Primerica, Inc.
Form 10-Q
May 07, 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 March 31, 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.)
1 Primerica Parkway	30099

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 April 30, 2015
Common Stock, $0.01 Par Value	51,352,164 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited) March 31, 2015	December 31, 2014
	(In thousands)	
Assets		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $1,696,412 in 2015 and $1,667,500 in 2014)	$1,789,937	$1,759,120
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: $259,761 in 2015 and $228,809 in 2014)	238,000	220,000
Equity securities available-for-sale, at fair value (cost: $42,347 in 2015 and $43,738 in 2014)	51,807	53,390
Trading securities, at fair value (cost: $7,344 in 2015 and $7,710 in 2014)	7,345	7,711
Policy loans	27,679	28,095
Total investments	2,114,768	2,068,316
Cash and cash equivalents	180,207	192,516
Accrued investment income	18,442	17,401
Due from reinsurers	4,094,456	4,115,533
Deferred policy acquisition costs, net	1,377,022	1,351,180
Premiums and other receivables	180,642	181,660
Intangible assets, net (accumulated amortization: $69,277 in 2015 and $68,426 in 2014)	60,870	61,720
Deferred income taxes	32,335	36,082
Other assets	279,207	273,403
Separate account assets	2,386,265	2,440,303
Total assets	$10,724,214	$10,738,114
Liabilities and Stockholders’ Equity		
Liabilities:		
Future policy benefits	$5,289,016	$5,264,608
Unearned premiums	821	912
Policy claims and other benefits payable	259,148	264,832
Other policyholders’ funds	342,322	344,313
Notes payable	374,545	374,532
Surplus note	238,000	220,000
Income taxes	157,685	140,467
Other liabilities	381,369	392,810
Payable under securities lending	55,622	50,211

Separate account liabilities	2,386,265	2,440,303
Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	9,484,793	9,492,988
Stockholders' equity:		
Common stock ($0.01 par value; authorized 500,000 in 2015 and 2014; issued and		
outstanding 51,555 shares in 2015 and 52,169 shares in 2014)	516	522
Paid-in capital	323,996	353,337
Retained earnings	830,624	795,740
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	1,345	21,681
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	83,402	74,308
Net unrealized investment losses other-than-temporarily impaired	(462)	(462)
Total stockholders' equity	1,239,421	1,245,126
Total liabilities and stockholders' equity	$10,724,214	$10,738,114

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income – Unaudited

	Three months ended March 31, 2015	2014
	(In thousands, except per-share amounts)	
Revenues:		
Direct premiums	$577,458	$568,205
Ceded premiums	(397,540)	(402,715)
Net premiums	179,918	165,490
Commissions and fees	132,835	126,933
Net investment income	21,173	21,599
Realized investment gains (losses), including other-than-temporary impairment losses	1,284	263
Other, net	9,929	10,043
Total revenues	345,139	324,328
Benefits and expenses:		
Benefits and claims	82,500	75,191
Amortization of deferred policy acquisition costs	36,213	35,193
Sales commissions	68,457	65,121
Insurance expenses	34,641	28,502
Insurance commissions	3,190	4,083
Interest expense	8,676	8,606
Other operating expenses	44,653	40,800
Total benefits and expenses	278,330	257,496
Income from continuing operations before income taxes	66,809	66,832
Income taxes	23,408	23,347
Income from continuing operations	43,401	43,485
Income from discontinued operations, net of income taxes	-	1,595
Net income	$43,401	$45,080
Basic earnings per share:		
Continuing operations	$0.82	$0.78
Discontinued operations	-	0.03
Basic earnings per share	$0.82	$0.81
Diluted earnings per share:		
Continuing operations	$0.82	$0.78
Discontinued operations	-	0.03
Diluted earnings per share	$0.82	$0.81
Weighted-average shares used in computing earnings per share:		
Basic	52,643	55,211
Diluted	52,691	55,233

Supplemental disclosures:		
Total impairment losses	$(237)	$(149)
Impairment losses recognized in other comprehensive income before income taxes	-	-
Net impairment losses recognized in earnings	(237)	(149)
Other net realized investment gains (losses)	1,521	412
Realized investment gains (losses), including other-than-temporary impairment losses	$1,284	$263
Dividends declared per share	$0.16	$0.12

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended March 31, 2015	Three months ended March 31, 2014
	(In thousands)	
Net income	$43,401	$45,080
Other comprehensive income (loss) before income taxes:		
Unrealized investment gains (losses):		
Change in unrealized holding gains/(losses) on investment securities	15,661	17,930
Reclassification adjustment for realized investment (gains) losses included in net income	(1,670)	(188)
Foreign currency translation adjustments:		
Change in unrealized foreign currency translation gains (losses)	(20,566)	(8,677)
Total other comprehensive income (loss) before income taxes	(6,575)	9,065
Income tax expense (benefit) related to items of other comprehensive income (loss)	4,667	6,104
Other comprehensive income (loss), net of income taxes	(11,242)	2,961
Total comprehensive income (loss)	$32,159	$48,041

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Three months ended March 31, 2015	2014
	(In thousands)	
Common stock:		
Balance, beginning of period	$522	$548
Repurchases of common stock	(9)	(4)
Net issuance of common stock	3	2
Balance, end of period	516	546
Paid-in capital:		
Balance, beginning of period	353,337	472,633
Share-based compensation	15,307	9,699
Net issuance of common stock	(3)	(2)
Repurchases of common stock	(44,781)	(19,183)
Adjustments to paid-in capital, other	136	(309)
Balance, end of period	323,996	462,838
Retained earnings:		
Balance, beginning of period	795,740	640,840
Net income	43,401	45,080
Dividends	(8,517)	(6,738)
Balance, end of period	830,624	679,182
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 $(230) in 2015 and $(106) in 2014	(20,336)	(8,571)
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 $4,897 in 2015 and $6,210 in 2014	9,094	11,532
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	84,285	110,967
Total stockholders' equity	$1,239,421	$1,253,533

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Three months ended March 31, 2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$43,401	$45,080
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	53,674	54,542
Deferral of policy acquisition costs	(75,434)	(73,045)
Amortization of deferred policy acquisition costs	36,213	35,193
Change in income taxes	18,576	14,905
Realized investment (gains) losses, including other-than-temporary impairments	(1,284)	(263)
Gain from sale of business, net	-	(1,595)
Accretion and amortization of investments	(438)	(597)
Depreciation and amortization	2,633	2,884
Change in due from reinsurers	(6,956)	(32,759)
Change in premiums and other receivables	456	(4,173)
Trading securities sold, matured, or called (acquired), net	365	2,036
Share-based compensation	8,943	2,848
Change in other operating assets and liabilities, net	(13,747)	(7,316)
Net cash provided by (used in) operating activities	66,402	37,740
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	23,278	21,094
Fixed-maturity securities — matured or called	72,979	91,596
Equity securities	1,659	188
Available-for-sale investments acquired:		
Fixed-maturity securities	(122,264)	(113,508)
Equity securities	(625)	(5,106)
Purchases of property and equipment and other investing activities, net	(1,635)	(1,491)
Proceeds from sale of business	-	3,000
Cash collateral received (returned) on loaned securities, net	5,411	19,242
Sales (purchases) of short-term investments using securities lending collateral, net	(5,411)	(19,242)
Net cash provided by (used in) investing activities	(26,608)	(4,227)
Cash flows from financing activities:		
Dividends paid	(8,517)	(6,738)
Common stock repurchased	(38,749)	(13,065)
Excess tax benefits on share-based compensation	3,456	2,954
Tax withholdings on share-based compensation	(6,041)	(6,122)
Cash proceeds from stock options exercised	136	-
Net cash provided by (used in) financing activities	(49,715)	(22,971)

Effect of foreign exchange rate changes on cash	(2,388)	(1,293)
Change in cash and cash equivalents	(12,309)	9,249
Cash and cash equivalents, beginning of period	192,516	149,189
Cash and cash equivalents, end of period	$180,207	$158,438

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 March 31, 2015 and December 31, 2014 and the statements of income, comprehensive income (loss), stockholders' equity and cash flows for the three months ended March 31, 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 March 31, 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 March 31, 2015, the Company had debt issuance costs related to recognized liabilities of approximately $3.1 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 will not have an 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 March 31,	
	2015	2014
	(In thousands)	
Revenues:		
Term life insurance segment	$198,365	$182,980
Investment and savings products segment	129,074	123,270
Corporate and other distributed products segment	17,700	18,078
Total revenues	$345,139	$324,328
Income (loss) from continuing operations before income taxes:		
Term life insurance segment	$47,820	$47,204
Investment and savings products segment	35,044	34,028
Corporate and other distributed products segment	(16,055)	(14,400)
Total income from continuing operations before income taxes	$66,809	$66,832

Total assets by segment were as follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Assets:		
Term life insurance segment	$7,255,680	$7,165,373
Investment and savings products segment	2,586,578	2,642,753
Corporate and other distributed products segment	881,956	929,988
Total assets	$10,724,214	$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 $200.7 million and $202.9 million as of March 31, 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 March 31,	
	2015	2014
	(In thousands)	
Revenues by country:		
United States	$286,141	$262,204
Canada	58,998	62,124
Total revenues	$345,139	$324,328
Income from continuing operations before income taxes by country:		
United States	$48,856	$48,912
Canada	17,953	17,920
Total income from continuing operations before income taxes	$66,809	$66,832

	March 31, 2015	December 31, 2014
	(In thousands)	
Long-lived assets by country:		
United States	$28,223	$ 25,897
Canada	592	566
Total long-lived assets	$28,815	$ 26,463

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(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:

	March 31, 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	$ 13,925	$ 629	$ (69)	$ 14,485
Foreign government	122,919	4,142	(7,856)	119,205
States and political subdivisions	37,892	3,089	(292)	40,689
Corporates	1,265,977	90,503	(10,044)	1,346,436
Mortgage- and asset-backed securities	255,699	13,633	(210)	269,122
Total fixed-maturity securities[1]	1,696,412	111,996	(18,471)	1,789,937
Equity securities	42,347	10,473	(1,013)	51,807
Total fixed-maturity and equity securities	$ 1,738,759	$ 122,469	$ (19,484)	$ 1,841,744

[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 March 31, 2015 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$115,705	$117,276
Due after one year through five years	580,952	624,827
Due after five years through 10 years	695,841	727,136
Due after 10 years	48,215	51,576
	1,440,713	1,520,815
Mortgage- and asset-backed securities	255,699	269,122
Total fixed-maturity securities	$1,696,412	$1,789,937

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:

	March 31, 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	$102,985	$101,272
Currency swaps	10	23
Foreign currency translation adjustment	24,605	12,314
Other-than-temporary impairments	710	710
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	128,310	114,319
Deferred income taxes	(44,908)	(40,011)
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax	$83,402	$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 $7.3 million and $7.7 million as of March 31, 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.

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 March 31, 2015, the LLC Note, which was rated AA- by Fitch Ratings, had an estimated unrealized holding gain of $21.8 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 $19.7 million and $19.9 million as of March 31, 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 $55.6 million and $50.2 million as of March 31, 2015 and December 31, 2014, respectively.

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

	Three months ended March 31,	
	2015	2014
	(In thousands)	
Fixed-maturity securities (available-for-sale)	$19,795	$21,032
Fixed-maturity security (held-to-maturity)	2,475	-
Equity securities	516	385
Policy loans and other invested assets	359	388
Cash and cash equivalents	43	53
Market return on deposit asset underlying 10% coinsurance agreement	1,672	953
Gross investment income	24,860	22,811
Investment expenses	(1,212)	(1,212)
Interest expense on Surplus Note	(2,475)	-
Net investment income	$21,173	$21,599

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 March 31,	
	2015	2014
	(In thousands)	
Net realized investment gains (losses):		
Gross gains from sales	$1,934	$343
Gross losses from sales	(27)	(6)
Other-than-temporary impairment losses	(237)	(149)
Gains (losses) from bifurcated options	(386)	75
Net realized investment gains (losses)	$1,284	$263
Supplemental information:		
Gross realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	$1,670	$188
Tax expense (benefit) associated with realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	$585	$66
Proceeds from sales or other redemptions	$97,916	$112,878

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 $282.0 million and $340.8 million as of March 31, 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:

	March 31, 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	$683	$(12)	1	$197	$(57)	1
Foreign government	49,697	(4,249)	48	19,090	(3,607)	37
States and political subdivisions	1,994	(4)	2	1,612	(288)	3
Corporates	106,770	(5,031)	110	31,239	(5,013)	55
Mortgage-and asset-backed securities	33,624	(84)	29	11,291	(126)	14
Total fixed-maturity securities	192,768	(9,380)		63,429	(9,091)	
Equity securities	6,367	(1,013)	17	-	-	-
Total fixed-maturity and equity securities	$199,135	$(10,393)		$63,429	$(9,091)	

	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:

	March 31, 2015		December 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	$130	$491	$144	$611

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

	Three months ended March 31,	
	2015	2014
	(In thousands)	
Impairments on fixed-maturity securities not in default	$161	$149
Impairments on equity securities	76	-
Total impairment charges	$237	$149

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 March 31, 2015, the unrealized losses on our available-for-sale invested asset portfolio were largely caused by interest rate sensitivity, foreign currency exchange rates on our Canadian dollar-denominated investments, and changes in credit spreads. We believe that fluctuations caused by interest rate movement have little bearing on the recoverability of our investments. Because we have the ability to hold these investments until a market price recovery or maturity and we have no present intention to dispose of them, we do not consider these investments to be other-than-temporarily impaired.

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

	Three months ended March 31, 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	$93	$-
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	93	-
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	144	149
Net impairment losses recognized in earnings	$237	$149

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

	Three months ended March 31,	
	2015	2014
	(In thousands)	
Cumulative OTTI credit losses recognized for securities still held, beginning of period	$9,550	$7,970
Additions for OTTI securities where no credit losses were recognized prior to the beginning of the period	21	149
Additions for OTTI securities where credit losses have been recognized prior to the beginning of the period	140	-
Reductions due to sales, maturities, calls, amortization or increases in cash flows expected to be collected over the remaining life of credit impaired securities	(956)	(42)
Reductions for exchanges of securities previously impaired	(1,277)	-
Cumulative OTTI credit losses recognized for securities still held, end of period	$7,478	$8,077

As of March 31, 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 March 31, 2015 and December 31, 2014, the fair value of these bifurcated options was approximately $5.6 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 March 31, 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:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	$-	$14,485	$-	$14,485
Foreign government	-	119,205	-	119,205
States and political subdivisions	-	40,689	-	40,689
Corporates	2,177	1,344,029	230	1,346,436
Mortgage- and asset-backed securities	-	268,266	856	269,122
Total fixed-maturity securities	2,177	1,786,674	1,086	1,789,937
Equity securities	45,774	5,985	48	51,807
Trading securities	-	7,345	-	7,345
Separate accounts	-	2,386,265	-	2,386,265
Total fair value assets	$47,951	$4,186,269	$1,134	$4,235,354
Fair value liabilities:				
Separate accounts	$-	$2,386,265	$-	$2,386,265
Total fair value liabilities	$-	$2,386,265	$-	$2,386,265

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
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 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 March 31,	
	2015	2014
	(In thousands)	
Level 3 assets, beginning of period	$1,165	$2,288
Net unrealized gains (losses) included in other comprehensive income	6	120
Realized gains (losses) and accretion (amortization) recognized in earnings, including OTTI	-	-
Purchases	-	-
Sales	-	-
Settlements	(37)	(52)
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Level 3 assets, end of period	$1,134	$2,356

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, quoted prices for similar instruments in markets that are not active, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. There were no transfers between Level 1, 2, and 3 during the three months ended March 31, 2015 and 2014.

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

	March 31, 2015		December 31, 2014	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
Assets:				
Fixed-maturity securities (available-for-sale)	$1,789,937	$1,789,937	$1,759,120	$1,759,120

Fixed-maturity security (held-to-maturity)	238,000	259,761	220,000	228,809
Equity securities	51,807	51,807	53,390	53,390
Trading securities	7,345	7,345	7,711	7,711
Policy loans	27,679	27,679	28,095	28,095
Deposit asset underlying 10% coinsurance agreement	163,086	163,086	157,256	157,256
Separate accounts	2,386,265	2,386,265	2,440,303	2,440,303
Liabilities:				
Notes payable	$374,545	$415,429	$374,532	$411,916
Surplus note	238,000	255,253	220,000	227,127
Separate accounts	2,386,265	2,386,265	2,440,303	2,440,303

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

Recurring fair value measurements. Estimated fair values of investments in available-for-sale fixed-maturity securities are principally a function of current spreads and interest rates that are corroborated by independent third-party data. Therefore, the fair values presented are indicative of amounts we could realize or settle at the respective balance sheet date. We do not necessarily intend to dispose of or liquidate such instruments prior to maturity. Trading securities, which primarily consist of fixed-maturity securities, are carried at fair value. Equity securities, including common and nonredeemable preferred stocks, are carried at fair value. Segregated funds in separate accounts are carried at the underlying value of the variable insurance contracts, which is fair value.

Nonrecurring fair value measurements. The estimated fair value of the held-to-maturity fixed-maturity security, which is classified as a Level 3 fair value measurement, is derived using the credit spread on similarly rated debt securities and the hypothetical spread of the security’s credit enhancement feature. Policy loans, which are categorized as Level 3 fair value measurements, are carried at the unpaid principal balances. The fair value of policy loans approximate the unpaid principal balances as the timing of repayment is uncertain and the loans are collateralized by the amount of the policy. The deposit asset underlying the 10% coinsurance agreement with Prime Reinsurance Company, Inc. ("Prime Re"), an affiliate of Citigroup Inc. ("Citigroup"), represents the value of the assets necessary to back the economic reserves held in support of the reinsurance agreement. The carrying value of this deposit asset approximates fair value, which is categorized as Level 3 in the fair value hierarchy. Notes payable represent our publicly-traded senior notes and are valued as a Level 2 fair value measurement using the quoted market price for our notes. The estimated fair value of the Surplus Note is derived by using an assumed credit spread we would expect if Vidalia Re was a credit-rated entity and the hypothetical spread of the Surplus Note’s subordinated structure. The Surplus Note is classified as a Level 3 fair value measurement.

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximate their fair values due to the short-term nature of these instruments. Consequently, such financial instruments are not included in the above table.

(5) Reinsurance

We use reinsurance extensively, which has a significant effect on our results of operations. Reinsurance arrangements do not relieve us of our primary obligation to the policyholder. We monitor the concentration of credit risk we have with any reinsurer, as well as the financial condition of the reinsurers.

Details on in-force life insurance follow:

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Direct life insurance in force	$682,544,727	$685,998,013
Amounts ceded to other companies	(604,605,806)	(607,218,906)
Net life insurance in force	$77,938,921	$78,779,107
Percentage of reinsured life insurance in force	89 %	89 %

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

	March 31, 2015		December 31, 2014	
	Reinsurance receivable	A.M. Best rating	Reinsurance receivable	A.M. Best rating
	(In thousands)			
Prime Reinsurance Company[1]	$2,671,924	NR	$2,645,011	NR
SCOR Global Life Reinsurance Companies[2]	363,097	A	373,947	A
Financial Reassurance Company 2010, Ltd.[1]	295,634	NR	320,718	NR
Swiss Re Life & Health America Inc.[3]	250,662	A+	260,734	A+
American Health and Life Insurance Company[1]	177,253	A- u	175,755	A-
Munich American Reassurance Company	99,221	A+	100,846	A+
Korean Reinsurance Company	88,300	A	89,300	A
RGA Reinsurance Company	78,217	A+	78,143	A+
TOA Reinsurance Company	18,951	A+	20,139	A+
Hannover Life Reassurance Company	18,458	A+	18,694	A+
All other reinsurers	32,739	-	32,246	-

Due from reinsurers	$4,094,456	$4,115,533

NR – not rated

u – under review

(1) Reinsurers are affiliates of Citigroup. Amounts shown are net of their share of the reinsurance receivable from other reinsurers.
(2) Includes amounts ceded to Transamerica Reinsurance Companies and fully retroceded to SCOR Global Life Reinsurance Companies.
(3) Includes amounts ceded to Lincoln National Life Insurance and 100% retroceded to Swiss Re Life & Health America Inc.

(6) Debt

Notes Payable. At March 31, 2015, the Company had $375.0 million of publicly-traded, senior unsecured notes with an annual interest rate of 4.75% that are scheduled to mature on July 15, 2022 (the "Senior Notes"). As of March 31, 2015, we were in compliance with the covenants of the Senior Notes. No events of default occurred on the Senior Notes during the three months ended March 31, 2015.

Further discussion on the Company's notes payable is included in Note 10 (Debt) to our consolidated financial statements within our 2014 Annual Report.

Surplus Note. At March 31, 2015, the principal amount outstanding on the Surplus Note issued by Vidalia Re was $238.0 million, equal to the principal amount of the LLC Note invested asset. The principal amount of the Surplus Note and the LLC Note will fluctuate over time to coincide with the amount of reserves being contractually supported. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. Based on the estimated reserves for ceded policies issued in 2011, 2012, 2013, and 2014, the maximum principal amounts of the Surplus Note and the LLC Note are expected to be approximately $915.0 million each.

Further discussion on the Company's Surplus Note and LLC Note are included in Note 10 (Debt) and Note 4 (Investments) to our consolidated financial statements within our 2014 Annual Report.

(7) Stockholders' Equity

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

	Three months ended March 31,	
	2015	2014
	(In thousands)	
Common stock, beginning of period	52,169	54,834
Shares issued for stock options exercised	89	4
Shares of common stock issued upon lapse of restricted stock units ("RSUs")	208	159
Common stock retired	(911)	(428)
Common stock, end of period	51,555	54,569

The above reconciliation excludes RSUs, which do not have voting rights. As the RSUs lapse, we issue common shares with voting rights. As of March 31, 2015, we had a total of approximately 1.2 million RSUs outstanding.

Our Board of Directors authorized a share repurchase program for up to $150.0 million of our outstanding common stock during 2015 (the "share repurchase program"). Under the share repurchase program, we repurchased 740,393 shares of our common stock in open market transactions for an aggregate purchase price of approximately $38.7 million during the first three months of 2015. As of March 31, 2015, there is approximately $111.3 million remaining for repurchases of our outstanding common stock under the share repurchase program.

(8) Earnings Per Share

The Company has outstanding common stock and equity awards that consist of restricted stock, RSUs and stock options. The restricted stock and RSUs maintain non-forfeitable dividend rights that result in dividend payment obligations on a one-to-one ratio with common shares for any future dividend declarations.

Unvested restricted stock and unvested RSUs are deemed participating securities for purposes of calculating earnings per share ("EPS") as they maintain dividend rights. We calculate EPS using the two-class method. Under the two-class method, we allocate earnings to common shares (excluding unvested restricted stock) and vested RSUs outstanding for the period. Earnings attributable to unvested participating securities, along with the corresponding share counts, are excluded from EPS as reflected in our unaudited condensed consolidated statements of income.

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

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

The calculation of basic and diluted EPS follows.

	Three months ended March 31,	
	2015	2014
	(In thousands, except per-share amounts)	
Basic EPS		
Numerator (continuing operations):		
Income from continuing operations	$43,401	$43,485
Income attributable to unvested participating securities	(444)	(557)
Income from continuing operations used in calculating basic EPS	$42,957	$42,928
Numerator (discontinued operations):		
Income from discontinued operations	$-	$1,595
Income attributable to unvested participating securities	-	(20)
Income from discontinued operations used in calculating basic EPS	$-	$1,575
Denominator:		
Weighted-average vested shares	52,643	55,211
Basic EPS from continuing operations	$0.82	$0.78
Basic EPS from discontinued operations	$-	$0.03
Diluted EPS		
Numerator (continuing operations):		
Income from continuing operations	$43,401	$43,485
Income attributable to unvested participating securities	(444)	(557)
Income from continuing operations used in calculating diluted EPS	$42,957	$42,928
Numerator (discontinued operations):		
Income from discontinued operations	$-	$1,595
Income attributable to unvested participating securities	-	(20)
Income from discontinued operations used in calculating diluted EPS	$-	$1,575
Denominator:		
Weighted-average vested shares	52,643	55,211
Dilutive effect of incremental shares to be issued for equity awards	48	22
Weighted-average shares used in calculating diluted EPS	52,691	55,233
Diluted EPS from continuing operations	$0.82	$0.78
Diluted EPS from discontinued operations	$-	$0.03

(9) Share-Based Transactions

The Company has outstanding equity awards under its Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, unrestricted stock, as well as cash-based awards. In addition to time-based vesting requirements, awards granted under the OIP also may be subject to specified performance criteria. Since 2010, the Company has issued equity awards to our management (officers and other key employees), non-employee directors, and sales force leaders under the OIP. For more information on equity awards granted under the OIP, see Note 14 (Share-Based Transactions) to our consolidated financial statements within our 2014 Annual Report.

In connection with our granting of equity awards to our management and members of the Board of Directors, we recognize expense over the requisite service period of the equity award. Additionally, to the extent that equity awards to members of our sales force are an incremental direct cost of successful acquisitions or renewals of life insurance policies that result directly from and are essential to the policy acquisition(s) and would not have been incurred had the policy acquisition(s) not occurred, we defer and amortize the fair value of these awards in the same manner as other deferred policy acquisition costs.

The impacts of equity awards granted are as follows:

	Three months ended March 31,	
	2015	2014
	(In thousands)	
Total equity awards expense recognized	$8,943	$2,848
Quarterly incentive awards expense deferred	2,908	3,787

On February 23, 2015, the Compensation Committee of the Board of Directors granted equity awards to management (the “2015 management awards”) in connection with the annual approval of management incentive compensation. The 2015 management awards have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date and include a provision for such awards to vest upon the voluntary termination of employment by any employee who is “retirement eligible” as of his or her termination date. In order to be retirement eligible, an employee must be at least 55 years old and his or her age plus years of service with the Company must equal at least 75. We recognize the expense associated with equity awards granted to retirement eligible employees immediately on the grant date, which is also the date the award is authorized. For equity awards granted to employees who are not retirement eligible on the grant date, the expense associated with these awards is recognized over the period from the grant date to the earlier of the date the employee becomes retirement eligible or the originally scheduled vesting date in the award agreement. Equity awards issued to management prior to 2015 do not contain a retirement eligibility provision, with the exception of equity awards issued to management in 2014 that were modified to include such a provision during the third quarter of 2014.

(10) Commitments and Contingent Liabilities

Letter of Credit. Peach Re maintains a credit facility agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the Regulation XXX reserves related to the Peach Re Coinsurance Agreement. Under the Credit Facility Agreement, Deutsche Bank issued a letter of credit for the benefit of Primerica Life with a term ending on January 15, 2026. As of March 31, 2015, the Company was in compliance with all financial covenants under the Credit Facility Agreement. At March 31, 2015, the amount of the LOC outstanding was approximately $500.8 million. This amount will decline over the remaining term of the LOC to correspond with declines in the Regulation XXX reserves.

Further discussion on the Company's letter of credit is included in Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements within our 2014 Annual Report.

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

The Company is currently undergoing targeted multi-state treasurer audits by 30 jurisdictions with respect to unclaimed property laws, and Primerica Life and NBLIC are currently subject to a targeted multi-state market conduct examination with respect to their claims-paying practices. The Treasurer of the State of West Virginia brought a suit against Primerica Life and other insurance companies alleging violations of the West Virginia unclaimed property act. The suit was dismissed, and the Treasurer has appealed. Other jurisdictions may pursue similar audits, examinations and litigation. The audits, examinations and litigation are expected to take significant time to complete, and it is unclear whether the Company will be required to compare the Social Security Administration's Death Master File to its records for periods prior to 2011, including with respect to policies which have lapsed, to determine whether benefits are owed in instances where an insured appears to have died but no claim for death benefits has been made. The potential outcome of such actions is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. At this time, the Company cannot reasonably estimate the likelihood or the impact of additional costs or liabilities that could result from the resolution of these matters. These actions may also result in changes to the Company's procedures for the identification and escheatment of abandoned property and other financial liability.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the "Parent Company") and its subsidiaries (collectively, "we", "us" or the "Company") for the period from December 31, 2014 to March 31, 2015. As a result, the following discussion should be read in conjunction with MD&A and 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"). This discussion contains forward-looking statements that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to, those discussed under the heading “Risk Factors” in the 2014 Annual Report. Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

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

Business Overview

We are a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We have two primary operating segments, Term Life Insurance and Investment and Savings Products, and a third segment, Corporate and Other Distributed Products.

Term Life Insurance. We distribute the term life insurance products that we originate through our three issuing life insurance company subsidiaries: Primerica Life Insurance Company ("Primerica Life"); National Benefit Life Insurance Company ("NBLIC"); and Primerica Life Insurance Company of Canada ("Primerica Life Canada"). Our in-force term insurance policies have level premiums for the stated term period. As such, the policyholder pays the same amount each year. Initial policy term periods are between 10 and 35 years. While premiums are guaranteed to remain level during the initial term period (up to a maximum of 20 years in the United States), our claim obligations generally increase as our policyholders age. In addition, we incur significant upfront costs in acquiring new insurance business. Our deferral and amortization of policy acquisition costs and reserving methodology are designed to match the recognition of premium revenues with the timing of policy lapses and the payment of expected claims obligations.

Investment and Savings Products. In the United States, we distribute mutual fund and managed accounts products and variable and fixed annuity products of several third-party companies. In Canada, we offer our own Primerica-branded mutual funds, as well as mutual funds of other companies, and segregated funds, which are underwritten by Primerica Life Canada.

Corporate and Other Distributed Products. Our Corporate and Other Distributed Products segment consists primarily of revenues and expenses related to other distributed products, including various insurance products underwritten by NBLIC, prepaid legal services, and other financial products. These products, except for various insurance products underwritten by NBLIC, are distributed pursuant to distribution arrangements with third parties through our independent agent sales force.

Business Trends and Conditions

The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits' perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels affect how consumers evaluate their savings and debt management plans. In addition, interest rates and equity market returns impact consumer demand for the savings and investment products we distribute. The effects of these trends and conditions are discussed in the Results of Operations section below.

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

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

	Three months ended March 31,

	2015	2014
New recruits	53,300	48,306
New life-licensed sales representatives	7,486	7,447

New recruits increased in 2015 compared to 2014 primarily due to the positive impact of short-term incentive programs. Although the number of new recruits increased, new life-licensed representatives in 2015 were consistent with the prior year period, given the time lag inherent in completing the requirements necessary to obtain a life insurance license.

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

	March 31, 2015	December 31, 2014
Life-licensed insurance sales representatives	98,145	98,358

The size of our life-licensed sales force remained consistent with December 31, 2014 as the number of new life-licensed sales representatives, which is typically lower in the first quarter of the year based on the pull-through of seasonally slower recruiting in the fourth quarter, kept pace with non-renewals during the first quarter of 2015.

Regulatory changes can also impact the size of our independent sales force. The insurance regulators in the Canadian provinces and territories entered into a Memorandum of Understanding and related agreements to implement a new life insurance licensing examination program across Canada in early 2016. If this new licensing program is implemented under the terms set forth in the agreements, we believe it could significantly decrease the ability of applicants to obtain their life insurance licenses in Canada. At this time, we cannot quantify the impact of the new licensing program on us. However, we believe the program could result in a significant decline in the number of our new life-licensed representatives in Canada and ultimately the size of our life-licensed sales force. This could lower new life insurance sales and, over time, lower the size of our in-force life insurance premium and materially adversely affect our Canadian Term Life insurance business. See "Part II — Other Information — Item 1. Legal Proceedings." for more information.

Term Life Insurance Product Sales. The average number of life-licensed sales representatives and the number of term life insurance policies issued, as well as the average monthly rate of new policies issued per life-licensed sales representative (historically between 0.18 and 0.22), were as follows:

	Three months ended March 31,	
	2015	2014
Average number of life-licensed sales representatives	98,159	95,300
Number of new policies issued	55,677	49,320
Average monthly rate of new policies issued per life-licensed sales representative	0.19	0.17

The average monthly rate of new policies issued per life-licensed sales representative was within the historical range during the three months ended March 31, 2015, while the average monthly rate of new policies issued per life-licensed representative for the prior year period was unfavorably impacted by adverse weather conditions across North America during the first quarter of 2014. Additionally, sales of our term life insurance products increased in 2015 primarily due to the growth in our life-licensed sales force, as well as the pull-through of higher life insurance applications submitted in the fourth quarter of 2014.

Investment and Savings Product Sales and Asset Values. Investment and savings products sales increased 7% to approximately $1.5 billion in the first quarter of 2015 compared with the prior year period. The assets in our clients' accounts are invested in diversified funds comprised mainly of U.S. and Canadian equity and fixed-income securities. The period-end asset values increased to approximately $49.2 billion at March 31, 2015 versus approximately $48.7 billion at December 31, 2014. See the "Results of Operations" section for more details regarding product sales and changes in our client asset values.

On April 14, 2015, the Department of Labor ("DOL") published a proposed regulation ("the DOL Proposed Rule"), which would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of the Employee Retirement Income Security Act and Internal Revenue Code ("IRC") Section 4975. IRC Section 4975 prohibits certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including individual retirement accounts ("IRAs"). The DOL Proposed Rule also includes a package of proposed exemptions intended to avoid disruption of common compensation arrangements provided the conditions of the exemptions are met. IRAs and other qualified accounts are an important component of the investment and savings products we distribute. As of December 31, 2014, client assets held in qualified retirement plans in the United States and Canada accounted for an estimated 60% and 13% of total client account assets, respectively. During the year ended December 31, 2014, product sales of assets held in qualified retirement plans in the United States and Canada accounted for approximately 57% and 10% of total investment and savings product sales, respectively. The form, substance and timing of a final rule are unknown at this time and therefore we are unable to quantify the impact, if any, on our business, financial position or results of operations.

Factors Affecting Our Results

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

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

Historically, we have found that, while sales volume of term life insurance products between fiscal periods may vary based on a variety of factors, the productivity of our sales representatives generally remains within a relatively narrow range (between 0.18 and 0.22), and, consequently, our sales volume over the longer term generally correlates to the size of our sales force.

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

- Persistency. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When persistency is lower than our pricing assumptions, we must accelerate the amortization of deferred policy acquisition costs ("DAC"). The resultant increase in amortization expense is offset by a corresponding release of reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The future policy benefit reserves associated with any given policy will change over the term of such policy. As a general matter, future policy benefit reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and claims expense may be greater or less than the increase in amortization expense, and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels will impact results to the extent actual experience deviates from the persistency assumptions used to price our products.

- Mortality. Our profitability will fluctuate to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance.
- Interest rates. We use an assumption for future interest rates that initially reflects the current low interest rate environment gradually increasing to a level consistent with historical experience. Both DAC and the future policy benefit reserve liability increase with the assumed interest rate. Since DAC is higher than the future policy benefit reserve liability in the early years of a policy, a lower assumed interest rate generally will result in lower profits. In the later years, when the future policy benefit reserve liability is higher than DAC, a lower assumed interest rate generally will result in higher profits. These assumed interest rates, which like other pricing assumptions are locked in at issue, impact the timing but not the aggregate amount of DAC and future policy benefit reserve changes. Actual interest rates will impact net investment income allocated to the Term Life Insurance segment, but will not impact DAC or the reserve liability.

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

In 2010, as part of our corporate reorganization, we entered into significant coinsurance transactions (the "coinsurance transactions") with three affiliates (collectively, the "Citigroup reinsurers") of Citigroup Inc. ("Citigroup") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. We continue to administer all policies subject to these coinsurance agreements. With each successive period, we expect revenue and earnings growth to continue to decelerate as the size of our in-force book grows and incremental sales have a reduced marginal effect on the size of the then-existing in-force book.

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

- Ceded premiums. Ceded premiums are the premiums we pay to reinsurers. These amounts are deducted from the direct premiums we earn to calculate our net premium revenues. Similar to direct premium revenues, ceded coinsurance premiums remain level over the initial term of the insurance policy. Ceded YRT premiums increase over the period that the policy has been in force. Accordingly, ceded YRT premiums generally constitute an increasing percentage of direct premiums over the policy term.
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Benefits and claims. Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded. Coinsurance also reduces the change in future policy benefit reserves in direct proportion to the percentage ceded, while YRT reinsurance does not significantly impact the change in these reserves.

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

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

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

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

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

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

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

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

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

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

Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. NBLIC also has in-force policies from several discontinued lines of insurance. During the first quarter of 2014, NBLIC sold its short-term statutory disability benefit insurance business ("DBL") to AmTrust North America, Inc., and the net gain recognized on the sale has been reported as discontinued operations in 2014. During the second quarter of 2014, NBLIC ceased the marketing and underwriting of new student life insurance policies but continues to administer the existing block of student life business. Corporate and Other Distributed Products segment net investment income is composed of two elements: the remainder of net investment income not allocated to our Term Life Insurance segment and the market return associated with the deposit asset underlying a 10% coinsurance agreement with the Citigroup reinsurers ("10% Coinsurance Agreement").

The Corporate and Other Distributed Products segment is affected by corporate income and expenses not allocated to our other segments, net investment income (other than net investment income allocated to our Term Life Insurance segment), general and administrative expenses (other than expenses that are allocated to our Term Life Insurance or Investment and Savings Products segments), interest expense on notes payable and realized gains and losses on our invested asset portfolio.

Capital Structure. Our financial results have also been affected by changes in our capital structure, including the issuance of our senior unsecured notes and repurchases of shares of our common stock. For additional information regarding our capital structure, see Note 6 (Debt) and Note 7 (Stockholders' Equity) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Foreign Currency. The Canadian dollar is the functional currency for our Canadian subsidiaries and our financial results, reported in U.S. dollars, are affected by changes in the currency exchange rate. As such, the translated amount of revenues, expenses, assets and liabilities attributable to our Canadian subsidiaries will be higher or lower in periods where the Canadian dollar appreciates or weakens, respectively, relative to the U.S. dollar. See Item 7. Quantitative and Qualitative Disclosures About Market Risk – Canadian Currency Risk included in our 2014 Annual Report and Note 2 (Segment and Geographical Information) to our unaudited condensed consolidated financial statements included elsewhere in this report for more information on our Canadian subsidiaries and the impact of foreign currency on our financial results.

Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting policies are described in Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) to our consolidated financial statements included in our 2014 Annual Report. The most significant items on our condensed consolidated balance sheets are based on fair value determinations, accounting estimates and actuarial determinations, which are susceptible to changes in future periods and could affect our results of operations and financial position.

The estimates that we deem to be most critical to an understanding of our results of operations and financial position are those related to DAC, future policy benefit reserves and corresponding amounts due from reinsurers, income taxes, the valuation of investments, and litigation. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management’s analyses and judgments. Subsequent experience or use of other assumptions could produce significantly different results.

Accounting Policy Changes. During the three months ended March 31, 2015, there have been no changes in the accounting methodology for items that we have identified as critical accounting estimates. For additional information regarding our critical accounting estimates, see the Critical Accounting Estimates section of MD&A included in our 2014 Annual Report.

Results of Operations

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

	Three months ended March 31,		Change	
	2015	2014	$	%
	(Dollars in thousands)			
Revenues:				
Direct premiums	$577,458	$568,205	$9,253	2 %
Ceded premiums	(397,540)	(402,715)	(5,175)	(1)%
Net premiums	179,918	165,490	14,428	9 %
Commissions and fees	132,835	126,933	5,902	5 %
Net investment income	21,173	21,599	(426)	(2)%
Realized investment gains (losses), including other-than-temporary impairment losses	1,284	263	1,021	*
Other, net	9,929	10,043	(114)	(1)%
Total revenues	345,139	324,328	20,811	6 %
Benefits and expenses:				
Benefits and claims	82,500	75,191	7,309	10 %
Amortization of DAC	36,213	35,193	1,020	3 %
Sales commissions	68,457	65,121	3,336	5 %

Insurance expenses	34,641	28,502	6,139	22 %
Insurance commissions	3,190	4,083	(893)	(22)%
Interest expense	8,676	8,606	70	1 %
Other operating expenses	44,653	40,800	3,853	9 %
Total benefits and expenses	278,330	257,496	20,834	8 %
Income from continuing operations before income taxes	66,809	66,832	(23)	*
Income taxes	23,408	23,347	61	*
Income from continuing operations	43,401	43,485	(84)	*
Income from discontinued operations, net of income taxes	-	1,595	(1,595)	*
Net income	$43,401	$45,080	$(1,679)	(4)%

*Less than 1% or not meaningful.

Results for the Three Months Ended March 31, 2015 and 2014

Total revenues. Total revenues for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 increased primarily due to incremental premiums on term life insurance policies not subject to the Citigroup coinsurance transactions. Higher sales of investment and savings products and the rise in client asset values also contributed the increase in total revenues in the form of higher commissions and fees. Additionally, realized investment gains increased primarily due to a larger number of fixed maturity securities sold to fund share repurchases in 2015 compared to the prior year period.

Total benefits and expenses. Total benefits and expenses for the three months ended March 31, 2015 increased primarily as a result of the growth in revenue-related costs, which include benefits and claims, certain insurance expenses, sales commissions, and amortization of DAC. Total benefits and expenses also increased approximately $6.1 million due to the accelerated expense recognition on the grant date of management equity awards granted to retirement eligible employees in February 2015. Management equity awards granted in February 2014 did not have a similar accelerated recognition of expense at the grant date for retirement eligible employees as those awards did not contain a retirement eligibility provision until modifications were made to include such a provision in the third quarter of 2014. The grant date fair value of the management equity awards issued in February 2015 was approximately $12.4 million, which was consistent with the total grant date fair value of the management equity awards granted in February 2014. As such, the impact of the retirement eligibility provision included in equity awards granted to management primarily affects the timing of expense recognition and not the total amount of expense to be recognized.

See Note 9 (Share-Based Transactions) to our unaudited condensed consolidated financial statements included elsewhere in this report for more information on the acceleration of stock compensation expense of certain employee equity awards.

Income taxes. Our effective income tax rates of 35.0% and 34.9% for the three months ended March 31, 2015 and 2014, respectively, were consistent year-over-year.

For additional information, see the Segment Results discussions below.

Segment Results

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

	Three months ended March 31,		Change	
	2015	2014	$	%
	(Dollars in thousands)			
Revenues:				
Direct premiums	$569,164	$559,663	$9,501	2 %
Ceded premiums	(395,122)	(400,333)	(5,211)	(1)%
Net premiums	174,042	159,330	14,712	9 %
Allocated net investment income	17,281	16,713	568	3 %
Other, net	7,042	6,937	105	2 %
Total revenues	198,365	182,980	15,385	8 %
Benefits and expenses:				
Benefits and claims	77,990	71,263	6,727	9 %
Amortization of DAC	35,017	32,721	2,296	7 %
Insurance expenses	32,804	26,414	6,390	24 %
Insurance commissions	602	1,315	(713)	(54)%
Interest expense	4,132	4,063	69	2 %
Total benefits and expenses	150,545	135,776	14,769	11 %
Income from continuing operations before income taxes	$47,820	$47,204	$616	1 %

Results for the Three Months Ended March 31, 2015 and 2014

Net premiums. Direct premiums grew mostly due to incremental premiums on term life insurance policies not subject to the Citigroup coinsurance transactions. Ceded premiums declined primarily due to the run-off of business subject to the Citigroup coinsurance transactions. The continued impact of growth in direct premiums not subject to the Citigroup coinsurance transactions and the run-off of business subject to the Citigroup coinsurance transactions resulted in net premiums growing faster than direct premiums.

Allocated net investment income. Allocated net investment income increased modestly year-over-year primarily due to the higher allocation related to the growth in invested assets that support our targeted statutory capital and required reserves of $1.5 million, partially offset by lower yield on invested assets of approximately $1.0 million.

Benefits and claims. Benefits and claims increased consistent with the growth in net premiums as the growth in reserves from strong persistency was offset by incurred claims, which were slightly below historical levels.

Amortization of DAC. The rate of DAC amortization was slower than the growth in net premiums due to strong persistency in the first quarter of 2015.

Insurance expenses. The increase in insurance expenses was mostly due to the following employee-related compensation costs: $2.9 million impact of accelerated expense recognition on the grant date of management equity awards issued to retirement eligible employees in February 2015 and $1.7 million related to higher other compensation costs primarily related to annual employee merit pay increases. The remaining rise in insurance expenses was attributable to growth in the business and the run-off of Citigroup coinsurance expense allowances.

Face Amount In Force. The changes in the face amount of our in-force book of term life insurance policies were as follows:

	Three months ended March 31,			
	2015	% of beginning balance	2014	% of beginning balance
	(Dollars in millions)			
Face amount in force, beginning of period	$681,927		$674,868	
Net change in face amount:				
Issued face amount	17,181	3 %	15,748	2 %
Terminations	(13,344)	(2)%	(14,160)	(2)%
Foreign currency	(7,247)	(1)%	(3,378)	*
Net change in face amount	(3,410)	(1)%	(1,790)	*
Face amount in force, end of period	$678,517		$673,078	

*Less than 1%.

Face amount of term life insurance policies in force decreased in 2015 primarily due to the impact on Canadian in-force policies from the strengthening of the U.S. dollar in relation to the Canadian dollar, partially offset by the rise in issued face amount from the higher number of new policies issued in the first quarter of 2015. As a percentage of beginning face amount in force, issued face amount increased modestly in the first quarter of 2015, and terminations slightly improved as a result of better persistency compared to the same period a year ago.

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

	Three months ended March 31,		Change	
	2015	2014	$	%
	(Dollars in thousands)			
Revenues:				
Commissions and fees:				
Sales-based revenues	$60,035	$57,904	$2,131	4 %
Asset-based revenues	56,837	53,808	3,029	6 %
Account-based revenues	10,452	9,723	729	7 %
Other, net	1,750	1,835	(85)	(5)%
Total revenues	129,074	123,270	5,804	5 %
Expenses:				
Amortization of DAC	1,201	2,335	(1,134)	(49)%
Insurance commissions	1,971	2,086	(115)	(6)%
Sales commissions:				
Sales-based	42,442	41,563	879	2 %
Asset-based	23,251	20,726	2,525	12 %
Other operating expenses	25,165	22,532	2,633	12 %
Total expenses	94,030	89,242	4,788	5 %
Income from continuing	$35,044	$34,028	$1,016	3 %

operations before income taxes

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Supplemental information on the underlying metrics that drove results follows.

	Three months ended March 31,		Change	
	2015	2014	$	%
	(Dollars in millions)			
Product sales:				
Retail mutual funds	$856	$821	$35	4%
Annuities and other	479	450		