance and assistance with development and implementation of our investment strategy. This investment management firm reports to our Chief Financial Officer and to the Investment Committee of Fidelity Life's board of directors. On a quarterly basis, or more frequently if circumstances require, we review the performance of all portfolios and portfolio managers with the Investment Committee.

The following table shows the distribution of the fixed maturity securities classified as available-for-sale by quality rating using the rating assigned by Standard & Poor's, a nationally recognized statistical rating organization. Over the periods presented, we have maintained a consistent weighted average bond quality rating of "A." The percentage allocation of total investment grade securities has increased to 98.2% at September 30, 2019 from 94.0% at December 31, 2018 due to the Standard & Poor's (S&P) ratings on certain new securities acquired in our portfolio of distressed residential mortgage-backed securities.

S&P Rating	Estimated Fair Value			
	September 30, 2019		December 31, 2018	
	(dollars in thousands)			
AAA	\$ 97,005	30.0%	\$ 80,606	26.3%
AA	47,217	14.6%	40,583	13.2%
A	95,677	29.6%	93,214	30.4%
BBB	62,638	19.3%	57,599	18.8%
Not rated	15,304	4.7%	16,076	5.2%
Total investment grade	317,841	98.2%	288,078	94.0%
BB	3,509	1.1%	11,896	3.8%
B	1,452	0.4%	4,802	1.6%
CCC	918	0.3%	1,802	0.6%
D	7	0.0%	8	0.0%
Total below investment grade	5,886	1.8%	18,508	6.0%
Total	\$ 323,727	100.0%	\$ 306,586	100.0%

The following table sets forth the maturity profile of our debt securities at September 30, 2019 and December 31, 2018. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

(dollars in thousands)	September 30, 2019				December 31, 2018			
	Amortized Cost	%	Estimated Fair Value	%	Amortized Cost	%	Estimated Fair Value	%
Due in one year or less	\$ 11,853	3.9%	\$ 12,005	3.7%	\$ 7,395	2.4%	\$ 7,434	2.4%
Due after one year through five years	35,033	11.6%	36,739	11.3%	53,759	17.7%	54,239	17.7%
Due after five years through ten years	28,360	9.4%	30,494	9.4%	41,125	13.5%	40,866	13.3%
Due after ten years	98,829	32.8%	114,593	35.4%	85,398	28.1%	88,461	28.9%
Securities not due at a single maturity date-primarily mortgage and asset-backed securities	127,055	42.3%	129,896	40.2%	116,626	38.3%	115,586	37.7%
Total debt securities	\$ 301,130	100.0%	\$ 323,727	100.0%	\$ 304,303	100.0%	\$ 306,586	100.0%

Every quarter, we review all investments where the market value is less than the carrying value to ascertain if the impairment of the security's value is OTTI. The quarterly review is targeted to focus on securities with larger impairments and that have been in an impaired status for longer periods of time. (see "Note 9 – Accumulated Other Comprehensive Income (Loss)" in the accompanying Interim Condensed Consolidated Financial Statements included in this Form 10-Q).

Net Investment Income

One key measure of our investment income is the book yield on our holdings of fixed maturity securities classified as available-for-sale. This totaled \$301.1 million and \$304.3 million as of September 30, 2019 and December 31, 2018, respectively. Book yield is the effective interest rate, before investment expenses, that we earn on these investments. Book yield is calculated as the percent of net investment income to the average amortized cost of the underlying investments for the period. For the nine months ended September 30, 2019 and 2018, our book yield on fixed maturity securities available-for-sale was 4.3% and 4.3%, respectively.

Interest Credited on Contract-holder Deposits

Included with the future policy benefits is the liability for contract-holder deposits on deferred annuity contracts assumed through two reinsurance agreements effective in 1991 and 1992, and certain other policy funds left on deposit with the Company. The aggregate liability for deposits is as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
	Ending Balance	Ending Balance	Year to Date Interest Credited	Year to Date Interest Credited
	(dollars in thousands)			
Annuity contract holder deposits—assumed	\$ 79,641	\$ 83,299	\$ 2,362	\$ 2,534
Dividends left on deposit	7,680	8,147	146	156
Other	1,626	1,605	30	28
Total	<u>\$ 88,947</u>	<u>\$ 93,051</u>	<u>\$ 2,538</u>	<u>\$ 2,718</u>

The liability for deferred annuity deposits represents the contract-holder account balances. Due to the declines in market interest rates and the book yield on our investment portfolio, we credit interest on all contract-holder deposit liabilities at contractual rates that are currently at the minimum rate allowed by the contract or by state regulations.

Our Insurance segment realizes operating profit from the excess of our book yield realized on fixed maturity securities that support our contract-holder deposits over the amount of interest that we credit to the contract-holder. We refer to this operating profit as the "spread" we earn on contract-holder deposits. If book yields decline further, the amount of spread between the interest earned and credited will be reduced.

Net Realized Investment Gains (Losses)

Realized investment gains and losses are subject to general economic trends and generally correlate with movements in major market indexes. The amounts classified as realized gains and losses in our Statement of Operations include amounts realized from sales of investments, mark-to-market adjustments and OTTI of individual securities related to credit impairment.

Unrealized Holding Gains (Losses)

We also record capital appreciation/depreciation on our available-for-sale fixed maturity securities. The following table shows the change in mark-to-market adjustments on our available-for-sale fixed maturity securities. These adjustments result from the low current market interest rates, which cause the market value of our holdings, that overall carry higher interest rates than available in the market, to increase.

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
	(dollars in thousands)	
Accumulated Other Income (loss)		
Unrealized holding gains/(losses) from changes in the market value of securities, including the related impact to future policy benefit liabilities, the policyholder dividend obligation and deferred policy acquisition cost balances	\$ 15,772	\$ (11,367)
Income tax effect	(3,313)	2,387
Net change in accumulated other comprehensive income (loss)	<u>\$ 12,459</u>	<u>\$ (8,980)</u>

Financial Position

At September 30, 2019, we had total assets of \$806.7 million compared to total assets at December 31, 2018 of \$655.0 million, an increase of \$152.0 million. The invested asset base increased \$91.2 million primarily due to short-term investment increase of \$71.2 million related to cash received from the completion of the IPO and increase in market value changes of \$20.3 million, partially offset by net sales of invested assets. In addition, the commissions receivable increased by \$8.8 million, primarily resulting from the adoption of the Revenue Recognition accounting standard effective January 1, 2019 (see “Note 1 – Summary of Significant Accounting Policies – Accounting Standards Adopted” in the notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q). Cash increased \$58.6 million primarily related to cash from the IPO, partially offset by operations and timing of claim payments and collection of reinsurance recoveries. The above increases were offset by the following drivers: Other assets decreased \$2.0 million primarily due to costs incurred in prior years related to the IPO previously classified in Other assets and now included in Additional paid in capital partially offset by increases in internally developed software and due premium. Reinsurance recoverable decreased \$2.5 million as a result of a \$5.4 million decrease in ceded policy and claim reserves, offset by an increase of \$2.9 million related to timing of settlements of reinsurance receivables. Deferred income taxes decreased \$2.7 million, primarily due to changes related to investment market gains.

At September 30, 2019, we had total liabilities of \$498.0 million compared to total liabilities of \$482.8 million at December 31, 2018, an increase of \$15.2 million. Future policy benefits and claims increased \$14.2 million, primarily due to a \$30.7 million increase in core and non-core lines due to growth and maturity of the underlying blocks of business, offset by a decrease of \$11.1 million in the Closed Block and \$5.4 million decrease in annuities and assumed life, primarily related to the recapture of the majority of an assumed life block of business. Debt increased \$5.5 million related to additional net borrowings under our commission financing agreement with Hannover Life. Other liabilities increased \$0.6 million, primarily related to timing of investment trades, partially offset by changes in operating accruals. Policyholder dividend obligations relating to the Closed Block increased \$2.3 million, primarily related to changes in the market value of invested assets. The above increases were offset by the following items: policyholder account balances decreased \$4.1 million, which was largely due to annuity payments, other policyholder liabilities and reinsurance liabilities and payables decreased \$3.2 million, primarily due to timing of claim payments and reinsurance settlements.

At September 30, 2019, total equity increased to \$308.7 million from \$172.2 million at December 31, 2018. This increase in equity of \$136.5 million consists of a \$132.8 million increase as a result of the IPO and a net gain in other comprehensive income for the period of \$12.5 million which was due to unrealized net gains on our fixed maturity available-for-sale securities portfolio, net of taxes. Retained earnings decreased by \$8.8 million which included a net loss of \$17.4 million for the nine months ended September 30, 2019, partially offset by an increase of \$8.6 million related to the Revenue Recognition accounting standard adoption. (See “Note 1 – Summary of Significant Accounting Policies – Accounting Standards Adopted” in the notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q).

Liquidity and Capital Resources

Our principal sources of funds are from premium revenues, commission revenues, investment income and proceeds from the sale or maturity of investments and net borrowings. The Company’s primary uses of funds are for payment of life policy benefits, contract-holder withdrawals on assumed annuity contracts, new business acquisition costs for our insurance operations (i.e., commissions, underwriting and issue costs), cost of sales for Agency operations (i.e., agent compensation, purchased lead and lead generation costs), operating costs and expenses and purchases of investments. Our investment portfolio is structured to provide funds periodically over time, through investment income and maturities, for the payment of policy benefits and contract-holder withdrawals.

Under our commission financing arrangement with Hannover Life, Fidelity Life is able to pay level annual commissions instead of first year only commissions to Efinancial for sales of *RAPID*Decision® Life policies and Hannover Life advances to Efinancial amounts approximately equal to first year only commissions for sales of those policies. This arrangement reduces Fidelity Life’s surplus strain associated with issuing *RAPID*Decision® Life business while helping to provide liquidity for Efinancial through the receipt of larger first year only commissions. We are able to obtain advances up to \$23 million under our arrangement with Hannover Life. As of September 30, 2019 and December 31, 2018, we had net advances of \$17.6 million and \$13.4 million under this arrangement.

We are a member of the Federal Home Loan Bank of Chicago (the “FHLBC”). As a member, we are able to borrow on a collateralized basis from the FHLBC. We own FHLBC common stock with a book value of \$0.1 million, which allows us to borrow up to \$2.3 million. Interest on borrowed funds is charged at variable rates established from time to time by the FHLBC based on the interest rate option selected at the time of the borrowing. There have been no borrowings from the FHLBC during 2019 and 2018.

During the first nine months of 2019 and 2018, the board of directors of Fidelity Life approved the payment of \$5.0 million and \$3.5 million, respectively, in dividends to Vericity Holdings. The dividends provided operating funds to Vericity Holdings to support corporate operations and initiatives. Following the Conversion, Fidelity Life has agreed not to pay any common stock dividends without the approval of a majority of the Company designees. In connection with the approval of the Conversion by the Illinois Director of Insurance, we agreed, for a period of twenty-four months following the completion of the Conversion, to (i) seek the prior approval of the Illinois Department of Insurance for any declaration of an ordinary dividend by Fidelity Life, and (ii) either maintain \$20 million of the proceeds of the offering at Vericity, Inc. or use all or a portion of that \$20 million to fund our operations.

Cash Flows

Cash flows from investing activities includes our fixed maturity securities and equity holdings that are classified as available-for-sale securities. Period to period, the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on portfolio trading due to investment market conditions.

Cash flows from financing activities primarily consists of the assumed annuity contract-holder deposits. The annuity liabilities are reducing each period due to cash withdrawals by contract-holders on this block of annuities that were primarily written in the late 1980s. Cash deposits from these annuity contracts are minimal compared to cash withdrawal activity. Also included in financing cash flows are net proceeds from our commission financing arrangement.

The following table summarizes our cash flows for the nine months ended September 30, 2019 and September 30, 2018.

	Nine Months Ended September 30,	
	2019	2018
(dollars in thousands)		
Consolidated Summary of Cash Flows		
Cash flows provided by (used for) operating activities	\$ (6,737)	\$ (4,525)
Cash flows provided by (used for) investing activities	(73,423)	(1,455)
Cash flows provided by (used for) financing activities	138,765	4,063
Net increase (decrease) in cash and cash equivalents	<u>\$ 58,605</u>	<u>\$ (1,917)</u>

For the nine months ended September 30, 2019 and 2018, we had a net increase in cash of \$58.6 million compared to a net decrease of \$1.9 million for the nine months ended September 30, 2018. The increase in cash flows year over year of \$60.5 million is primarily related to proceeds from the IPO.

Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our Interim Condensed Consolidated Financial Statements as of and for the nine months ended September 30, 2019 and December 31, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectives of Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with

reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with GAAP.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business. While it is not possible to forecast the outcome of such legal proceedings, in light of existing insurance, reinsurance, and established reserves, we believe that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of IPO Proceeds

The Company completed its IPO on August 7, 2019, pursuant to a Form S-1 declared effective by the SEC on June 20, 2019 (File No. 333-231952). Below are further details of the use of the IPO proceeds: Vericity, Inc. registered the sale of a maximum of 20,125,000 shares, of which 14,875,000 were sold in the IPO. Raymond James served as managing underwriter in the IPO.

- The amount registered and the aggregate price of the offering amount was 20,125,000 and \$201,250,000, respectively, and the amount sold and the aggregate price of the offering amount was 14,875,000 and \$148,750,000, respectively.
- The common stock was registered pursuant to the Form S-1 described above.
- The total offering expenses incurred in connection with the IPO are estimated to be \$15.9 million, including \$4.0 million paid to the underwriters. Offering expenses of \$11.9 million were comprised of \$5.9 million in legal fees and expenses, \$2.6 million of actuarial fees and expenses, \$1.8 million of printing and mailing, and \$1.6 million of accounting fees and expenses.
- The net offering proceeds to Vericity, Inc. after deducting total offering expenses are estimated to be \$132.8 million.
- Vericity, Inc. expects that any unallocated net proceeds from the offering will be used for general corporate purposes, including paying holding company expenses and the special cash dividend to stockholders referenced in Note 12 – Subsequent Events above.
- Additionally, pursuant to an agreement with the Illinois Department of Insurance, at least \$20 million of the proceeds of the offering will be used to fund the operations of Vericity, Inc.'s various subsidiaries.

Item 3. Default upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

- 10.18 [APEX HOLDCO L.P. 2019 EQUITY INCENTIVE PLAN](#)
- 10.19 [Form of Employee-Consultant Award Agreement](#)
- 10.20 [Form of Director Award Agreement](#)
- 10.21 [Form of CEO Award Agreement](#)
- 31.1 [Certification of Chief Executive Officer, pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended](#)
- 31.2 [Certification of Chief Financial Officer, pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended](#)
- 32.1 [Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAR XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Vericity, Inc.

Date: November 14, 2019

By: /s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and Treasurer

APEX HOLDCO L.P.
2019 EQUITY INCENTIVE PLAN

ARTICLE I
ESTABLISHMENT, DEFINITIONS AND PURPOSE

1.1 Establishment. Apex Holdco L.P., a Delaware limited partnership (the “Company”), hereby establishes the Apex Holdco L.P. 2019 Equity Incentive Plan (the “Plan”).

1.2 Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in that certain Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of August 7, 2019 (as the same may be amended, restated, modified or otherwise supplemented from time-to-time, the “LP Agreement”).

1.3 Purpose. The Plan is intended to promote the long-term growth and profitability of the Company by providing employees, directors, advisory board members and other service providers who are or will be involved in the Company’s growth with an opportunity to acquire an ownership interest in the Company, thereby encouraging such persons to contribute to and participate in the success of the Company. Under the Plan, the General Partner of the Company (the “General Partner”) may grant awards (each, an “Award”) of Class B Units (the “Class B Units”) to employees, directors, advisory board members and/or other service providers of the Company and/or its Subsidiaries, as may be selected by the General Partner (collectively, “Participants”).

ARTICLE II
AWARD POOL

2.1 Award Pool. 3,010,605.05 Class B Units (the “Award Pool”) are reserved for issuance under the Plan in accordance with the terms of the LP Agreement. Any Class B Units that for any reason are cancelled, forfeited, or acquired by the Company (pursuant to a call, redemption or other right) for no consideration shall again be available for issuance under the Plan.

2.2 Consultation. Prior to making any Award under the Plan, the General Partner will consult in good faith with (i) the Board of Directors of Vericity (or an applicable committee thereof) with respect to Awards to be made to non-employee members of the Board and (ii) the Chief Executive Officer of Vericity with respect to Awards to be made to any other eligible Persons.

2.3 Award Limits. Notwithstanding anything set forth in the Plan to the contrary, (i) the members of the Board of Directors and advisory board of Vericity will be eligible to receive up to a total of 767,265.86 Class B Units under the Plan and (ii) the employees and other service providers of Vericity will be eligible to receive up to a total of 2,243,339.20 Class B Units under the Plan.

2.4 Allocation upon a Change of Control. If the entirety of the Award Pool is not outstanding immediately prior to the occurrence of a Change of Control, then the General Partner

shall establish a cash bonus pool (the “Change of Control Award Pool”) in an amount equal to the amount that would have been paid with respect to the Class B Units representing all of the unallocated portion of the Award Pool as of the date of consummation of such Change of Control had such unallocated Class B Units been issued at the time the initial Class B Units were issued. Upon the consummation of a Change of Control, the full Change of Control Award Pool shall be payable. The Change of Control Award Pool shall be allocated, subject to Section 2.2, to Participants by the General Partner at the time that payments with respect to the Change of Control Award Pool are payable.

ARTICLE III ADMINISTRATION

3.1 Administration. The General Partner shall administer the Plan and each Award made under the Plan in good faith subject to the provisions of the Plan and the LP Agreement. In furtherance of such good faith administration, the General Partner shall have the power and authority to prescribe, amend and rescind rules and procedures governing the administration of the Plan, including, but not limited to the power and authority to (a) interpret the terms of the Plan, the terms of any Awards made under the Plan, and the rules and procedures established by the General Partner governing any such Awards, (b) determine the rights of any Person under the Plan, or the meaning of requirements imposed by the terms of the Plan or an Award, or any rule or procedure established by the General Partner, (c) subject to Section 2.3, select the Participants to whom Awards will be granted under the Plan and the number of Class B Units to be granted to each such Participant, (d) establish any vesting or other terms and conditions applicable to an Award, (e) impose such limitations, restrictions and conditions upon, or in connection with, such Awards as it shall deem appropriate; provided, that, all such limitations, restrictions and conditions shall be set forth in the applicable Award Agreement at the time of grant, (f) adopt, amend, and rescind administrative guidelines and other rules and regulations relating to the Plan, (g) correct any defect or omission or reconcile any inconsistency in the Plan, in any Award Agreement or between the Plan, any Award Agreement and/or the LP Agreement and (h) make all other determinations and take all other actions necessary or advisable for the implementation and administration of the Plan and Awards, subject to the LP Agreement and such limitations as may be imposed by the Code or other applicable law. Each action of the General Partner made in good faith (including each interpretation or other determination of the General Partner) with respect to the Plan or any Awards made under the Plan shall be final, binding and conclusive on all persons.

ARTICLE IV ELIGIBILITY AND AWARD AGREEMENTS

4.1 Eligibility. Subject to the terms of the Plan and the LP Agreement, employees, directors and advisory board members and other service providers of Vericity and its Subsidiaries shall be eligible to receive Awards under the Plan.

4.2 Award Agreement. Awards granted under the Plan shall be evidenced by a written agreement executed by the Company and the Participant (the “Award Agreement”).

ARTICLE V ADJUSTMENTS

Except as otherwise expressly provided in an Award Agreement or the LP Agreement, in the event that the General Partner determines in good faith in its sole discretion that any sale, recapitalization, reorganization, merger, consolidation, dividend, distribution or any other transaction or event affects the Class B Units such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the General Partner may, in the manner and to the extent that it deems reasonably appropriate, acting in good faith, adjust any or all of (i) the number of Class B Units, other ownership interests or other securities of the Company (or number and kind of other securities or property) with respect to which awards may be made under the Plan, (ii) the number of Class B Units, other ownership interests or other securities of the Company (or number and kind of other securities or property) subject to outstanding awards made under the Plan, (iii) the distribution level that must be achieved prior to a Class B Unit being entitled to participate in distributions for the Company or (iv) the terms of any Class B Unit that are affected by the event, in each case in a manner the General Partner reasonably deems appropriate, acting in good faith, to prevent such inappropriate dilution or enlargement.

ARTICLE VI GENERAL PROVISIONS

6.1 Amendment; Termination. The General Partner may modify, amend, suspend or terminate the Plan in whole or in part at any time; provided, however, that such modification, amendment, suspension or termination shall not (i) in any way impact any of the terms and conditions of Article II of the Plan prior to a Change of Control or (ii) without a Participant's written consent, adversely affect such Participant's rights in respect of a previously-made Award.

6.2 Applicable Law. All questions concerning the construction, validity and interpretation of this Agreement shall be governed by the internal law, and not the law of conflicts, of the State of Delaware.

6.3 Securities Laws. The Plan has been instituted by the Company to provide certain compensatory incentives to Participants and is intended to qualify for an exemption from the registration requirements under the Securities Act and any other applicable state securities laws pursuant to Rule 701 under the Securities Act or any other applicable exemption (collectively, the "Exemption"); however, the Company makes no representation or warranty that the Exemption applies to the Awards, and in no event shall the General Partner, the Company or any Affiliate of the Company (or their employees, agents, officers, directors, managers, successors or assigns) be liable to any Participant (other than to effect rescission or similar rights that may arise under applicable securities laws) for any failure to comply with such Exemption. The Company may impose any restrictions or terms on any Awards or Class B Units granted pursuant to Awards, and may require Participants to make such representations, as the Company determines in good faith to be necessary to comply with the Exemption.

6.4 No Right to Awards. No Person shall have any claim to receive any award under the Plan. There is no obligation for uniformity of treatment of Participants regarding the number of

Class B Units awarded or the manner in which awards are made. The terms and conditions made under the Plan need not be the same with respect to each Participant.

6.5 No Guarantees Regarding Tax Treatment; No Tax Minimization Obligation. Neither the General Partner nor the Company make any guarantees to any person regarding the tax treatment of any Award or payments made with respect to any Award. Neither the General Partner nor the Company have any duty or obligation to minimize the tax consequences of any Award, including, without limitation, tax consequences that may result from changes to applicable law and none of the General Partner, the Company, any subsidiaries or affiliates of the Company, or any of their employees or representatives shall have any liability to any person with respect to such tax consequences.

6.6 Withholding. A Participant may be required to pay to the Company, and the Company shall have the right and is hereby authorized to withhold from any payment due under any Award, the amount (in cash or, at the election of the Company, securities or other property or through net settlement) of any applicable federal, state, local or foreign withholding taxes in respect of such payment and to take such other action as may be necessary in the good faith opinion of the General Partner to satisfy all obligations for the payment of withholding taxes.

6.7 Severability. If any provision of the Plan or any award made hereunder is, becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any Person or award, or would disqualify the Plan or any award under any law deemed applicable by the General Partner, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the good faith determination of the General Partner, materially altering the intent of the Plan or the award, such provision shall be stricken as to such jurisdiction, Person or award and the remainder of the Plan and any such award shall remain in full force and effect.

6.8 Headings. Headings are used herein solely as a convenience to facilitate reference and shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

6.9 Amendment to the Partnership Agreement. Neither the adoption of this Plan nor any award made hereunder shall restrict in any way the adoption or any amendment to the LP Agreement in accordance with the terms of such agreement.

6.10 Conflict between the Plan and the LP Agreement. The Plan is subject to the LP Agreement. In the event of a conflict between any term or provision contained herein and a term or provision of the LP Agreement, the applicable term and provision of the LP Agreement will govern and prevail.

6.11 Effective Date of the Plan. The Plan shall become effective on August 7, 2019.

* * * *

**APEX HOLDCO L.P.
2019 EQUITY INCENTIVE PLAN**

CLASS B UNIT AWARD AGREEMENT

THIS CLASS B UNIT AWARD AGREEMENT (the “Agreement”) is made as of [●] (the “Grant Date”) by Apex Holdco L.P., a Delaware limited partnership (the “Company”), and [] (the “Participant”).

RECITALS

A. The Company is governed by the Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of [●], 2019, as may be amended from time to time (the “LP Agreement”). Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to such terms in the LP Agreement or in the Plan (defined below).

B. In consideration for the provisions of services to or for the benefit of the Company by the Participant, the Company hereby grants Class B Units to the Participant under the terms and provisions of this Agreement, the Apex Holdco L.P. 2019 Equity Incentive Plan (the “Plan”) and the LP Agreement.

C. The Company and the Participant desire to impose certain vesting conditions with respect to the Class B Units granted to the Participant.

AGREEMENTS

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant agree as follows:

**ARTICLE I.
GRANT OF CLASS B UNITS**

1.1 Grant. Subject to the terms and conditions contained herein, in the Plan and in the LP Agreement, the Participant is granted [●] Class B Units of the Company effective as of the Grant Date, which shall be eligible to vest in accordance with Section 2.3 (the “Units”).

1.2 Risks. The Participant is aware of and understands the following:

(a) the Participant must bear the economic risk of an investment in the Class B Units for an indefinite period of time because, among other things, (i) the Class B Units have not been registered under the Securities Act, and, therefore, cannot be sold unless they are subsequently registered under the Securities Act or an exemption from such registration is available, (ii) the Class B Units have not been registered under applicable state securities laws, and, therefore, cannot be sold unless they are registered under applicable state securities laws or an exemption from such registration is available, and (iii) there are substantial restrictions on the

transferability of the Class B Units under this Agreement, the Plan, the LP Agreement and applicable law, and substantial restrictions on distributions from the Company;

(b) there is no established market for the Class B Units and no market (public or otherwise) for the Class B Units will develop in the foreseeable future; and

(c) the Participant has no rights to require that the Class B Units be registered under the Securities Act or the securities laws of any states and the Participant will not be able to avail itself of the provisions of Rule 144 adopted by the Securities and Exchange Commission under the Securities Act.

1.3 Information. The Participant is one of the following as indicated on the Accredited Investor Questionnaire in the form attached hereto as **Exhibit A** and provided by the Participant to the Company:

(a) an “accredited investor” within the meaning of Rule 501(a) under Regulation D of the Securities Act, and has (or, in the case of a trust, the trustee has) such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of his, her or its investment in the Class B Units, and the Participant is capable of bearing the economic risks of such investment and is able to bear the complete loss of his, her or its investment in the Class B Units, or

(b) not an accredited investor, and has (or, in the case of a trust, the trustee has), by itself or through a “purchaser representative” within the meaning of Rule 501(i) under Regulation D of the Securities Act, such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of his, her or its investment in the Class B Units, and the Participant is capable of bearing the economic risks of such investment and is able to bear the complete loss of his, her or its investment in the Class B Units.

1.4 Protective Section 83(b) Election. Within thirty (30) days from the date hereof, the Participant shall execute and file with the Internal Revenue Service a protective election under Section 83(b) of the Code with respect to the grant of Class B Units described in this Agreement substantially in the form attached hereto as **Exhibit B** and the Participant shall provide the Company with a copy of such executed and filed election promptly thereafter.

ARTICLE II. PROFITS INTERESTS; VESTING

2.1 Profits Interests. The Class B Units granted under this Agreement are intended to constitute “profits interests” as described in Section 3.06 of the LP Agreement and shall be subject to the terms and conditions thereof.

2.2 Participation Threshold. The Participation Threshold for each Class B Unit granted to the Participant pursuant to this Agreement is equal to \$[_____], such amount being determined by the General Partner as of the Grant Date pursuant to the terms of the LP Agreement.

2.3 **Vesting of Class B Units.** The Class B Units granted to the Participant hereunder shall be eligible to vest as provided in this Section 2.3:

(a) **Regular Vesting.** Except as otherwise set forth in this Section 2.3, a total of 20% of the Units shall vest on each of the first five (5) anniversaries of the Grant Date, subject to the Participant's continued Service with the Company or one of its Subsidiaries from the date of this Agreement through the applicable vesting date.

(b) **Death or Disability.** If the Participant's Service terminates as a result of the Participant's death or Disability prior to the fifth (5th) anniversary of the Grant Date, then any unvested Units that are scheduled to vest on the next regularly scheduled vesting date in accordance with Section 2.3(a) shall immediately vest.

(c) **Change of Control.** All unvested Units shall vest immediately prior to and subject to the consummation of a Change of Control, subject to (i) the Participant's continued Service on such date or (ii) the termination of the Participant's Service at any time during the period commencing on the date that is six (6) months prior to the date of execution of a definitive agreement that results in a Change of Control and ending on the date of a Change of Control as a result of either (1) a termination by Vericity without Cause or (2) a termination by the Participant for Good Reason. For the avoidance of doubt, an initial public offering shall not be considered a Change of Control.

**ARTICLE III.
FORFEITURE OF CLASS B UNITS; REDEMPTION RIGHT**

3.1 **Forfeiture of Class B Units.**

(a) **Unvested Class B Units.** Except as set forth in Section 2.3, upon a termination of Service of the Participant for any reason, all unvested Class B Units as of such date of termination, shall immediately be forfeited and canceled in their entirety without any consideration.

(b) **Vested Class B Units.** Upon (i) a termination of Service for Cause, (ii) resignation by the Participant when grounds for Cause exist or (iii) if, following any termination of Service, the Participant commits a material breach of any of the provisions of Article VI, then all vested Class B Units as of such date shall immediately be forfeited and cancelled in their entirety without any consideration.

3.2 **Redemption Right and Transfer Restrictions.** The Participant agrees and acknowledges that the Class B Units shall be subject to redemption by the Company or its designee under certain circumstances as set forth in Section 3.07 of the LP Agreement, and are subject to transfer restrictions under the LP Agreement.

**ARTICLE IV.
LP AGREEMENT**

4.1 LP Agreement. The Participant agrees and acknowledges that contemporaneously herewith, the Participant shall execute and become a party to and be bound by the terms and conditions of the LP Agreement pursuant to the Joinder Agreement in the form attached hereto as Exhibit C.

**ARTICLE V.
DEFINITIONS**

5.1 Definitions. As used in this Agreement, the following terms have the meanings set forth below:

(a) “Cause” shall occur if the Participant: (i) is indicted by federal or state authorities in respect of any crime that involves, in the good faith judgment of the General Partner, theft, dishonesty or breach of trust, (ii) is convicted of a felony, (iii) commits any act or omission that results in, or may reasonably be expected to result in, a conviction, plea of no contest, plea of nolo contendere, or imposition of unadjudicated probation for any felony, (iv) deliberately and repeatedly refuses to perform the customary employment duties reasonably related to the Participant’s position (other than as a result of vacation, sickness, illness or injury), (v) in the good faith judgment of the General Partner, commits fraud or embezzlement of the property or assets of the Company or any of its Subsidiaries and Affiliates, (vi) commits misconduct or malfeasance (intentional or reckless wrongdoing with or without malicious or tortious intent) that may, in the good faith judgment of the General Partner, have a material adverse effect on the Company or any of its Subsidiaries and Affiliates; or (vii) breaches or violates any provision of the Participant’s employment agreement; provided, that, in no event shall any event or condition set forth in this Section 5.1(a) constitute “Cause” unless (1) the Participant is provided with written notice of the occurrence of the applicable event or condition within sixty (60) days following the initial occurrence thereof, and (2) the event or condition is not materially cured within thirty (30) days after the date on which such notice is provided.

(b) “Disability” shall occur if the Participant: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant’s employer.

(c) “Good Reason” shall mean the occurrence of any of the following without the Participant’s written consent: (i) the assignment to the Participant of duties or responsibilities that results in a material diminution in the Participant’s authority, duties or responsibilities with Vericity as in effect as of the Grant Date; (ii) any decrease in the Participant’s base salary with Vericity as in effect as of the Grant Date (or as increased thereafter); (iii) a change in the Participant’s principal place of employment with Vericity of more than 30 miles from the principal

place of employment as of the Grant Date; or (iv) a material breach by the Company or any of its Subsidiaries and Affiliates of this Agreement or the Employment Agreement; provided, that, in no event shall any event or condition set forth in this Section 5.1(c) constitute “Good Reason” unless (1) the Participant provides written notice to the Company of the occurrence of the applicable event or condition within sixty (60) days following the initial occurrence thereof, (2) the event or condition is not materially cured within thirty (30) days after the date on which such notice is provided and (3) the Participant terminates employment with Vericity within ten (10) days after the expiration of such thirty (30) day cure period.

(d) “Service” shall mean the Participant’s service as an employee or consultant with the Company or any of its Subsidiaries.

ARTICLE VI. RESTRICTIVE COVENANTS

6.1 Restrictive Covenants. In consideration for the Class B Units granted to the Participant by the Company under this Agreement and for the Participant’s access to and receipt of the confidential information and trade secrets described herein, the Participant agrees to be bound by the following covenants:

(a) Confidential Information and Trade Secrets. The Participant agrees that during the course of employment with Vericity, the Participant has and will come into contact with and have access to various forms of Confidential Information and Trade Secrets, which are the property of Vericity. This information relates both to Vericity, its customers, vendors and its employees. For purposes of this Agreement, the term “Confidential Information and Trade Secrets” means all information not generally known to the public that the Participant acquires or learns of during the course of the Participant’s employment with Vericity that relates to: (i) information with respect to costs, commissions, expirations, fees, profits, sales, markets, products and product formulae, mailing lists, strategies and plans for future business, new business, product or other development, new and innovative product ideas, potential acquisitions or divestitures, and new marketing ideas; (ii) product formulations, algorithms, system designs, site maps, information processing methodologies, software, software coding methodologies, website functionality, information security processes, business methods, procedures, devices, machines, equipment, data processing programs, software computer models, research projects, system customizations, program implementation plans, and other information and means used by Vericity in the conduct of its business; (iii) the identity of Vericity’s customers and product end users, their names and addresses, the names of representatives of Vericity’s customers responsible for entering into contracts with Vericity, the amounts paid by such customers to Vericity, specific customer needs and requirements, and leads and referrals to prospective customers; and (iv) the identity and number of Vericity’s employees, their salaries, bonuses, benefits, qualifications and abilities; all of which information the Participant acknowledges and agrees has been developed, compiled or acquired by Vericity at its great effort and expense. Confidential Information and Trade Secrets can be in any form: oral, written or machine readable, including electronic files.

(b) Secrecy of Confidential Information and Trade Secrets Essential. The Participant acknowledges and agrees that Vericity is engaged in a highly competitive business and

that its competitive position depends upon its ability to maintain the confidentiality of the Confidential Information and Trade Secrets which were developed, compiled and acquired by Vericity over a considerable period of time and at its great effort and expense. The Participant further acknowledges and agrees that any disclosure, divulging, revelation or use of any of the Confidential Information and Trade Secrets, other than in connection with Vericity's business or as specifically authorized by Vericity, will be highly detrimental to Vericity, and that serious loss of business and pecuniary damage may result therefrom.

- (c) Non-Disclosure of Confidential Information. The Participant agrees, except as specifically required in the performance of the Participant's duties on behalf of Vericity, the Participant will not, while associated with Vericity and for so long thereafter as the pertinent information or documentation remains confidential, directly or indirectly use, disclose or disseminate to any other person, organization or entity or otherwise use any of Vericity's Confidential Information and Trade Secrets; further the Participant agrees to maintain Vericity's Confidential Information and Trade Secrets in strict confidence and to use all commercially reasonable efforts to not allow any unauthorized access to, or disclosure of, Vericity's Confidential Information and Trade Secrets. Notwithstanding the foregoing, pursuant to the federal Defend Trade Secrets Act of 2016, the Participant shall not be held criminally or civilly liable under federal or state trade secret law for the disclosure of a trade secret that: (i) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.
- (d) Return of Material. The Participant further agrees to deliver to Vericity, immediately upon resignation or separation from Vericity or at any other time Vericity so requests to return any of the following that may be in the Participant's possession or under the Participant's control: (i) any and all documents, files, notes, memoranda, databases, computer files and/or other computer programs reflecting any Confidential Information and Trade Secrets whatsoever, or otherwise relating to Vericity's business; (ii) lists of Vericity's customers or leads or referrals to prospective customers; (iii) any computer equipment, home office equipment, automobile or other business equipment belonging to Vericity which the Participant may then possess or have under the Participant's control; and (iv) all product formulations, algorithms, system designs, site maps, information processing methodologies, software, software coding methodologies, website functionality, information security processes, business methods, procedures, devices, machines, equipment, data processing programs, software computer models, research projects, system customizations, program implementation plans and other information and means used by Vericity in the conduct of its business.
- (e) No Competitive Activity. The Participant acknowledges and agrees that Vericity is engaged in a highly competitive business and that by virtue of the Participant's position and responsibilities with Vericity and the Participant's access to the Confidential Information and Trade Secrets, engaging in any business which is directly competitive with Vericity will cause Vericity great and irreparable harm. Therefore, the Participant covenants and agrees that the Participant shall not, within the Territory, at all times (i) during the Participant's period of employment with Vericity and (ii) during the period beginning on the date of termination of the

Participant's employment (whether such termination is voluntary or involuntary, for Cause or without Cause, or otherwise) and ending twelve (12) months thereafter (the "Restricted Period"), (1) directly or indirectly, engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever, in any person, firm, or business entity which engages in a Competitive Business, or any person, firm, or business entity which is planning to engage in a Competitive Business; or (2) be employed in a managerial or executive capacity by any person, firm, or business entity which engages in a Competitive Business or any person, firm, or business entity which is planning to engage in a Competitive Business. For purposes of this Agreement, (x) "Competitive Business" means any business or other endeavor which engages in a business competitive with the Company, or any person, firm or business entity which is planning to engage in a business competitive with the Company and (y) "Territory," means the United States. Notwithstanding the foregoing, in the event of either (1) a termination by Vericity without Cause or (2) a termination by the Participant for Good Reason, "Competitive Business" shall mean any business or other endeavor that provides or engages in non-medically underwritten life insurance products or sales of life insurance products via a call center model.

(f) Non-Solicitation of Employees. The Participant acknowledges and agrees that solely as a result of employment with Vericity, the Participant has and will come into contact with and acquire confidential information regarding some, most, or all of Vericity's employees. Therefore, the Participant covenants and agrees that at all times during the Restricted Period, the Participant shall not, either on the Participant's own account or on behalf of any person, firm, or business entity, recruit, solicit, interfere with, or endeavor to cause any employee of Vericity with whom the Participant came into contact or about whom the Participant obtained confidential information, to leave his or her employment with Vericity, or to work in a capacity that is competitive with Vericity, or to work in a capacity that is similar to the capacity in which the employee was employed by Vericity.

(g) Non-Disparagement. The Participant covenants and agrees that at all times following the termination of the Participant's employment with Vericity for any reason, the Participant shall not, directly or indirectly, in public or private, deprecate, impugn, disparage, or make any remarks that would tend to or be construed to tend to defame (collectively, "Disparage") Vericity, its products or services, or any of its officers, directors, employees, or agents; nor shall the Participant assist any other person, firm or entity in so doing. The Company shall not, and shall instruct its officers and the officers of its Subsidiaries not to, Disparage the Participant at any time following the termination of the Participant's employment with Vericity for any reason.

6.2 Specific Performance. The Participant acknowledges and agrees that irreparable injury to the Company or an Affiliate may result if the Participant breaches any covenant of the Participant contained herein and that the remedy at law for the breach of any such covenant will be inadequate. Accordingly, if the Participant engages in any act in violation of the provisions of Section 6.1, the Company or an Affiliate shall be entitled, in addition to such other remedies and damages as may be available to it by law or under this Agreement, to injunctive relief to enforce such provisions.

**ARTICLE VII.
MISCELLANEOUS PROVISIONS**

7.1 **Termination and Amendment of the Agreement.** This Agreement shall be terminated only with the prior written consent of the Company (with the approval of the General Partner) and the Participant; provided, that Article VI (Restrictive Covenants) and this Article VII (Miscellaneous Provisions) shall survive any termination of this Agreement. This Agreement may be amended, and compliance with any term hereof may be waived, only with the prior written consent of the Company (with the written approval of the General Partner) and the Participant.

7.2 **Termination of Status as Participant.** From and after the date that the Participant ceases to own any Class B Units, he or she shall cease to be a Participant for the purposes of this Agreement and all rights he may have hereunder shall terminate, except for any rights with respect to matters contemplated hereby after such date and except for breaches occurring prior to such time. For the purposes of the preceding sentence, the Participant shall be deemed to own all Class B Units owned by his or her Permitted Transferees.

7.3 **Notices.** All notices required hereunder shall be delivered to the following respective addresses:

(a) The Company:

Apex Holdco L.P.
c/o Apex Holdco GP LLC
c/o J.C. Flowers & Co. LLC
767 Fifth Avenue, 23rd Floor
New York, NY 10153

With copies (which shall not constitute notice) to:

Weil, Gotshal & Manges, LLP
767 Fifth Avenue
New York, NY 10153
Attention: Douglas P. Warner, Esq.
Facsimile: 212-310-8007
Email: doug.warner@weil.com

(b) the Participant, at the address of the Participant as specified below such Participant's signature at the
end of this Agreement

With copies (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
Attention:
Joe Penko

Jon Hlafter

Facsimile: (212) 735-2000

Email: jon.hlafter@skadden.com

joseph.penko@skadden.com

Notices shall be in writing and shall be sent by facsimile or pdf e-mail, by mail (postage prepaid, registered or certified, by United States mail, return receipt requested), by nationally recognized private courier or by personal delivery. Notices shall be effective, (i) if sent by facsimile, when transmitted, (ii) if sent by pdf e-mail, when transmitted, (iii) if by nationally recognized private courier, when deposited with the private courier, (iv) if mailed, when deposited in the mail, and (v) if personally delivered, the earlier of when delivery is made or first refused. Any Person may change its address for the delivery of notices by written notice served in accordance with the provisions hereof.

7.4 **Miscellaneous.** The use of the singular or plural or masculine, feminine or neuter gender shall not be given an exclusionary meaning and, where applicable, shall be intended to include the appropriate number or gender, as the case may be.

7.5 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one instrument. Facsimile and pdf e-mail signatures shall have the same legal effect as manual signatures.

7.6 **Entire Agreement.** This Agreement, the Plan and the LP Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and thereof. No promises, statements, understandings, representations, or warranties of any kind, whether oral or in writing, express or implied have been made to the Participant by any Person to induce him to enter into this Agreement other than the express terms set forth in this Agreement, the Plan and the LP Agreement, and the Participant is not relying upon any promises, statements, understandings, representations, or warranties with respect to the subject matter hereof other than those expressly set forth in this Agreement, the Plan and the LP Agreement. Any amendments to this Agreement must be made in writing and duly executed by each of the parties entitled to adopt said amendment as provided in Section 7.1 or by an authorized representative or agent of each such party. The Participant hereby acknowledges and represents that he has had the opportunity to consult with independent legal counsel or other advisor of his choice and has done so regarding his rights and obligations under this Agreement, that he is entering into this Agreement knowingly, voluntarily, and of his own free will, that he is relying on his own judgment in doing so, and that he fully understands the terms and conditions contained herein.

7.7 **Class B Units Subject to LP Agreement.** By entering into this Agreement the Participant agrees and acknowledges that (i) the Participant has received and read a copy of the Plan and the LP Agreement and (ii) the Class B Units are subject to the LP Agreement, the terms and provisions of which are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms of this Agreement will govern and prevail. In the event of a conflict between any term or provision contained herein and a term in the LP Agreement, the applicable terms and provisions of the LP Agreement will govern and prevail (except as expressly set forth herein). Neither the

adoption of the Plan nor any award made thereunder shall restrict in any way the adoption of any amendment to the LP Agreement in accordance with the terms thereof.

7.8 **Tax Withholding.** The Participant may be required to pay to the Company or any of its Subsidiaries or Affiliates, and the Company and its Subsidiaries and Affiliates shall have the right and are hereby authorized to withhold from any payment due or transfer made under this Agreement or from any other amount owing to the Participant (subject to applicable law), the amount (in cash or, at the election of the Company, securities or other property) of any applicable federal, state, local or foreign withholding taxes in respect of a Class B Unit or any payment or transfer under this Agreement and to take such other action as may be necessary in the opinion of the General Partner to satisfy all obligations for the payment of such taxes.

7.9 **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the parties hereto, their heirs, representatives, successors and permitted assigns (including Permitted Transferees to whom Units have been transferred, as applicable).

7.10 **Enforcement.** The failure of any party hereto to insist in one or more instances on performance by another party hereto of any obligation, condition or other term of this Agreement in strict accordance with the provisions hereof shall not be construed as a waiver of any right granted hereunder or of the future performance of any obligation, condition or other term of this Agreement in strict accordance with the provisions hereof, and no waiver with respect thereto shall be effective unless contained in a writing signed by or on behalf of the waiving party. The remedies in this Agreement shall be cumulative and are not exclusive of any other remedies provided by law.

7.11 **Governing Law.** This Agreement, and any and all claims arising out of, under, pursuant to, or in any way related to this Agreement, including but not limited to any and all claims (whether sounding in contract or tort) as to this Agreement's scope, validity, enforcement, interpretation, construction, and effect, shall be governed by the laws of the State of Delaware (without regard to any conflict of laws rule which might result in the application of the laws of any other jurisdiction).

7.12 **Severability.** If any provision of this Agreement is, becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any Person or award, such provision shall be construed or deemed amended to conform to all applicable laws, or if it cannot be construed or deemed amended without, in the determination of the General Partner, materially altering the intent of this Agreement or the award, such provision shall be stricken as to such jurisdiction, Person or award and the remainder of this Agreement and any such award shall remain in full force and effect.

7.13 **No Contract of Service.** Neither this Agreement nor any award granted under this Agreement shall confer upon any Person any right to employment or other service or continuance of employment or other service by the Company or any of its Subsidiaries or Affiliates. This Agreement does not constitute a contract of employment or impose on any Participant or the Company or any of its Subsidiaries or Affiliates any obligations to retain the Participant as an employee or other service provider of the Company or any of its Subsidiaries or Affiliates, to

change the status of the Participant's employment or service, or to change the Company or any of its Subsidiaries' or Affiliates' policies regarding termination of employment or service.

7.14 **Captions.** The article or section titles or captions contained in this Agreement are for convenience only and are not to be considered in the construction or interpretation of this Agreement or any provision thereof.

7.15 **No Third Party Rights.** Nothing in this Agreement shall be construed to grant rights to any Person who is not a party to this Agreement.

7.16 **Rule of Construction.** The parties acknowledge and agree that each has negotiated and reviewed the terms of this Agreement, assisted by such legal and tax counsel as they desired, and has contributed to its revisions. The parties further agree that the rule of construction that a contract shall be construed against the drafter shall not be applied. The word "including", means "including, without limitation."

7.17 **Units after Initial Public Offering.** For purposes of determining vesting after an initial public offering, references to Units shall also be deemed to be references to the shares that the holder of such Units receives in respect of such Units in connection with the initial public offering.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

APEX HOLDCO L.P.

By:
Name:
Its:

PARTICIPANT

Name: [●]

Exhibit A

Accredited Investor Questionnaire

The undersigned individual (the "Executive") represents and warrants that it is not an "accredited investor" as defined in Rule 501(a) promulgated under Regulation D of the Securities Act (please initial the non-accredited investor election below):

The Executive is not an accredited investor.

The Executive represents and warrants that it is an "accredited investor" as defined in Rule 501(a) promulgated under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), because he or she meets at least one of the following criteria (please initial each applicable item):

The Executive is a natural person whose individual net worth, or joint net worth with his or her spouse, exceeds \$1,000,000 at the time of the Executive's purchase, excluding the value of the primary residence of such natural person, calculated by subtracting from the estimated fair market value of the property the amount of debt secured by the property, up to the estimated fair market value of the property;

The Executive is a natural person who had an individual income in excess of \$200,000 in each of the two most recent years (2017 and 2018) or joint income with the Executive's spouse in excess of \$300,000 in each of those years and who reasonably expects to reach the same income level in the current year (2019); or

The Executive is a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring units of Apex Holdco L.P., the receipt of which is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D promulgated under the Securities Act; or

The undersigned is any entity in which all of the equity owners are accredited investors. *(Please submit a copy of this questionnaire countersigned by each such equity owner if relying on this item).*

* * * *

IN WITNESS WHEREOF, the undersigned has executed this Accredited Investor Questionnaire on the date set forth below.

Dated: _____

By: _____
Name: [●]

Exhibit B

Form of Section 83(b) Election

The undersigned taxpayer hereby elects, pursuant to § 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the shares described below over the amount paid for those shares.

1. The name, taxpayer identification number, address of the undersigned, and the taxable year for which this election is being made are:

TAXPAYER'S NAME: _____

TAXPAYER'S SOCIAL SECURITY NUMBER: _____

ADDRESS: _____

TAXABLE YEAR: Calendar Year _____

2. The property which is the subject of this election is _____ Class B Units of Apex Holdco L.P. ("Company").

3. The property was transferred to the undersigned on _____

4. The property is subject to the following restrictions: The Class B Units are subject to service-based vesting.

5. The fair market value of the property at the time of transfer (determined without regard to any restriction other than a nonlapse restriction as defined in § 1.83-3(h) of the Income Tax Regulations) is: \$0.

6. For the property transferred, the undersigned paid \$0.

7. The amount to include in gross income is \$0.

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

Dated: _____

Taxpayer: _____

Exhibit C

Joinder Agreement

This Joinder Agreement (this "Joinder Agreement") is made as of the date written below by the undersigned ("New Member"), in accordance with the Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of [●], 2019 (as may be amended from time to time, the "LP Agreement"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the LP Agreement.

Concurrently herewith the Company is issuing Class B Units of the Company to the New Member.

New Member hereby acknowledges, agrees and confirms that, by its execution of this Joinder Agreement, New Member shall be deemed to be a party to the LP Agreement as of the date hereof, shall be considered a Class B Member, and shall have all of the rights and be subject to the obligations of a Class B Member as if it had executed the LP Agreement. New Member hereby makes each of the representations and warranties set forth in Article XII of the LP Agreement as if such representations and warranties were expressly set forth in this Joinder Agreement. New Member hereby ratifies, as of the date hereof, and agrees to be bound by, all of the applicable terms, provisions and conditions contained in the LP Agreement.

This Joinder Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to any provision thereof relating to conflicts of laws.

IN WITNESS WHEREOF, New Member has executed this Joinder Agreement as of the date written below.

Date: _____

Name: [Name]

**APEX HOLDCO L.P.
2019 EQUITY INCENTIVE PLAN**

CLASS B UNIT AWARD AGREEMENT

THIS CLASS B UNIT AWARD AGREEMENT (the “Agreement”) is made as of [●] (the “Grant Date”) by Apex Holdco L.P., a Delaware limited partnership (the “Company”), and [_____] (the “Participant”).

RECITALS

A. The Company is governed by the Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of [●], 2019, as may be amended from time to time (the “LP Agreement”). Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to such terms in the LP Agreement or in the Plan (defined below).

B. In consideration for the provisions of services to or for the benefit of the Company by the Participant, the Company hereby grants Class B Units to the Participant under the terms and provisions of this Agreement, the Apex Holdco L.P. 2019 Equity Incentive Plan (the “Plan”) and the LP Agreement.

C. The Company and the Participant desire to impose certain vesting conditions with respect to the Class B Units granted to the Participant.

AGREEMENTS

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant agree as follows:

**ARTICLE I.
GRANT OF CLASS B UNITS**

1.1 Grant. Subject to the terms and conditions contained herein, in the Plan and in the LP Agreement, the Participant is granted [●] Class B Units of the Company effective as of the Grant Date, which shall be eligible to vest in accordance with Section 2.3 (the “Units”).

1.2 Risks. The Participant is aware of and understands the following:

(a) the Participant must bear the economic risk of an investment in the Class B Units for an indefinite period of time because, among other things, (i) the Class B Units have not been registered under the Securities Act, and, therefore, cannot be sold unless they are subsequently registered under the Securities Act or an exemption from such registration is available, (ii) the Class B Units have not been registered under applicable state securities laws, and, therefore, cannot be sold unless they are registered under applicable state securities laws or an exemption from such registration is available, and (iii) there are substantial restrictions on the

transferability of the Class B Units under this Agreement, the Plan, the LP Agreement and applicable law, and substantial restrictions on distributions from the Company;

(b) there is no established market for the Class B Units and no market (public or otherwise) for the Class B Units will develop in the foreseeable future; and

(c) the Participant has no rights to require that the Class B Units be registered under the Securities Act or the securities laws of any states and the Participant will not be able to avail itself of the provisions of Rule 144 adopted by the Securities and Exchange Commission under the Securities Act.

1.3 Information. The Participant is one of the following as indicated on the Accredited Investor Questionnaire in the form attached hereto as **Exhibit A** and provided by the Participant to the Company:

(a) an “accredited investor” within the meaning of Rule 501(a) under Regulation D of the Securities Act, and has (or, in the case of a trust, the trustee has) such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of his, her or its investment in the Class B Units, and the Participant is capable of bearing the economic risks of such investment and is able to bear the complete loss of his, her or its investment in the Class B Units, or

(b) not an accredited investor, and has (or, in the case of a trust, the trustee has), by itself or through a “purchaser representative” within the meaning of Rule 501(i) under Regulation D of the Securities Act, such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of his, her or its investment in the Class B Units, and the Participant is capable of bearing the economic risks of such investment and is able to bear the complete loss of his, her or its investment in the Class B Units.

1.4 Protective Section 83(b) Election. Within thirty (30) days from the date hereof, the Participant shall execute and file with the Internal Revenue Service a protective election under Section 83(b) of the Code with respect to the grant of Class B Units described in this Agreement substantially in the form attached hereto as **Exhibit B** and the Participant shall provide the Company with a copy of such executed and filed election promptly thereafter.

ARTICLE II. PROFITS INTERESTS; VESTING

2.1 Profits Interests. The Class B Units granted under this Agreement are intended to constitute “profits interests” as described in Section 3.06 of the LP Agreement and shall be subject to the terms and conditions thereof.

2.2 Participation Threshold. The Participation Threshold for each Class B Unit granted to the Participant pursuant to this Agreement is equal to \$[_____], such amount being determined by the General Partner as of the Grant Date pursuant to the terms of the LP Agreement.

2.3 **Vesting of Class B Units.** The Class B Units granted to the Participant hereunder shall be eligible to vest as provided in this Section 2.3:

(a)Vesting. Subject to the remainder of this Section 2.3(a), 20% of the Units shall vest on each of the first five (5) anniversaries of the Grant Date, subject to the Participant's continued Service with the Company or one of its Subsidiaries from the date of this Agreement through the applicable vesting date.

(b)Change of Control. All unvested Units shall vest immediately prior to and subject to the consummation of a Change of Control, subject to the Participant's continued Service on such date. For the avoidance of doubt, an initial public offering shall not be considered a Change of Control.

(c) Termination of Service. Upon a termination of the Participant's Service for any reason (including, without limitation, upon resignation, termination for cause, death, and disability), all unvested Units shall vest immediately. "Service" shall mean the Participant's service as a director or advisory board member with the Company or any of its Subsidiaries.

ARTICLE III. REDEMPTION RIGHT

3.1 **Redemption Right and Transfer Restrictions.** The Participant agrees and acknowledges that the Class B Units shall be subject to redemption by the Company or its designee under certain circumstances as set forth in Section 3.07 of the LP Agreement, and are subject to transfer restrictions under the LP Agreement.

ARTICLE IV. LLC AGREEMENT

4.1 **LP Agreement.** The Participant agrees and acknowledges that contemporaneously herewith, the Participant shall execute and become a party to and be bound by the terms and conditions of the LP Agreement pursuant to the Joinder Agreement in the form attached hereto as Exhibit C.

ARTICLE V. CONFIDENTIALITY

5.1 **Confidentiality.** In consideration for the Class B Units granted to the Participant by the Company under this Agreement and for the Participant's access to and receipt of the confidential information and trade secrets described herein, the Participant agrees to be bound by the following covenants:

(a)Confidential Information and Trade Secrets. The Participant agrees that during the course of Service with Vericity, the Participant has and will come into contact with and have access to various forms of Confidential Information and Trade Secrets, which are the property

of Vericity. This information relates both to Vericity, its customers, vendors and its employees. For purposes of this Agreement, the term "Confidential Information and Trade Secrets" means all information not generally known to the public that the Participant acquires or learns of during the course of the Participant's Service with Vericity that relates to: (i) information with respect to costs, commissions, expirations, fees, profits, sales, markets, products and product formulae, mailing lists, strategies and plans for future business, new business, product or other development, new and innovative product ideas, potential acquisitions or divestitures, and new marketing ideas; (ii) product formulations, algorithms, system designs, site maps, information processing methodologies, software, software coding methodologies, website functionality, information security processes, business methods, procedures, devices, machines, equipment, data processing programs, software computer models, research projects, system customizations, program implementation plans, and other information and means used by Vericity in the conduct of its business; (iii) the identity of Vericity's customers and product end users, their names and addresses, the names of representatives of Vericity's customers responsible for entering into contracts with Vericity, the amounts paid by such customers to Vericity, specific customer needs and requirements, and leads and referrals to prospective customers; and (iv) the identity and number of Vericity's employees, their salaries, bonuses, benefits, qualifications and abilities; all of which information the Participant acknowledges and agrees has been developed, compiled or acquired by Vericity at its great effort and expense. Confidential Information and Trade Secrets can be in any form: oral, written or machine readable, including electronic files.

- (b) Secrecy of Confidential Information and Trade Secrets Essential. The Participant acknowledges and agrees that Vericity is engaged in a highly competitive business and that its competitive position depends upon its ability to maintain the confidentiality of the Confidential Information and Trade Secrets which were developed, compiled and acquired by Vericity over a considerable period of time and at its great effort and expense. The Participant further acknowledges and agrees that any disclosure, divulging, revelation or use of any of the Confidential Information and Trade Secrets, other than in connection with Vericity's business or as specifically authorized by Vericity, will be highly detrimental to Vericity, and that serious loss of business and pecuniary damage may result therefrom.
- (c) Non-Disclosure of Confidential Information. The Participant agrees, except as specifically required in the performance of the Participant's duties on behalf of Vericity, the Participant will not, while associated with Vericity and for so long thereafter as the pertinent information or documentation remains confidential, directly or indirectly use, disclose or disseminate to any other person, organization or entity or otherwise use any of Vericity's Confidential Information and Trade Secrets; further the Participant agrees to maintain Vericity's Confidential Information and Trade Secrets in strict confidence and to use all commercially reasonable efforts to not allow any unauthorized access to, or disclosure of, Vericity's Confidential Information and Trade Secrets. Notwithstanding the foregoing, pursuant to the federal Defend Trade Secrets Act of 2016, the Participant shall not be held criminally or civilly liable under federal or state trade secret law for the disclosure of a trade secret that: (i) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(d) **Non-Disparagement.** The Participant covenants and agrees that at all times following the termination of the Participant's employment with Vericity for any reason, the Participant shall not, directly or indirectly, in public or private, deprecate, impugn, disparage, or make any remarks that would tend to or be construed to tend to defame (collectively, "**Disparage**") Vericity, its products or services, or any of its officers, directors, employees, or agents; nor shall the Participant assist any other person, firm or entity in so doing. The Company shall not, and shall instruct its officers and the officers of its Subsidiaries not to, Disparage the Participant at any time following the termination of the Participant's employment with Vericity for any reason.

5.2 Specific Performance. The Participant acknowledges and agrees that irreparable injury to the Company or an Affiliate may result if the Participant breaches any covenant of the Participant contained herein and that the remedy at law for the breach of any such covenant will be inadequate. Accordingly, if the Participant engages in any act in violation of the provisions of **Section 5.1**, the Company or an Affiliate shall be entitled, in addition to such other remedies and damages as may be available to it by law or under this Agreement, to injunctive relief to enforce such provisions.

ARTICLE VI. MISCELLANEOUS PROVISIONS

6.1 Termination and Amendment of the Agreement. This Agreement shall be terminated only with the prior written consent of the Company (with the approval of the General Partner) and the Participant; provided, that Article IV (Restrictive Covenants) and this Article V (Miscellaneous Provisions) shall survive any termination of this Agreement. This Agreement may be amended, and compliance with any term hereof may be waived, only with the prior written consent of the Company (with the written approval of the General Partner) and the Participant.

6.2 Termination of Status as Participant. From and after the date that the Participant ceases to own any Class B Units, he or she shall cease to be a Participant for the purposes of this Agreement and all rights he may have hereunder shall terminate, except for any rights with respect to matters contemplated hereby after such date and except for breaches occurring prior to such time. For the purposes of the preceding sentence, the Participant shall be deemed to own all Class B Units owned by his or her Permitted Transferees.

6.3 Notices. All notices required hereunder shall be delivered to the following respective addresses:

- (a) The Company:

Apex Holdco L.P.
c/o Apex Holdco GP LLC
c/o J.C. Flowers & Co. LLC
767 Fifth Avenue, 23rd Floor
New York, NY 10153

With copies (which shall not constitute notice) to:

Weil, Gotshal & Manges, LLP
767 Fifth Avenue
New York, NY 10153
Attention: Douglas P. Warner, Esq.
Facsimile: 212-310-8007
Email: doug.warner@weil.com

(b) the Participant, at the address of the Participant as specified below such Participant's signature at the end of this Agreement

With copies (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036

Attention:

Jon Hlafter

Joe Penko

Facsimile: (212) 735-2000

Email: jon.hlafter@skadden.com

joseph.penko@skadden.com

Notices shall be in writing and shall be sent by facsimile or pdf e-mail, by mail (postage prepaid, registered or certified, by United States mail, return receipt requested), by nationally recognized private courier or by personal delivery. Notices shall be effective, (i) if sent by facsimile, when transmitted, (ii) if sent by pdf e-mail, when transmitted, (iii) if by nationally recognized private courier, when deposited with the private courier, (iv) if mailed, when deposited in the mail, and (v) if personally delivered, the earlier of when delivery is made or first refused. Any Person may change its address for the delivery of notices by written notice served in accordance with the provisions hereof.

6.4 Miscellaneous. The use of the singular or plural or masculine, feminine or neuter gender shall not be given an exclusionary meaning and, where applicable, shall be intended to include the appropriate number or gender, as the case may be.

6.5 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one instrument. Facsimile and pdf e-mail signatures shall have the same legal effect as manual signatures.

6.6 Entire Agreement. This Agreement, the Plan and the LP Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and thereof. No promises, statements, understandings, representations, or warranties of any kind, whether oral or in writing, express or implied have been made to the Participant by any Person to induce him to enter into this Agreement other than the express terms set forth in this Agreement, the Plan and the LP Agreement, and the Participant is not relying upon any promises, statements, understandings, representations, or warranties with respect to the subject matter hereof other than

those expressly set forth in this Agreement, the Plan and the LP Agreement. Any amendments to this Agreement must be made in writing and duly executed by each of the parties entitled to adopt said amendment as provided in Section 6.1 or by an authorized representative or agent of each such party. The Participant hereby acknowledges and represents that he has had the opportunity to consult with independent legal counsel or other advisor of his choice and has done so regarding his rights and obligations under this Agreement, that he is entering into this Agreement knowingly, voluntarily, and of his own free will, that he is relying on his own judgment in doing so, and that he fully understands the terms and conditions contained herein.

6.7 **Class B Units Subject to LP Agreement.** By entering into this Agreement the Participant agrees and acknowledges that (i) the Participant has received and read a copy of the Plan and the LP Agreement and (ii) the Class B Units are subject to the LP Agreement, the terms and provisions of which are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms of this Agreement will govern and prevail. In the event of a conflict between any term or provision contained herein and a term in the LP Agreement, the applicable terms and provisions of the LP Agreement will govern and prevail (except as expressly set forth herein). Neither the adoption of the Plan nor any award made thereunder shall restrict in any way the adoption of any amendment to the LP Agreement in accordance with the terms thereof.

6.8 **Tax Withholding.** The Participant may be required to pay to the Company or any of its Subsidiaries or Affiliates, and the Company and its Subsidiaries and Affiliates shall have the right and are hereby authorized to withhold from any payment due or transfer made under this Agreement or from any other amount owing to the Participant (subject to applicable law), the amount (in cash or, at the election of the Company, securities or other property) of any applicable federal, state, local or foreign withholding taxes in respect of a Class B Unit or any payment or transfer under this Agreement and to take such other action as may be necessary in the opinion of the General Partner to satisfy all obligations for the payment of such taxes.

6.9 **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the parties hereto, their heirs, representatives, successors and permitted assigns (including Permitted Transferees to whom Units have been transferred, as applicable).

6.10 **Enforcement.** The failure of any party hereto to insist in one or more instances on performance by another party hereto of any obligation, condition or other term of this Agreement in strict accordance with the provisions hereof shall not be construed as a waiver of any right granted hereunder or of the future performance of any obligation, condition or other term of this Agreement in strict accordance with the provisions hereof, and no waiver with respect thereto shall be effective unless contained in a writing signed by or on behalf of the waiving party. The remedies in this Agreement shall be cumulative and are not exclusive of any other remedies provided by law.

6.11 **Governing Law.** This Agreement, and any and all claims arising out of, under, pursuant to, or in any way related to this Agreement, including but not limited to any and all claims (whether sounding in contract or tort) as to this Agreement's scope, validity, enforcement, interpretation, construction, and effect, shall be governed by the laws of the State of Delaware

(without regard to any conflict of laws rule which might result in the application of the laws of any other jurisdiction).

6.12 Severability. If any provision of this Agreement is, becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any Person or award, such provision shall be construed or deemed amended to conform to all applicable laws, or if it cannot be construed or deemed amended without, in the determination of the General Partner, materially altering the intent of this Agreement or the award, such provision shall be stricken as to such jurisdiction, Person or award and the remainder of this Agreement and any such award shall remain in full force and effect.

6.13 No Contract of Service. Neither this Agreement nor any award granted under this Agreement shall confer upon any Person any right to employment or other service or continuance of employment or other service by the Company or any of its Subsidiaries or Affiliates. This Agreement does not constitute a contract of employment or impose on any Participant or the Company or any of its Subsidiaries or Affiliates any obligations to retain the Participant as an employee or other service provider of the Company or any of its Subsidiaries or Affiliates, to change the status of the Participant's employment or service, or to change the Company or any of its Subsidiaries' or Affiliates' policies regarding termination of employment or service.

6.14 Captions. The article or section titles or captions contained in this Agreement are for convenience only and are not to be considered in the construction or interpretation of this Agreement or any provision thereof.

6.15 No Third Party Rights. Nothing in this Agreement shall be construed to grant rights to any Person who is not a party to this Agreement.

6.16 Rule of Construction. The parties acknowledge and agree that each has negotiated and reviewed the terms of this Agreement, assisted by such legal and tax counsel as they desired, and has contributed to its revisions. The parties further agree that the rule of construction that a contract shall be construed against the drafter shall not be applied. The word "including", means "including, without limitation."

6.17 Units after Initial Public Offering. For purposes of determining vesting after an initial public offering, references to Units shall also be deemed to be references to the shares that the holder of such Units receives in respect of such Units in connection with the initial public offering.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

APEX HOLDCO L.P.

By:
Name:
Its:

PARTICIPANT

Name: [●]

Exhibit A

Accredited Investor Questionnaire

The undersigned individual (the “Executive”) represents and warrants that it is not an “accredited investor” as defined in Rule 501(a) promulgated under Regulation D of the Securities Act (please initial the non-accredited investor election below):

The Executive is not an accredited investor.

The Executive represents and warrants that it is an “accredited investor” as defined in Rule 501(a) promulgated under Regulation D of the Securities Act of 1933, as amended (the “Securities Act”), because he or she meets at least one of the following criteria (please initial each applicable item):

The Executive is a natural person whose individual net worth, or joint net worth with his or her spouse, exceeds \$1,000,000 at the time of the Executive’s purchase, excluding the value of the primary residence of such natural person, calculated by subtracting from the estimated fair market value of the property the amount of debt secured by the property, up to the estimated fair market value of the property;

The Executive is a natural person who had an individual income in excess of \$200,000 in each of the two most recent years (2017 and 2018) or joint income with the Executive’s spouse in excess of \$300,000 in each of those years and who reasonably expects to reach the same income level in the current year (2019); or

The Executive is a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring units of Apex Holdco L.P. the receipt of which is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D promulgated under the Securities Act; or

The undersigned is any entity in which all of the equity owners are accredited investors. *(Please submit a copy of this questionnaire countersigned by each such equity owner if relying on this item).*

* * * *

IN WITNESS WHEREOF, the undersigned has executed this Accredited Investor Questionnaire on the date set forth below.

Dated: _____

By: _____
Name: [●]

Exhibit B

Form of Section 83(b) Election

The undersigned taxpayer hereby elects, pursuant to § 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the shares described below over the amount paid for those shares.

1. The name, taxpayer identification number, address of the undersigned, and the taxable year for which this election is being made are:

TAXPAYER'S NAME: _____

TAXPAYER'S SOCIAL SECURITY NUMBER: _____

ADDRESS: _____

TAXABLE YEAR: Calendar Year _____

2. The property which is the subject of this election is _____ Class B Units of Apex Holdco L.P. ("Company").

3. The property was transferred to the undersigned on _____

4. The property is subject to the following restrictions: The Class B Units are subject to service-based vesting.

5. The fair market value of the property at the time of transfer (determined without regard to any restriction other than a nonlapse restriction as defined in § 1.83-3(h) of the Income Tax Regulations) is: \$0.

6. For the property transferred, the undersigned paid \$0.

7. The amount to include in gross income is \$0.

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

Dated: _____

Taxpayer: _____

Exhibit C

Joinder Agreement

This Joinder Agreement (this "Joinder Agreement") is made as of the date written below by the undersigned ("New Member"), in accordance with the Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of [●], 2019 (as may be amended from time to time, the "LP Agreement"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the LP Agreement.

Concurrently herewith the Company is issuing Class B Units of the Company to the New Member.

New Member hereby acknowledges, agrees and confirms that, by its execution of this Joinder Agreement, New Member shall be deemed to be a party to the LP Agreement as of the date hereof, shall be considered a Class B Member, and shall have all of the rights and be subject to the obligations of a Class B Member as if it had executed the LP Agreement. New Member hereby makes each of the representations and warranties set forth in Article XII of the LP Agreement as if such representations and warranties were expressly set forth in this Joinder Agreement. New Member hereby ratifies, as of the date hereof, and agrees to be bound by, all of the applicable terms, provisions and conditions contained in the LP Agreement.

This Joinder Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to any provision thereof relating to conflicts of laws.

IN WITNESS WHEREOF, New Member has executed this Joinder Agreement as of the date written below.

Date: _____

Name: [Name]

**APEX HOLDCO L.P.
2019 EQUITY INCENTIVE PLAN**

CLASS B UNIT AWARD AGREEMENT

THIS CLASS B UNIT AWARD AGREEMENT (the “Agreement”) is made as of [●] (the “Grant Date”) by Apex Holdco L.P., a Delaware limited partnership (the “Company”), and [] (the “Participant”).

RECITALS

A. The Company is governed by the Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of [●], 2019, as may be amended from time to time (the “LP Agreement”). Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to such terms in the LP Agreement or in the Plan (defined below).

B. In consideration for the provisions of services to or for the benefit of the Company by the Participant, the Company hereby grants Class B Units to the Participant under the terms and provisions of this Agreement, the Apex Holdco L.P. 2019 Equity Incentive Plan (the “Plan”) and the LP Agreement.

C. The Company and the Participant desire to impose certain recoupment conditions with respect to the Class B Units granted to the Participant.

AGREEMENTS

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant agree as follows:

**ARTICLE I.
GRANT OF CLASS B UNITS**

1.1 Grant. Subject to the terms and conditions contained herein, in the Plan and in the LP Agreement, the Participant is granted [●] Class B Units of the Company effective as of the Grant Date, which shall be fully vested as of the Grant Date but subject to recoupment by the Company in accordance with Section 2.3 (the “Units”).

1.2 Risks. The Participant is aware of and understands the following:

(a) the Participant must bear the economic risk of an investment in the Class B Units for an indefinite period of time because, among other things, (i) the Class B Units have not been registered under the Securities Act, and, therefore, cannot be sold unless they are subsequently registered under the Securities Act or an exemption from such registration is available, (ii) the Class B Units have not been registered under applicable state securities laws, and, therefore, cannot be sold unless they are registered under applicable state securities laws or

an exemption from such registration is available, and (iii) there are substantial restrictions on the transferability of the Class B Units under this Agreement, the Plan, the LP Agreement and applicable law, and substantial restrictions on distributions from the Company;

(b) there is no established market for the Class B Units and no market (public or otherwise) for the Class B Units will develop in the foreseeable future; and

(c) the Participant has no rights to require that the Class B Units be registered under the Securities Act or the securities laws of any states and the Participant will not be able to avail itself of the provisions of Rule 144 adopted by the Securities and Exchange Commission under the Securities Act.

1.3 Information. The Participant is one of the following as indicated on the Accredited Investor Questionnaire in the form attached hereto as **Exhibit A** and provided by the Participant to the Company:

(a) an “accredited investor” within the meaning of Rule 501(a) under Regulation D of the Securities Act, and has (or, in the case of a trust, the trustee has) such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of his, her or its investment in the Class B Units, and the Participant is capable of bearing the economic risks of such investment and is able to bear the complete loss of his, her or its investment in the Class B Units, or

(b) not an accredited investor, and has (or, in the case of a trust, the trustee has), by itself or through a “purchaser representative” within the meaning of Rule 501(i) under Regulation D of the Securities Act, such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of his, her or its investment in the Class B Units, and the Participant is capable of bearing the economic risks of such investment and is able to bear the complete loss of his, her or its investment in the Class B Units.

1.4 Protective Section 83(b) Election. Within thirty (30) days from the date hereof, the Participant shall execute and file with the Internal Revenue Service a protective election under Section 83(b) of the Code with respect to the grant of Class B Units described in this Agreement substantially in the form attached hereto as **Exhibit B** and the Participant shall provide the Company with a copy of such executed and filed election promptly thereafter.

ARTICLE II. PROFITS INTERESTS; VESTING

2.1 Profits Interests. The Class B Units granted under this Agreement are intended to constitute “profits interests” as described in Section 3.06 of the LP Agreement and shall be subject to the terms and conditions thereof.

2.2 Participation Threshold. The Participation Threshold for each Class B Unit granted to the Participant pursuant to this Agreement is equal to \$[_____], such amount being determined by the General Partner as of the Grant Date pursuant to the terms of the LP Agreement.

2.3 Vesting and Recoupment of Class B Units. The Class B Units granted to the Participant hereunder shall be fully vested as of the Grant Date, but shall be subject to recoupment by the Company as provided in this Section 2.3:

(a) Regular Recoupment Schedule. Except as otherwise set forth in this Section 2.3, if the Participant's Service with the Company and its Subsidiaries terminates prior to the fifth (5th) anniversary of the Grant Date, then the Company will be entitled to recoup the applicable portion of the Units that correspond to the actual date of such termination as set forth in the table below (the "Recoupment Schedule"):

Date of Termination of Service	Percentage of Units Subject to Recoupment
Prior to first anniversary of Grant Date	100%
On or after first anniversary of Grant Date and prior to second anniversary of Grant Date	80%
On or after second anniversary of Grant Date and prior to third anniversary of Grant Date	60%
On or after third anniversary of Grant Date and prior to fourth anniversary of Grant Date	40%
On or after fourth anniversary of Grant Date and prior to fifth anniversary of Grant Date	20%

(b) Reduced Role. If the Participant ceases his Service as an employee of the Company or one of its Subsidiaries in his current capacity on or following the third (3rd) anniversary of the Grant Date, and agrees to thereafter continue providing services to the Company or one of its Subsidiaries in a reduced capacity (including, without limitation, as Executive Chairman or Non-Executive Chairman) on such terms and conditions as are agreed between the Participant and the Company (the "Reduced Role Service"), then the Participant's Units shall continue to remain outstanding and vested and be subject to the Recoupment Schedule in accordance with Section 2.3(a) for such period as the Participant provides (or makes himself available to provide) the Reduced Role Service as if the Participant's Service as an employee in his current capacity continued.

(c) Termination Without Cause; Good Reason. If the Participant's Service or Reduced Role Service is terminated prior to the fifth (5th) anniversary of the Grant Date by the Company without Cause or by the Participant for Good Reason, then the Units shall continue to remain outstanding and vested and shall no longer be subject to recoupment; provided, that, if the Participant commences the Reduced Role Service, then for purposes of this Section 2.3(c), any reference in the definition of Good Reason to the "Grant Date" shall be deemed to be a reference to the date of commencement of the Reduced Role Service.

(d) Death or Disability. If the Participant's Service or Reduced Role Service terminates as a result of the Participant's death or Disability prior to the fifth (5th) anniversary of the Grant Date, then in addition to the number of Units that are not subject to recoupment as of the

date of such death or Disability, an additional number of Units equal to 20% of the total number of Units granted to the Participant shall no longer be subject to recoupment.

(e) Change of Control. All Units shall continue to remain outstanding and vested and shall no longer be subject to recoupment effective immediately prior to and subject to the consummation of a Change of Control, subject to the Participant's continued Service on such date. For the avoidance of doubt, an initial public offering shall not be considered a Change of Control.

ARTICLE III. FORFEITURE OF CLASS B UNITS; REDEMPTION RIGHT

3.1 Forfeiture of Class B Units

(a) Class B Units Subject to Recoupment. Except as set forth in Section 2.3, upon a termination of Service of the Participant for any reason, all Class B Units that are subject to recoupment in accordance with the Recoupment Schedule as of such date of termination, shall immediately be forfeited and canceled in their entirety without any consideration.

(b) Class B Units Not Subject to Recoupment. Upon (i) a termination of Service for Cause, (ii) resignation by the Participant when grounds for Cause exist or (iii) if, following any termination of Service, the Participant commits a material breach of any of the provisions of Article VI, then all Class B Units outstanding as of such date shall immediately be forfeited and cancelled in their entirety without any consideration.

3.2 Redemption Right and Transfer Restrictions. The Participant agrees and acknowledges that the Class B Units shall be subject to redemption by the Company or its designee under certain circumstances as set forth in Section 3.07 of the LP Agreement, and are subject to transfer restrictions under the LP Agreement.

ARTICLE IV. LP AGREEMENT

4.1 LP Agreement. The Participant agrees and acknowledges that contemporaneously herewith, the Participant shall execute and become a party to and be bound by the terms and conditions of the LP Agreement pursuant to the Joinder Agreement in the form attached hereto as Exhibit C.

ARTICLE V. DEFINITIONS

5.1 Definitions. As used in this Agreement, the following terms have the meanings set forth below:

(a) "Cause" shall occur if the Participant: (i) is indicted by federal or state authorities in respect of any crime that involves, in the good faith judgment of the General Partner, theft, dishonesty or breach of trust, (ii) is convicted of a felony, (iii) commits any act or omission

that results in, or may reasonably be expected to result in, a conviction, plea of no contest, plea of nolo contendere, or imposition of unadjudicated probation for any felony, (iv) deliberately and repeatedly refuses to perform the customary employment duties reasonably related to the Participant's position (other than as a result of vacation, sickness, illness or injury), (v) in the good faith judgment of the General Partner, commits fraud or embezzlement of the property or assets of the Company or any of its Subsidiaries and Affiliates, (vi) commits misconduct or malfeasance (intentional or reckless wrongdoing with or without malicious or tortious intent) that may, in the good faith judgment of the General Partner, have a material adverse effect on the Company or any of its Subsidiaries and Affiliates; or (vii) breaches or violates any provision of the Participant's employment agreement; provided, that, in no event shall any event or condition set forth in this Section 5.1(a) constitute "Cause" unless (1) the Participant is provided with written notice of the occurrence of the applicable event or condition within sixty (60) days following the initial occurrence thereof, and (2) the event or condition is not materially cured within thirty (30) days after the date on which such notice is provided.

(b) "Disability" shall occur if the Participant: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant's employer.

(c) "Good Reason" shall mean the occurrence of any of the following without the Participant's written consent: (i) the assignment to the Participant of duties or responsibilities that results in a material diminution in the Participant's authority, duties or responsibilities with Vericity as in effect as of the Grant Date; (ii) any decrease in the Participant's base salary with Vericity as in effect as of the Grant Date (or as increased thereafter); (iii) a change in the Participant's principal place of employment with Vericity of more than 30 miles from the principal place of employment as of the Grant Date; or (iv) a material breach by the Company or any of its Subsidiaries and Affiliates of this Agreement or the Employment Agreement; provided, that, in no event shall any event or condition set forth in this Section 5.1(c) constitute "Good Reason" unless (1) the Participant provides written notice to the Company of the occurrence of the applicable event or condition within sixty (60) days following the initial occurrence thereof, (2) the event or condition is not materially cured within thirty (30) days after the date on which such notice is provided and (3) the Participant terminates employment with Vericity within ten (10) days after the expiration of such thirty (30) day cure period.

(d) "Service" shall mean the Participant's service as an employee or consultant with the Company or any of its Subsidiaries.

**ARTICLE VI.
RESTRICTIVE COVENANTS**

6.1 Restrictive Covenants. In consideration for the Class B Units granted to the Participant by the Company under this Agreement and for the Participant's access to and receipt of the confidential information and trade secrets described herein, the Participant agrees to be bound by the following covenants:

(a) Confidential Information and Trade Secrets. The Participant agrees that during the course of employment with Vericity, the Participant has and will come into contact with and have access to various forms of Confidential Information and Trade Secrets, which are the property of Vericity. This information relates both to Vericity, its customers, vendors and its employees. For purposes of this Agreement, the term "Confidential Information and Trade Secrets" means all information not generally known to the public that the Participant acquires or learns of during the course of the Participant's employment with Vericity that relates to: (i) information with respect to costs, commissions, expirations, fees, profits, sales, markets, products and product formulae, mailing lists, strategies and plans for future business, new business, product or other development, new and innovative product ideas, potential acquisitions or divestitures, and new marketing ideas; (ii) product formulations, algorithms, system designs, site maps, information processing methodologies, software, software coding methodologies, website functionality, information security processes, business methods, procedures, devices, machines, equipment, data processing programs, software computer models, research projects, system customizations, program implementation plans, and other information and means used by Vericity in the conduct of its business; (iii) the identity of Vericity's customers and product end users, their names and addresses, the names of representatives of Vericity's customers responsible for entering into contracts with Vericity, the amounts paid by such customers to Vericity, specific customer needs and requirements, and leads and referrals to prospective customers; and (iv) the identity and number of Vericity's employees, their salaries, bonuses, benefits, qualifications and abilities; all of which information the Participant acknowledges and agrees has been developed, compiled or acquired by Vericity at its great effort and expense. Confidential Information and Trade Secrets can be in any form: oral, written or machine readable, including electronic files.

(b) Secrecy of Confidential Information and Trade Secrets Essential. The Participant acknowledges and agrees that Vericity is engaged in a highly competitive business and that its competitive position depends upon its ability to maintain the confidentiality of the Confidential Information and Trade Secrets which were developed, compiled and acquired by Vericity over a considerable period of time and at its great effort and expense. The Participant further acknowledges and agrees that any disclosure, divulging, revelation or use of any of the Confidential Information and Trade Secrets, other than in connection with Vericity's business or as specifically authorized by Vericity, will be highly detrimental to Vericity, and that serious loss of business and pecuniary damage may result therefrom.

(c) Non-Disclosure of Confidential Information. The Participant agrees, except as specifically required in the performance of the Participant's duties on behalf of Vericity, the Participant will not, while associated with Vericity and for so long thereafter as the pertinent information or documentation remains confidential, directly or indirectly use, disclose or

disseminate to any other person, organization or entity or otherwise use any of Vericity's Confidential Information and Trade Secrets; further the Participant agrees to maintain Vericity's Confidential Information and Trade Secrets in strict confidence and to use all commercially reasonable efforts to not allow any unauthorized access to, or disclosure of, Vericity's Confidential Information and Trade Secrets. Notwithstanding the foregoing, pursuant to the federal Defend Trade Secrets Act of 2016, the Participant shall not be held criminally or civilly liable under federal or state trade secret law for the disclosure of a trade secret that: (i) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(d) Return of Material. The Participant further agrees to deliver to Vericity, immediately upon resignation or separation from Vericity or at any other time Vericity so requests to return any of the following that may be in the Participant's possession or under the Participant's control: (i) any and all documents, files, notes, memoranda, databases, computer files and/or other computer programs reflecting any Confidential Information and Trade Secrets whatsoever, or otherwise relating to Vericity's business; (ii) lists of Vericity's customers or leads or referrals to prospective customers; (iii) any computer equipment, home office equipment, automobile or other business equipment belonging to Vericity which the Participant may then possess or have under the Participant's control; and (iv) all product formulations, algorithms, system designs, site maps, information processing methodologies, software, software coding methodologies, website functionality, information security processes, business methods, procedures, devices, machines, equipment, data processing programs, software computer models, research projects, system customizations, program implementation plans and other information and means used by Vericity in the conduct of its business.

(e) No Competitive Activity. The Participant acknowledges and agrees that Vericity is engaged in a highly competitive business and that by virtue of the Participant's position and responsibilities with Vericity and the Participant's access to the Confidential Information and Trade Secrets, engaging in any business which is directly competitive with Vericity will cause Vericity great and irreparable harm. Therefore, the Participant covenants and agrees that the Participant shall not, within the Territory, at all times (i) during the Participant's period of employment with Vericity and (ii) during the period beginning on the date of termination of the Participant's employment (whether such termination is voluntary or involuntary, for Cause or without Cause, or otherwise) and ending twelve (12) months thereafter (the "Restricted Period"), (1) directly or indirectly, engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever, in any person, firm, or business entity which engages in a Competitive Business, or any person, firm, or business entity which is planning to engage in a Competitive Business; or (2) be employed in a managerial or executive capacity by any person, firm, or business entity which engages in a Competitive Business or any person, firm, or business entity which is planning to engage in a Competitive Business. For purposes of this Agreement, (x) "Competitive Business" means any business or other endeavor which engages in a business competitive with the Company, or any person, firm or business entity which is planning to engage in a business competitive with

the Company and (y) “Territory” means the United States. Notwithstanding the foregoing, in the event of either (1) a termination by Vericity without Cause or (2) a termination by the Participant for Good Reason, “Competitive Business” shall mean any business or other endeavor that provides or engages in non-medically underwritten life insurance products or sales of life insurance products via a call center model.

(f) **Non-Solicitation of Employees.** The Participant acknowledges and agrees that solely as a result of employment with Vericity, the Participant has and will come into contact with and acquire confidential information regarding some, most, or all of Vericity’s employees. Therefore, the Participant covenants and agrees that at all times during the Restricted Period, the Participant shall not, either on the Participant’s own account or on behalf of any person, firm, or business entity, recruit, solicit, interfere with, or endeavor to cause any employee of Vericity with whom the Participant came into contact or about whom the Participant obtained confidential information, to leave his or her employment with Vericity, or to work in a capacity that is competitive with Vericity, or to work in a capacity that is similar to the capacity in which the employee was employed by Vericity.

(g) **Non-Disparagement.** The Participant covenants and agrees that at all times following the termination of the Participant’s employment with Vericity for any reason, the Participant shall not, directly or indirectly, in public or private, deprecate, impugn, disparage, or make any remarks that would tend to or be construed to tend to defame (collectively, “Disparage”) Vericity, its products or services, or any of its officers, directors, employees, or agents; nor shall the Participant assist any other person, firm or entity in so doing. The Company shall not, and shall instruct its officers and the officers of its Subsidiaries not to, Disparage the Participant at any time following the termination of the Participant’s employment with Vericity for any reason.

6.2 Specific Performance. The Participant acknowledges and agrees that irreparable injury to the Company or an Affiliate may result if the Participant breaches any covenant of the Participant contained herein and that the remedy at law for the breach of any such covenant will be inadequate. Accordingly, if the Participant engages in any act in violation of the provisions of Section 6.1, the Company or an Affiliate shall be entitled, in addition to such other remedies and damages as may be available to it by law or under this Agreement, to injunctive relief to enforce such provisions.

ARTICLE VII. MISCELLANEOUS PROVISIONS

7.1 Termination and Amendment of the Agreement. This Agreement shall be terminated only with the prior written consent of the Company (with the approval of the General Partner) and the Participant; provided, that Article VI (Restrictive Covenants) and this Article VII (Miscellaneous Provisions) shall survive any termination of this Agreement. This Agreement may be amended, and compliance with any term hereof may be waived, only with the prior written consent of the Company (with the written approval of the General Partner) and the Participant.

7.2 Termination of Status as Participant. From and after the date that the Participant ceases to own any Class B Units, he or she shall cease to be a Participant for the purposes of this

Agreement and all rights he may have hereunder shall terminate, except for any rights with respect to matters contemplated hereby after such date and except for breaches occurring prior to such time. For the purposes of the preceding sentence, the Participant shall be deemed to own all Class B Units owned by his or her Permitted Transferees.

7.3 **Notices.** All notices required hereunder shall be delivered to the following respective addresses:

(a) The Company:

Apex Holdco L.P.
c/o Apex Holdco GP LLC
c/o J.C. Flowers & Co. LLC
767 Fifth Avenue, 23rd Floor
New York, NY 10153

With copies (which shall not constitute notice) to:

Weil, Gotshal & Manges, LLP
767 Fifth Avenue
New York, NY 10153
Attention: Douglas P. Warner, Esq.
Facsimile: 212-310-8007
Email: doug.warner@weil.com

(b) the Participant, at the address of the Participant as specified below such Participant's signature at the
end of this Agreement

With copies (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
Attention:

Jon Hlafter

Joe Penko
Facsimile: (212) 735-2000
Email: jon.hlafter@skadden.com

joseph.penko@skadden.com

Notices shall be in writing and shall be sent by facsimile or pdf e-mail, by mail (postage prepaid, registered or certified, by United States mail, return receipt requested), by nationally recognized private courier or by personal delivery. Notices shall be effective, (i) if sent by facsimile, when transmitted, (ii) if sent by pdf e-mail, when transmitted, (iii) if by nationally recognized private courier, when deposited with the private courier, (iv) if mailed, when deposited in the mail, and (v) if personally delivered, the earlier of when delivery is made or first refused. Any Person may change its address for the delivery of notices by written notice served in accordance with the provisions hereof.

7.4 Miscellaneous. The use of the singular or plural or masculine, feminine or neuter gender shall not be given an exclusionary meaning and, where applicable, shall be intended to include the appropriate number or gender, as the case may be.

7.5 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one instrument. Facsimile and pdf e-mail signatures shall have the same legal effect as manual signatures.

7.6 Entire Agreement. This Agreement, the Plan and the LP Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and thereof. No promises, statements, understandings, representations, or warranties of any kind, whether oral or in writing, express or implied have been made to the Participant by any Person to induce him to enter into this Agreement other than the express terms set forth in this Agreement, the Plan and the LP Agreement, and the Participant is not relying upon any promises, statements, understandings, representations, or warranties with respect to the subject matter hereof other than those expressly set forth in this Agreement, the Plan and the LP Agreement. Any amendments to this Agreement must be made in writing and duly executed by each of the parties entitled to adopt said amendment as provided in Section 7.1 or by an authorized representative or agent of each such party. The Participant hereby acknowledges and represents that he has had the opportunity to consult with independent legal counsel or other advisor of his choice and has done so regarding his rights and obligations under this Agreement, that he is entering into this Agreement knowingly, voluntarily, and of his own free will, that he is relying on his own judgment in doing so, and that he fully understands the terms and conditions contained herein.

7.7 Class B Units Subject to LP Agreement. By entering into this Agreement the Participant agrees and acknowledges that (i) the Participant has received and read a copy of the Plan and the LP Agreement and (ii) the Class B Units are subject to the LP Agreement, the terms and provisions of which are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms of this Agreement will govern and prevail. In the event of a conflict between any term or provision contained herein and a term in the LP Agreement, the applicable terms and provisions of the LP Agreement will govern and prevail (except as expressly set forth herein). Neither the adoption of the Plan nor any award made thereunder shall restrict in any way the adoption of any amendment to the LP Agreement in accordance with the terms thereof.

7.8 Tax Withholding. The Participant may be required to pay to the Company or any of its Subsidiaries or Affiliates, and the Company and its Subsidiaries and Affiliates shall have the right and are hereby authorized to withhold from any payment due or transfer made under this Agreement or from any other amount owing to the Participant (subject to applicable law), the amount (in cash or, at the election of the Company, securities or other property) of any applicable federal, state, local or foreign withholding taxes in respect of a Class B Unit or any payment or transfer under this Agreement and to take such other action as may be necessary in the opinion of the General Partner to satisfy all obligations for the payment of such taxes.

7.9 **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the parties hereto, their heirs, representatives, successors and permitted assigns (including Permitted Transferees to whom Units have been transferred, as applicable).

7.10 **Enforcement.** The failure of any party hereto to insist in one or more instances on performance by another party hereto of any obligation, condition or other term of this Agreement in strict accordance with the provisions hereof shall not be construed as a waiver of any right granted hereunder or of the future performance of any obligation, condition or other term of this Agreement in strict accordance with the provisions hereof, and no waiver with respect thereto shall be effective unless contained in a writing signed by or on behalf of the waiving party. The remedies in this Agreement shall be cumulative and are not exclusive of any other remedies provided by law.

7.11 **Governing Law.** This Agreement, and any and all claims arising out of, under, pursuant to, or in any way related to this Agreement, including but not limited to any and all claims (whether sounding in contract or tort) as to this Agreement's scope, validity, enforcement, interpretation, construction, and effect, shall be governed by the laws of the State of Delaware (without regard to any conflict of laws rule which might result in the application of the laws of any other jurisdiction).

7.12 **Severability.** If any provision of this Agreement is, becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any Person or award, such provision shall be constructed or deemed amended to conform to all applicable laws, or if it cannot be construed or deemed amended without, in the determination of the General Partner, materially altering the intent of this Agreement or the award, such provision shall be stricken as to such jurisdiction, Person or award and the remainder of this Agreement and any such award shall remain in full force and effect.

7.13 **No Contract of Service.** Neither this Agreement nor any award granted under this Agreement shall confer upon any Person any right to employment or other service or continuance of employment or other service by the Company or any of its Subsidiaries or Affiliates. This Agreement does not constitute a contract of employment or impose on any Participant or the Company or any of its Subsidiaries or Affiliates any obligations to retain the Participant as an employee or other service provider of the Company or any of its Subsidiaries or Affiliates, to change the status of the Participant's employment or service, or to change the Company or any of its Subsidiaries' or Affiliates' policies regarding termination of employment or service.

7.14 **Captions.** The article or section titles or captions contained in this Agreement are for convenience only and are not to be considered in the construction or interpretation of this Agreement or any provision thereof.

7.15 **No Third Party Rights.** Nothing in this Agreement shall be construed to grant rights to any Person who is not a party to this Agreement.

7.16 **Rule of Construction.** The parties acknowledge and agree that each has negotiated and reviewed the terms of this Agreement, assisted by such legal and tax counsel as they desired, and has contributed to its revisions. The parties further agree that the rule of construction that a

contract shall be construed against the drafter shall not be applied. The word “including”, means “including, without limitation.”

7.17 Units after Initial Public Offering. For purposes of determining recoupment after an initial public offering, references to Units shall also be deemed to be references to the shares that the holder of such Units receives in respect of such Units in connection with the initial public offering.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

APEX HOLDCO L.P.

By:
Name:
Its:

PARTICIPANT

Name:

Exhibit A

Accredited Investor Questionnaire

The undersigned individual (the "Executive") represents and warrants that it is not an "accredited investor" as defined in Rule 501(a) promulgated under Regulation D of the Securities Act (please initial the non-accredited investor election below):

The Executive is not an accredited investor.

The Executive represents and warrants that it is an "accredited investor" as defined in Rule 501(a) promulgated under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), because he or she meets at least one of the following criteria (please initial each applicable item):

The Executive is a natural person whose individual net worth, or joint net worth with his or her spouse, exceeds \$1,000,000 at the time of the Executive's purchase, excluding the value of the primary residence of such natural person, calculated by subtracting from the estimated fair market value of the property the amount of debt secured by the property, up to the estimated fair market value of the property;

The Executive is a natural person who had an individual income in excess of \$200,000 in each of the two most recent years (2016 and 2017) or joint income with the Executive's spouse in excess of \$300,000 in each of those years and who reasonably expects to reach the same income level in the current year (2019); or

The Executive is a trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring units of CC PS Parent LLC the receipt of which is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D promulgated under the Securities Act; or

The undersigned is any entity in which all of the equity owners are accredited investors. *(Please submit a copy of this questionnaire countersigned by each such equity owner if relying on this item).*

* * * *

IN WITNESS WHEREOF, the undersigned has executed this Accredited Investor Questionnaire on the date set forth below.

Dated: _____

By: _____
Name:

Exhibit B

Form of Section 83(b) Election

The undersigned taxpayer hereby elects, pursuant to § 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the shares described below over the amount paid for those shares.

1. The name, taxpayer identification number, address of the undersigned, and the taxable year for which this election is being made are:

TAXPAYER'S NAME: _____

TAXPAYER'S SOCIAL SECURITY NUMBER: _____

ADDRESS: _____

TAXABLE YEAR: Calendar Year _____

2. The property which is the subject of this election is _____ Class B Units of Apex Holdco L.P. ("Company").

3. The property was transferred to the undersigned on _____

4. The property is subject to the following restrictions: The Class B Units are subject to recoupment if the undersigned taxpayer does not remain employed through specified dates.

5. The fair market value of the property at the time of transfer (determined without regard to any restriction other than a nonlapse restriction as defined in § 1.83-3(h) of the Income Tax Regulations) is: \$0.

6. For the property transferred, the undersigned paid \$0.

7. The amount to include in gross income is \$0.

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

Dated: _____

Taxpayer: _____

Exhibit C

Joinder Agreement

This Joinder Agreement (this "Joinder Agreement") is made as of the date written below by the undersigned ("New Member"), in accordance with the Amended and Restated Agreement of Limited Partnership of Apex Holdco L.P., dated as of [●], 2019 (as may be amended from time to time, the "LP Agreement"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the LP Agreement.

Concurrently herewith the Company is issuing Class B Units of the Company to the New Member.

New Member hereby acknowledges, agrees and confirms that, by its execution of this Joinder Agreement, New Member shall be deemed to be a party to the LP Agreement as of the date hereof, shall be considered a Class B Member, and shall have all of the rights and be subject to the obligations of a Class B Member as if it had executed the LP Agreement. New Member hereby makes each of the representations and warranties set forth in Article XII of the LP Agreement as if such representations and warranties were expressly set forth in this Joinder Agreement. New Member hereby ratifies, as of the date hereof, and agrees to be bound by, all of the applicable terms, provisions and conditions contained in the LP Agreement.

This Joinder Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to any provision thereof relating to conflicts of laws.

IN WITNESS WHEREOF, New Member has executed this Joinder Agreement as of the date written below.

Date: _____

Name:

I, James Hohmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vericity Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

/s/ James E. Hohmann

James E. Hohmann

Chief Executive Officer and President, Vericity, Inc.

I, Chris Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vericity Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

/s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and Treasurer, Vericity, Inc.

Vericity, Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vericity for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: November 14, 2019

By: /s/ James E. Hohmann

James E. Hohmann

Chief Executive Officer and President, Vericity, Inc.

Vericity, Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vericity for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: November 14, 2019

By: /s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and Treasurer,
Vericity, Inc.