Primerica, Inc.
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-34680

Primerica, Inc.

(Exact name of registrant as specified in its charter)

Delaware	27-1204330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
	30099
1 Primerica Parkway	

Duluth, Georgia
(Address of principal executive offices) (ZIP Code)

(770) 381-1000

(Registrant's telephone number, including area code)

Not applicable.

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

Class	As of July 31, 2015
Common Stock, $0.01 Par Value	49,595,363 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited) June 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $1,659,078 in 2015 and $1,667,500 in 2014)	$1,724,743	$1,759,120
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: $330,338 in 2015 and $228,809 in 2014)	328,000	220,000
Equity securities available-for-sale, at fair value (cost: $42,577 in 2015 and $43,738 in 2014)	49,961	53,390
Trading securities, at fair value (cost: $7,943 in 2015 and $7,710 in 2014)	7,927	7,711
Policy loans	29,112	28,095
Total investments	2,139,743	2,068,316
Cash and cash equivalents	153,933	192,516
Accrued investment income	17,026	17,401
Due from reinsurers	4,137,425	4,115,533
Deferred policy acquisition costs, net	1,430,508	1,351,180
Premiums and other receivables	189,924	181,660
Intangible assets, net (accumulated amortization: $70,128 in 2015 and $68,426 in 2014)	60,019	61,720
Deferred income taxes	37,140	36,082
Other assets	290,483	273,403
Separate account assets	2,324,980	2,440,303
Total assets	$10,781,181	$10,738,114
Liabilities and Stockholders' Equity:		
Liabilities:		
Future policy benefits	$5,361,580	$5,264,608
Unearned premiums	730	912
Policy claims and other benefits payable	254,047	264,832
Other policyholders' funds	352,212	344,313
Notes payable	374,558	374,532
Surplus note	328,000	220,000
Income taxes	156,212	140,467
Other liabilities	367,337	392,810
Payable under securities lending	63,899	50,211

Separate account liabilities	2,324,980	2,440,303
Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	9,583,555	9,492,988
Stockholders' equity:		
Common stock ($0.01 par value; authorized 500,000 in 2015 and 2014; issued and outstanding 50,111 shares in 2015 and 52,169 shares in 2014)	501	522
Paid-in capital	259,937	353,337
Retained earnings	871,440	795,740
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	4,467	21,681
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	61,743	74,308
Net unrealized investment losses other-than-temporarily impaired	(462)	(462)
Total stockholders' equity	1,197,626	1,245,126
Total liabilities and stockholders' equity	$10,781,181	$10,738,114

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income – Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per-share amounts)			
Revenues:				
Direct premiums	$588,248	$576,740	$1,165,707	$1,144,945
Ceded premiums	(406,854)	(410,546)	(804,395)	(813,261)
Net premiums	181,394	166,194	361,312	331,684
Commissions and fees	139,150	132,039	271,985	258,970
Investment income net of investment expenses	21,782	21,681	45,431	43,280
Interest expense on surplus note	(2,707)	-	(5,182)	-
Net investment income	19,075	21,681	40,249	43,280
Realized investment gains (losses), including other-than-temporary impairment losses	597	831	1,881	1,094
Other, net	10,651	10,385	20,579	20,430
Total revenues	350,867	331,130	696,006	655,458
Benefits and expenses:				
Benefits and claims	82,521	72,412	165,021	147,604
Amortization of deferred policy acquisition costs	36,384	32,696	72,595	67,890
Sales commissions	71,499	67,364	139,956	132,485
Insurance expenses	29,094	28,192	63,736	56,694
Insurance commissions	4,145	3,881	7,334	7,964
Interest expense	8,642	8,552	17,316	17,159
Other operating expenses	41,757	42,293	86,413	83,089
Total benefits and expenses	274,042	255,390	552,371	512,885
Income from continuing operations before income taxes	76,825	75,740	143,635	142,573
Income taxes	27,652	26,469	51,062	49,816
Income from continuing operations	49,173	49,271	92,573	92,757
Income from discontinued operations, net of income taxes	-	-	-	1,595
Net income	$49,173	$49,271	$92,573	$94,352
Basic earnings per share:				
Continuing operations	$0.94	$0.89	$1.76	$1.66
Discontinued operations	-	-	-	0.03
Basic earnings per share	$0.94	$0.89	$1.76	$1.69
Diluted earnings per share:				
Continuing operations	$0.94	$0.89	$1.76	$1.66
Discontinued operations	-	-	-	0.03
Diluted earnings per share	$0.94	$0.89	$1.76	$1.69
Weighted-average shares used in computing earnings per share:				
Basic	51,787	54,927	52,212	55,075

Diluted	51,812	54,950	52,249	55,097
Supplemental disclosures:				
Total impairment losses	$(632)	$(221)	$(869)	$(370)
Impairment losses recognized in other comprehensive income before income taxes	-	-	-	-
Net impairment losses recognized in earnings	(632)	(221)	(869)	(370)
Other net realized investment gains (losses)	1,229	1,052	2,750	1,464
Realized investment gains (losses), including other-than-temporary impairment losses	$597	$831	$1,881	$1,094
Dividends declared per share	$0.16	$0.12	$0.32	$0.24

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	$49,173	$49,271	$92,573	$94,352
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains/(losses) on investment securities	(32,720)	20,792	(17,059)	38,722
Reclassification adjustment for realized investment (gains) losses included in net income	(602)	(578)	(2,272)	(766)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)	3,157	8,444	(17,409)	(233)
Total other comprehensive income (loss) before income taxes	(30,165)	28,658	(36,740)	37,723
Income tax expense (benefit) related to items of other comprehensive income (loss)	(11,627)	7,173	(6,961)	13,277
Other comprehensive income (loss), net of income taxes	(18,538)	21,485	(29,779)	24,446
Total comprehensive income (loss)	$30,635	$70,756	$62,794	$118,798

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Six months ended June 30,	
	2015	2014
	(In thousands)	
Common stock:		
Balance, beginning of period	$522	$548
Repurchases of common stock	(25)	(9)
Net issuance of common stock	4	3
Balance, end of period	501	542
Paid-in capital:		
Balance, beginning of period	353,337	472,633
Share-based compensation	22,231	17,068
Net issuance of common stock	(4)	(3)
Repurchases of common stock	(115,763)	(41,150)
Adjustments to paid-in capital, other	136	(599)
Balance, end of period	259,937	447,949
Retained earnings:		
Balance, beginning of period	795,740	640,840
Net income	92,573	94,352
Dividends	(16,873)	(13,404)
Balance, end of period	871,440	721,788
Accumulated other comprehensive income (loss):		
Balance, beginning of period	95,527	108,006
Change in foreign currency translation adjustment, net of income tax expense (benefit) of $(195) in 2015 and $(8) in 2014	(17,214)	(225)
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of $(6,766) in 2015 and $13,285 in 2014	(12,565)	24,671
Change in net unrealized investment losses other-than-temporarily impaired, net of income tax expense (benefit) of $(0) in 2015 and 2014	-	-
Balance, end of period	65,748	132,452
Total stockholders' equity	$1,197,626	$1,302,731

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Six months ended June 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$92,573	$94,352
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	123,388	107,236
Deferral of policy acquisition costs	(158,581)	(146,313)
Amortization of deferred policy acquisition costs	72,595	67,890
Change in income taxes	27,522	14,348
Realized investment (gains) losses, including other-than-temporary impairments	(1,881)	(1,094)
Gain from sale of business, net	-	(1,595)
Accretion and amortization of investments	(984)	(1,009)
Depreciation and amortization	5,373	5,717
Change in due from reinsurers	(45,479)	(23,511)
Change in premiums and other receivables	(12,454)	(8,873)
Trading securities sold, matured, or called (acquired), net	(233)	3,721
Share-based compensation	10,858	5,836
Change in other operating assets and liabilities, net	(27,391)	(46,251)
Net cash provided by (used in) operating activities	85,306	70,454
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	63,584	46,163
Fixed-maturity securities — matured or called	148,730	163,038
Equity securities	1,920	188
Available-for-sale investments acquired:		
Fixed-maturity securities	(201,717)	(220,214)
Equity securities	(709)	(5,403)
Purchases of property and equipment and other investing activities, net	(4,956)	(4,177)
Proceeds from sale of business	-	3,000
Cash collateral received (returned) on loaned securities, net	13,687	3,717
Sales (purchases) of short-term investments using securities lending collateral, net	(13,687)	(3,717)
Net cash provided by (used in) investing activities	6,852	(17,405)
Cash flows from financing activities:		
Dividends paid	(16,873)	(13,404)
Common stock repurchased	(109,712)	(35,011)
Excess tax benefits on share-based compensation	4,259	3,792
Tax withholdings on share-based compensation	(6,076)	(6,148)
Cash proceeds from stock options exercised	136	-
Payments of deferred financing costs	-	(403)
Net cash provided by (used in) financing activities	(128,266)	(51,174)

Effect of foreign exchange rate changes on cash	(2,475)	(443)
Change in cash and cash equivalents	(38,583)	1,432
Cash and cash equivalents, beginning of period	192,516	149,189
Cash and cash equivalents, end of period	$153,933	$150,621

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements — Unaudited

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

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

We have established Peach Re, Inc. ("Peach Re") and Vidalia Re, Inc. (“Vidalia Re”) as special purpose financial captive insurance companies and wholly owned subsidiaries of Primerica Life. Peach Re and Vidalia Re have each entered into separate coinsurance agreements with Primerica Life whereby Primerica Life has ceded certain level premium term life insurance policies to Peach Re and Vidalia Re (respectively, the “Peach Re Coinsurance Agreement” and the “Vidalia Re Coinsurance Agreement”).

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments, generally consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of June 30, 2015 and December 31, 2014, the statements of income and comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014, and the statements of stockholders' equity and cash flows for the six months ended June 30, 2015 and 2014. Results of operations for interim periods are not necessarily indicative of results for the entire year or of the results to be expected in future periods.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are sufficient to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Annual Report").

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

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

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

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the unaudited condensed consolidated financial statements dated as of June 30, 2015.

Significant Accounting Policies. All significant accounting policies remain unchanged from the 2014 Annual Report.

New Accounting Principles. In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). Debt issuance costs related to a recognized debt liability are currently presented as a deferred charge, or asset, within the balance sheet. ASU 2015-03 requires the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in ASU 2015-03 are effective retrospectively for the Company beginning in fiscal year 2016, with early adoption permitted. The Company intends to adopt the amendments in ASU 2015-03 beginning in the first quarter of 2016. At June 30, 2015, the Company had debt issuance costs related to recognized liabilities of approximately $3.0 million within Other assets on our unaudited condensed consolidated balance sheets that would be reclassified and presented as a direct deduction from the carrying amount of debt liabilities under ASU 2015-03.

Future Application of Accounting Standards. Recent accounting guidance not discussed is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business.

(2) Segment and Geographical Information

Segments. We have two primary operating segments — Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment.

Results of continuing operations by segment were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues:				
Term life insurance segment	$201,433	$184,366	$399,798	$367,346
Investment and savings products segment	135,081	128,148	264,155	251,418
Corporate and other distributed products segment	14,353	18,616	32,053	36,694
Total revenues	$350,867	$331,130	$696,006	$655,458
Income (loss) from continuing operations before income taxes:				
Term life insurance segment	$57,286	$55,070	$105,107	$102,274
Investment and savings products segment	37,746	36,048	72,789	70,075
Corporate and other distributed products segment	(18,207)	(15,378)	(34,261)	(29,776)
Total income from continuing operations before income taxes	$76,825	$75,740	$143,635	$142,573

Total assets by segment were as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Term life insurance segment	$7,429,104	$7,165,373
Investment and savings products segment	2,432,875	2,545,372
Corporate and other distributed products segment	919,202	1,027,369
Total assets	$10,781,181	$10,738,114

The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately $108.3 million and $105.5 million as of June 30, 2015 and December 31, 2014, respectively.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report for more information regarding our operating segments.

Geographical Information. Results of continuing operations by country and long-lived assets — primarily tangible assets reported in Other assets in our unaudited condensed consolidated balance sheets —were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues by country:				
United States	$291,808	$270,923	$577,949	$533,127
Canada	59,059	60,207	118,057	122,331
Total revenues	$350,867	$331,130	$696,006	$655,458
Income from continuing operations before income taxes by country:				
United States	$60,199	$56,619	$109,055	$105,532
Canada	16,626	19,121	34,580	37,041
Total income from continuing operations before income taxes	$76,825	$75,740	$143,635	$142,573

	June 30, 2015	December 31, 2014
	(In thousands)	
Long-lived assets by country:		
United States	$26,901	$ 25,897
Canada	596	566
Total long-lived assets	$27,497	$ 26,463

(3) Investments

Available-for-sale Securities. The period-end cost or amortized cost, gross unrealized gains and losses, and fair value of available-for-sale fixed-maturity and equity securities follow:

	June 30, 2015			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$ 13,659	$ 526	$ (19)	$ 14,166
Foreign government	122,882	3,772	(7,841)	118,813
States and political subdivisions	36,968	2,434	(573)	38,829
Corporates	1,252,878	68,356	(12,394)	1,308,840
Mortgage- and asset-backed securities	232,691	11,713	(309)	244,095
Total fixed-maturity securities[1]	1,659,078	86,801	(21,136)	1,724,743
Equity securities	42,577	8,689	(1,305)	49,961
Total fixed-maturity and equity securities	$ 1,701,655	$ 95,490	$ (22,441)	$ 1,774,704

[1] Includes approximately $0.7 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

	December 31, 2014			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$ 15,145	$ 557	$ (55)	$ 15,647
Foreign government	120,910	5,388	(3,801)	122,497
States and political subdivisions	38,163	2,719	(188)	40,694
Corporates	1,241,526	82,167	(7,825)	1,315,868
Mortgage- and asset-backed securities	251,756	13,050	(392)	264,414
Total fixed-maturity securities[1]	1,667,500	103,881	(12,261)	1,759,120
Equity securities	43,738	10,711	(1,059)	53,390
Total fixed-maturity and equity securities	$ 1,711,238	$ 114,592	$ (13,320)	$ 1,812,510

[1] Includes approximately $0.7 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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

The scheduled contractual maturity distribution of the available-for-sale fixed-maturity portfolio at June 30, 2015 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$99,484	$99,112
Due after one year through five years	609,019	648,704
Due after five years through 10 years	666,516	680,101
Due after 10 years	51,368	52,731
	1,426,387	1,480,648
Mortgage- and asset-backed securities	232,691	244,095
Total fixed-maturity securities	$1,659,078	$1,724,743

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

Unrealized Gains and Losses on Investments. The net effect on stockholders' equity of unrealized gains and losses on investments was as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
Net unrealized investment gains including foreign currency translation adjustment and other-than-temporary impairments:		
Fixed-maturity and equity securities	$73,049	$101,272
Currency swaps	-	23
Exclude unrealized foreign currency translation (gains) losses adjustment	21,229	12,314
Exclude other-than-temporary impairments	710	710
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	94,988	114,319
Deferred income taxes	(33,245)	(40,011)
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax	$61,743	$74,308

Trading Securities. We maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying values of the fixed-maturity securities classified as trading securities were approximately $7.9 million and $7.7 million as of June 30, 2015 and December 31, 2014, respectively.

Held-to-maturity Security. Concurrent with the execution of the Vidalia Re Coinsurance Agreement, Vidalia Re entered into a Surplus Note Purchase Agreement (the "Surplus Note Purchase Agreement") with Hannover Life Reassurance Company of America and certain of its affiliates (collectively, "Hannover Re") and a newly formed limited liability company (the "LLC") owned by a third party service provider. Under the Surplus Note Purchase Agreement, Vidalia Re issued a surplus note (the "Surplus Note") to the LLC in exchange for a credit enhanced note from the LLC with an equal principal amount (the "LLC Note"). The principal amount of both the LLC Note and the Surplus Note will fluctuate over time to coincide with the amount of reserves contractually supported under the Vidalia Re Coinsurance Agreement. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. The LLC Note is guaranteed by Hannover Re through a credit enhancement feature in exchange for a fee, which is reflected in interest expense on our unaudited condensed consolidated statements of income.

The LLC is a variable interest entity as its owner does not have an equity investment at risk that is sufficient to permit the LLC to finance its activities without Vidalia Re or Hannover Re. The Parent Company, Primerica Life, and Vidalia Re share the power to direct the activities of the LLC with Hannover Re, but do not have the obligation to absorb losses or the right to receive any residual returns related to the LLC's primary risks or sources of variability. Through the credit enhancement feature, Hannover Re is the ultimate risk taker in this transaction and bears the obligation to absorb the LLC's losses in the event of a Surplus Note default in exchange for the fee. Accordingly, the Company is not the primary beneficiary of the LLC and does not consolidate the LLC within its consolidated financial statements.

The LLC Note is classified as a held-to-maturity debt security in the Company's invested asset portfolio as we have the positive intent and ability to hold the security until maturity. As of June 30, 2015, the LLC Note, which was rated AA- by Fitch Ratings, had an estimated unrealized holding gain of $2.3 million based on its amortized cost and estimated fair value, which is derived using the valuation techniques described in Note 4 (Fair Value of Financial Instruments).

See Note 6 (Debt) for more information on the Surplus Note.

Investments on Deposit with Governmental Authorities. As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately $18.1 million and $19.9 million as of June 30, 2015 and December 31, 2014, respectively.

Securities Lending Transactions. We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our unaudited condensed consolidated balance sheets. We also accept collateral in the form of cash, all of which we reinvest. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability representing our obligation to return the collateral. We continue to carry the loaned securities as invested assets on our unaudited condensed consolidated balance sheets during the terms of the loans, and we do not report them as sales. Cash collateral received and reinvested was approximately $63.9 million and $50.2 million as of June 30, 2015 and December 31, 2014, respectively.

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

	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
	(In thousands)			
Fixed-maturity securities (available-for-sale)	$19,551	$20,454	$39,346	$41,486
Fixed-maturity security (held-to-maturity)	2,707	-	5,182	-
Equity securities	503	471	1,019	856
Policy loans and other invested assets	337	398	695	786
Cash and cash equivalents	47	68	90	121
Market return on deposit asset underlying 10% coinsurance agreement	(116)	1,490	1,556	2,443
Gross investment income	23,029	22,881	47,888	45,692
Investment expenses	(1,247)	(1,200)	(2,457)	(2,412)
Investment income net of investment expenses	21,782	21,681	45,431	43,280
Interest expense on surplus note	(2,707)	-	(5,182)	-
Net investment income	$19,075	$21,681	$40,249	$43,280

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

	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	$1,466	$838	$3,400	$1,181
Gross losses from sales	(232)	(39)	(259)	(45)
Other-than-temporary impairment losses	(632)	(221)	(869)	(370)
Gains (losses) from bifurcated options	(5)	253	(391)	328
Net realized investment gains (losses)	$597	$831	$1,881	$1,094
Supplemental information:				
Gross realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	$602	$578	$2,272	$766
Tax expense (benefit) associated with realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	$211	$202	$795	$268
Proceeds from sales or other redemptions	$116,318	$96,511	$214,234	$209,389

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment ("OTTI"). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity for fixed-maturity securities or within a reasonable period of time for equity securities. For additional information, see Note 4 (Investments) to the consolidated financial statements in our 2014 Annual Report.

Available-for-sale fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately $442.9 million and $340.8 million as of June 30, 2015 and December 31, 2014, respectively.

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

	June 30, 2015					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$676	$(19)	1	$-	$-	-
Foreign government	45,747	(3,347)	43	24,365	(4,494)	43
States and political subdivisions	2,967	(32)	3	838	(541)	2
Corporates	256,824	(6,927)	260	40,853	(5,467)	62
Mortgage-and asset-backed securities	31,028	(193)	34	8,263	(116)	13
Total fixed-maturity securities	337,242	(10,518)		74,319	(10,618)	
Equity securities	7,530	(1,230)	18	1,368	(75)	5
Total fixed-maturity and equity securities	$344,772	$(11,748)		$75,687	$(10,693)	

	December 31, 2014					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$7,201	$ (1)	2	$896	$ (54)	2
Foreign government	28,038	(1,317)	35	23,330	(2,484)	40
States and political subdivisions	1,694	(4)	3	2,720	(184)	4
Corporates	144,262	(3,818)	153	43,736	(4,007)	78
Mortgage-and asset-backed securities	49,591	(109)	43	16,847	(283)	20
Total fixed-maturity securities	230,786	(5,249)		87,529	(7,012)	
Equity securities	6,849	(862)	15	2,303	(197)	1
Total fixed-maturity and equity securities	$237,635	$ (6,111)		$89,832	$ (7,209)	

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

	June 30, 2015		December 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	$133	$512	$144	$611

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Impairments on fixed-maturity securities not in default	$627	$221	$788	$370
Impairments on fixed-maturity securities in default	5	-	5	-
Impairments on equity securities	-	-	76	-
Total impairment charges	$632	$221	$869	$370

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

As of June 30, 2015, the unrealized losses on our available-for-sale invested asset portfolio were largely caused by interest rate sensitivity, changes in credit spreads, and foreign currency exchange rates on our Canadian dollar-denominated investments held by our Canadian subsidiaries. We believe that fluctuations caused by movements in interest rates and credit spreads have little bearing on the recoverability of our investments. We do not consider these investments to be other-than-temporarily impaired because we have the ability to hold these investments until maturity or a market price recovery, and we have no present intention to dispose of them. The foreign currency translation adjustments on Canadian dollar-denominated investments will fluctuate with the Canadian dollar exchange rate and have no impact on the recoverability of our Canadian subsidiaries' functional currency investments.

Net impairment losses recognized in earnings for available-for-sale securities were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Total impairment losses related to securities which the Company does not intend to sell or more-likely-than-not will not be required to sell:				
Total OTTI losses recognized	$8	$-	$101	$-
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)	-	-	-	-
Net impairment losses recognized in earnings for securities which the Company does not intend to sell or more-likely-than-not will not be required to sell before recovery	8	-	101	-
OTTI losses recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery	624	221	768	370
Net impairment losses recognized in earnings	$632	$221	$869	$370

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The rollforward of the credit-related losses recognized in income for all available-for-sale fixed-maturity securities still held follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Cumulative OTTI credit losses recognized for securities still held, beginning of period	$7,478	$8,077	$9,550	$7,970
Additions for OTTI securities where no credit losses were recognized prior to the beginning of the period	46	192	67	341
Additions for OTTI securities where credit losses have been recognized prior to the beginning of the period	586	29	726	29
Reductions due to sales, maturities, calls, amortization or increases in cash flows expected to be collected over the remaining life of credit impaired securities	(409)	(553)	(1,365)	(595)
Reductions for exchanges of securities previously impaired	-	-	(1,277)	-
Cumulative OTTI credit losses recognized for securities still held, end of period	$7,701	$7,745	$7,701	$7,745

As of June 30, 2015, no impairment losses have been recognized on the LLC Note held-to-maturity security.

Derivatives. Embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. As of June 30, 2015 and December 31, 2014, the fair value of these bifurcated options was approximately $4.5 million and $5.8 million, respectively.

We have a deferred loss related to closed forward contracts, which were settled several years ago, that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was approximately $26.4 million as of June 30, 2015 and December 31, 2014. While we have no current intention to do so, these deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations.

(4) Fair Value of Financial Instruments

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

- Level 1. Quoted prices for identical instruments in active markets. Level 1 primarily consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments;
- Level 2. Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. Various inputs are considered in deriving the fair value of the underlying financial instrument, including interest rate, credit spread, and foreign exchange rates. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and bifurcated conversion options; and
- Level 3. Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 consists of financial instruments whose fair value is estimated based on industry-standard pricing methodologies and models using significant inputs not based on, nor corroborated by, readily available market information. Valuations for this category primarily consist of non-binding broker quotes. Financial instruments in this category primarily include less liquid fixed-maturity corporate securities.

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

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

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Available-for-sale fixed-maturity securities:				
U.S. government and agencies	$-	$14,166	$-	$14,166
Foreign government	-	118,813	-	118,813
States and political subdivisions	-	38,829	-	38,829
Corporates	2,071	1,306,766	3	1,308,840
Mortgage- and asset-backed securities	-	243,285	810	244,095
Total available-for-sale fixed-maturity securities	2,071	1,721,859	813	1,724,743
Equity securities	44,282	5,630	49	49,961
Trading securities	-	7,927	-	7,927
Separate accounts	-	2,324,980	-	2,324,980
Total fair value assets	$46,353	$4,060,396	$862	$4,107,611
Fair value liabilities:				
Separate accounts	$-	$2,324,980	$-	$2,324,980
Total fair value liabilities	$-	$2,324,980	$-	$2,324,980

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Available-for-sale fixed-maturity securities:				
U.S. government and agencies	$-	$15,647	$-	$15,647
Foreign government	-	122,497	-	122,497
States and political subdivisions	-	40,694	-	40,694
Corporates	2,104	1,313,534	230	1,315,868
Mortgage- and asset-backed securities	-	263,527	887	264,414
Total available-for-sale fixed-maturity securities	2,104	1,755,899	1,117	1,759,120
Equity securities	47,169	6,173	48	53,390
Trading securities	-	7,711	-	7,711
Separate accounts	-	2,440,303	-	2,440,303
Total fair value assets	$49,273	$4,210,086	$1,165	$4,260,524
Fair value liabilities:				
Separate accounts	$-	$2,440,303	$-	$2,440,303
Total fair value liabilities	$-	$2,440,303	$-	$2,440,303

In assessing fair value of our investments, we use a third-party pricing service for approximately 95% of our securities that are measured at fair value on a recurring basis. The remaining securities are primarily thinly traded securities valued using models based on observable inputs on public corporate spreads having similar characteristics (e.g., sector, average life and quality rating) and liquidity and yield based on quality rating, average life and treasury yields.

All observable data inputs are corroborated by independent third-party data. In the absence of sufficient observable inputs, we utilize non-binding broker quotes, which are reflected in our Level 3 classification as we are unable to evaluate the valuation technique(s) or significant inputs used to develop the quotes. Therefore, we do not internally develop the quantitative unobservable inputs used in measuring the fair value of Level 3 investments. However, we do corroborate pricing information provided by our third-party pricing servicing by performing a review of selected securities. Our review activities include obtaining detailed information about the assumptions, inputs and methodologies used in pricing the security; documenting this information; and corroborating it by comparison to independently obtained prices and or independently developed pricing methodologies.

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

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

Where specific market information is unavailable for certain securities, pricing models produce estimates of fair value primarily using Level 2 inputs along with certain Level 3 inputs. These models include matrix pricing. The pricing matrix uses current treasury rates and credit spreads received from third-party sources to estimate fair value. The credit spreads incorporate the issuer's industry- or issuer-specific credit characteristics and the security's time to maturity, if warranted. Remaining unpriced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of non-binding broker quotes.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Level 3 assets, beginning of period	$1,134	$2,356	$1,165	$2,288
Net unrealized gains (losses) included in other comprehensive income	(12)	(222)	(6)	(102)
Realized gains (losses) and accretion (amortization) recognized in earnings, including OTTI	-	411	-	411
Settlements	(39)	(793)	(76)	(845)
Transfers into Level 3	2	-	2	-
Transfers out of Level 3	(223)	-	(223)	-
Level 3 assets, end of period	$862	$1,752	$862	$1,752

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, quoted prices for similar instruments in markets that are not active, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. During the three and six months ended June 30, 2015, we transferred a $1.0 million equity security from Level 1 to Level 2 as it was not consistently trading in an active market. There were no material transfers between Level 1 and Level 2 during the three and six months ended June 30, 2014 and between Level 1 and Level 3 during the three and six months ended June 30, 2015 and 2014. During the three and six months ended June 30, 2015, a fixed-maturity security was transferred from Level 3 to Level 2 as we were able to obtain an independent pricing quote based on observable inputs for this security.

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

	June 30, 2015	December 31, 2014

	Carrying value (In thousands)	Estimated fair value	Carrying value	Estimated fair value
Assets:				
Fixed-maturity securities (available-for-sale)	$1,724,743	$1,724,743	$1,759,120	$1,759,120
Fixed-maturity security (held-to-maturity)	328,000	330,338	220,000	228,809
Equity securities	49,961	49,961	53,390	53,390
Trading securities	7,927	7,927	7,711	7,711
Policy loans	29,112	29,112	28,095	28,095
Deposit asset underlying 10% coinsurance agreement	168,917	168,917	157,256	157,256
Separate accounts	2,324,980	2,324,980	2,440,303	2,440,303
Liabilities:				