

Primerica, Inc.  
Form 10-Q  
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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	(I.R.S. Employer
incorporation or organization)	Identification No.)
	30099

1 Primerica Parkway

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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.  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).  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  Accelerated filer   
Non-accelerated filer  (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  No

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

Class	As of July 31, 2016
Common Stock, \$0.01 Par Value	46,471,932 shares

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

	(Unaudited)	
	June 30, 2016	December 31, 2015
	(In thousands)	
<b>Assets</b>		
<b>Investments:</b>		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: \$1,631,169 in 2016 and \$1,690,043 in 2015)	\$ 1,726,774	\$ 1,731,459
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: \$466,324 in 2016 and \$371,742 in 2015)	431,000	365,220
Equity securities available-for-sale, at fair value (cost: \$39,407 in 2016 and \$39,969 in 2015)	49,040	47,839
Trading securities, at fair value (cost: \$8,014 in 2016 and \$5,383 in 2015)	8,012	5,358
Policy loans	30,817	28,627
Total investments	2,245,643	2,178,503
Cash and cash equivalents	213,091	152,294
Accrued investment income	16,100	17,080
Due from reinsurers	4,147,284	4,110,628
Deferred policy acquisition costs, net	1,619,236	1,500,259
Premiums and other receivables	213,329	188,886
Intangible assets, net (accumulated amortization: \$73,530 in 2016 and \$71,828 in 2015)	56,617	58,318
Income taxes	30,844	35,067
Other assets	351,340	304,356
Separate account assets	2,311,124	2,063,899
<b>Total assets</b>	<b>\$ 11,204,608</b>	<b>\$ 10,609,290</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Future policy benefits	\$5,581,043	\$5,431,711
Unearned premiums	560	628
Policy claims and other benefits payable	235,265	238,157
Other policyholders' funds	351,740	356,123
Notes payable	372,735	372,552
Surplus note	430,233	364,424
Income taxes	199,985	148,125
Other liabilities	422,556	416,417
Payable under securities lending	91,901	71,482
Separate account liabilities	2,311,124	2,063,899

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Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	9,997,142	9,463,518
Stockholders' equity:		
Common stock (\$0.01 par value; authorized 500,000 in 2016 and 2015; issued and		
outstanding 46,602 shares in 2016 and 48,297 shares in 2015)	466	483
Paid-in capital	102,825	180,250
Retained earnings	1,040,860	952,804
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(5,091 )	(19,801 )
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	68,472	32,107
Net unrealized investment losses other-than-temporarily impaired	(66 )	(71 )
Total stockholders' equity	1,207,466	1,145,772
Total liabilities and stockholders' equity	\$ 11,204,608	\$ 10,609,290

See accompanying notes to condensed consolidated financial statements.

## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income – Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
(In thousands, except per-share amounts)				
<b>Revenues:</b>				
Direct premiums	\$612,189	\$588,248	\$1,209,319	\$1,165,707
Ceded premiums	(406,683)	(406,854)	(802,017 )	(804,395 )
Net premiums	205,506	181,394	407,302	361,312
Commissions and fees	136,902	139,150	265,723	271,985
Investment income net of investment expenses	24,994	21,782	50,387	45,431
Interest expense on surplus note	(4,605 )	(2,707 )	(8,760 )	(5,182 )
Net investment income	20,389	19,075	41,627	40,249
Realized investment gains (losses), including other-than-				
temporary impairment losses	3,440	597	2,657	1,881
Other, net	13,007	10,301	24,896	19,936
<b>Total revenues</b>	<b>379,244</b>	<b>350,517</b>	<b>742,205</b>	<b>695,363</b>
<b>Benefits and expenses:</b>				
Benefits and claims	88,984	82,521	179,961	165,021
Amortization of deferred policy acquisition costs	38,720	36,384	81,849	72,595
Sales commissions	70,146	71,499	136,789	139,956
Insurance expenses	33,026	28,744	66,337	63,093
Insurance commissions	4,472	4,145	8,619	7,334
Interest expense	7,178	8,642	14,350	17,316
Other operating expenses	44,838	41,757	92,208	86,413
Total benefits and expenses	287,364	273,692	580,113	551,728
Income before income taxes	91,880	76,825	162,092	143,635
Income taxes	32,554	27,652	57,590	51,062
<b>Net income</b>	<b>\$59,326</b>	<b>\$49,173</b>	<b>\$104,502</b>	<b>\$92,573</b>
<b>Earnings per share:</b>				
Basic earnings per share	\$1.23	\$0.94	\$2.15	\$1.76
Diluted earnings per share	\$1.23	\$0.94	\$2.15	\$1.76
<b>Weighted-average shares used in computing earnings</b>				
per share:				
Basic	47,658	51,787	48,104	52,212
Diluted	47,708	51,812	48,141	52,249
<b>Supplemental disclosures:</b>				
Total impairment losses	\$(803 )	\$(632 )	\$(2,830 )	\$(869 )
Impairment losses recognized in other comprehensive income				
before income taxes	-	-	-	-
<b>Net impairment losses recognized in earnings</b>	<b>(803 )</b>	<b>(632 )</b>	<b>(2,830 )</b>	<b>(869 )</b>

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Other net realized investment gains (losses)	4,243	1,229	5,487	2,750
Realized investment gains (losses), including other-than-				
temporary impairment losses	\$3,440	\$597	\$2,657	\$1,881
Dividends declared per share	\$0.17	\$0.16	\$0.34	\$0.32

See accompanying notes to condensed consolidated financial statements.

## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income	\$59,326	\$49,173	\$104,502	\$92,573
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains/(losses) on investment				
securities	33,568	(32,720)	58,284	(17,059)
Reclassification adjustment for realized investment (gains) losses				
included in net income	(3,219)	(602)	(2,332)	(2,272)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)				
before income tax expense (benefit)	(1,167)	3,157	14,869	(17,409)
Total other comprehensive income (loss) before income taxes	29,182	(30,165)	70,821	(36,740)
Income tax expense (benefit) related to items of other comprehensive				
income (loss)	10,612	(11,627)	19,741	(6,961)
Other comprehensive income (loss), net of income taxes	18,570	(18,538)	51,080	(29,779)
Total comprehensive income	\$77,896	\$30,635	\$155,582	\$62,794

See accompanying notes to condensed consolidated financial statements.



## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Six months ended June 30,	
	2016	2015
	(In thousands)	
<b>Common stock:</b>		
Balance, beginning of period	\$483	\$522
Repurchases of common stock	(21 )	(25 )
Net issuance of common stock	4	4
Balance, end of period	466	501
<b>Paid-in capital:</b>		
Balance, beginning of period	180,250	353,337
Share-based compensation	16,873	22,231
Net issuance of common stock	(4 )	(4 )
Repurchases of common stock	(94,294 )	(115,763 )
Adjustments to paid-in capital, other	-	136
Balance, end of period	102,825	259,937
<b>Retained earnings:</b>		
Balance, beginning of period	952,804	795,740
Net income	104,502	92,573
Dividends	(16,446 )	(16,873 )
Balance, end of period	1,040,860	871,440
<b>Accumulated other comprehensive income (loss):</b>		
Balance, beginning of period	12,235	95,527
Change in foreign currency translation adjustment, net of income tax expense (benefit)	14,710	(17,214 )
<b>Change in net unrealized investment gains (losses) during the period, net of income taxes:</b>		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit)	36,365	(12,565 )
<b>Change in net unrealized investment losses other-than-temporarily impaired, net of income tax expense (benefit)</b>		
	5	-
Balance, end of period	63,315	65,748
Total stockholders' equity	\$1,207,466	\$1,197,626

See accompanying notes to condensed consolidated financial statements.



## PRIMERICA, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows – Unaudited

	Six months ended June 30,	
	2016	2015
	(In thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 104,502	\$ 92,573
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	115,404	122,424
Deferral of policy acquisition costs	(183,145)	(158,581)
Amortization of deferred policy acquisition costs	81,849	72,595
Change in income taxes	36,306	27,522
Realized investment (gains) losses, including other-than-temporary impairments	(2,657 )	(1,881 )
Accretion and amortization of investments	(723 )	(984 )
Depreciation and amortization	7,108	5,373
Change in due from reinsurers	(17,062 )	(45,479 )
Change in premiums and other receivables	(24,443 )	(12,454 )
Trading securities sold, matured, or called (acquired), net	(2,658 )	(233 )
Share-based compensation	10,031	10,858
Change in other operating assets and liabilities, net	(20,611 )	(27,879 )
Net cash provided by (used in) operating activities	103,901	83,854
<b>Cash flows from investing activities:</b>		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	69,925	63,584
Fixed-maturity securities — matured or called	137,044	148,730
Equity securities	3,297	1,920
Available-for-sale investments acquired:		
Fixed-maturity securities	(133,604)	(201,717)
Equity securities	(986 )	(709 )
Purchases of property and equipment and other investing activities, net	(10,679 )	(4,956 )
Cash collateral received (returned) on loaned securities, net	20,419	13,687
Sales (purchases) of short-term investments using securities lending collateral, net	(20,419 )	(13,687 )
Net cash provided by (used in) investing activities	64,997	6,852
<b>Cash flows from financing activities:</b>		
Dividends paid	(16,446 )	(16,873 )
Common stock repurchased	(90,558 )	(109,712)
Excess tax benefits on share-based compensation	1,448	4,259
Tax withholdings on share-based compensation	(3,757 )	(6,076 )
Cash proceeds from stock options exercised	-	136
Net cash provided by (used in) financing activities	(109,313)	(128,266)
Effect of foreign exchange rate changes on cash	1,212	(2,475 )
Change in cash and cash equivalents	60,797	(40,035 )

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Cash and cash equivalents, beginning of period	152,294	191,997
Cash and cash equivalents, end of period	\$213,091	\$151,962

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

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments, generally consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of June 30, 2016 and December 31, 2015 and the statements of income and comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015, and the statements of the stockholders' equity and cash flows for the six months ended June 30, 2016 and 2015. 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, 2015 ("2015 Annual Report").

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

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

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

**Subsequent Events.** The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the unaudited condensed consolidated financial statements dated as of June 30, 2016.

**Significant Accounting Policies.** All significant accounting policies remain unchanged from the 2015 Annual Report.

**New Accounting Principles.** In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (“ASU 2016-13”), Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments. ASU 2016-13 introduces new guidance for accounting for credit losses on financial instruments within its scope by replacing the current approach that delays recognition until it is probable a loss has been incurred with a new approach that estimates an allowance for anticipated credit losses on the basis of an entity’s own expectations. The objective of the new approach for estimating credit losses is to require consideration of a broader range of forward-looking information, which is expected to result in earlier recognition of credit losses on financial instruments.

Available-for-sale (“AFS”) debt securities are excluded from the scope of financial instruments that require measurement of credit losses on the basis of a forward-looking expected loss estimate under ASU 2016-13. The incurred probable loss approach for

measuring credit losses on AFS debt securities will remain under ASU 2016-13 but will be presented as an allowance rather than as a write-down. Therefore, an entity will be allowed to reverse credit losses previously recorded on AFS debt securities in situations where the estimate of credit losses on those securities has declined. The amendments in ASU 2016-13 also preclude an entity from considering the length of time an AFS debt security has been in an unrealized loss position to avoid recording a credit loss and remove the requirement to consider recoveries or declines in fair value after the balance sheet date.

The amendments in ASU 2016-13 are effective for the Company beginning in fiscal year 2020, with early adoption permitted beginning in fiscal year 2019. The Company is currently in the process of evaluating its impact on the Company's consolidated financial statements.

Future Application of Accounting Standards. Recent accounting guidance not discussed above is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business. For additional information on new accounting pronouncements and recent accounting principles and their impact, if any, on our financial position or results of operations, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) in our 2015 Annual Report and in the unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016.

## (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 operations by segment were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
<b>Revenues:</b>				
Term life insurance segment	\$210,679	\$184,389	\$416,957	\$366,583
Investment and savings products segment	132,693	135,081	257,729	264,155
Corporate and other distributed products segment	35,872	31,047	67,519	64,625
<b>Total revenues</b>	<b>\$379,244</b>	<b>\$350,517</b>	<b>\$742,205</b>	<b>\$695,363</b>
<b>Income (loss) before income taxes:</b>				
Term life insurance segment	\$58,018	\$44,689	\$104,098	\$80,764
Investment and savings products segment	36,064	37,746	67,755	72,789
Corporate and other distributed products segment	(2,202 )	(5,610 )	(9,761 )	(9,918 )
<b>Total income before income taxes</b>	<b>\$91,880</b>	<b>\$76,825</b>	<b>\$162,092</b>	<b>\$143,635</b>

Total assets by segment were as follows:

	June 30, 2016	December 31, 2015
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(In thousands)

Assets:		
Term life insurance segment	\$5,804,441	\$5,638,682
Investment and savings products segment <sup>(1)</sup>	2,419,043	2,157,548
Corporate and other distributed products segment	2,981,124	2,813,060
Total assets	\$11,204,608	\$10,609,290

<sup>(1)</sup> The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately \$108.1 million and \$93.8 million as of June 30, 2016 and December 31, 2015, respectively.

Segment Measurement Change. In the third quarter of 2015, the Company changed its basis for allocating net investment income, interest expense and invested assets between the Term Life Insurance segment and the Corporate and Other Distributed Products segment in measuring segment results and total assets by segment. As a result of this change in segment measurement, the amounts of net investment income and interest expense that have been reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment, were approximately \$16.7 million and \$4.1 million, respectively, for the three months ended June 30, 2015, and approximately \$32.6 million and \$8.2 million, respectively, for the six months ended June 30, 2015. For additional discussion regarding this segment measurement change, see Note 3 (Segment and Geographical Information) to our consolidated financial statements within our 2015 Annual Report.

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



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Geographical Information. Results of 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		Six months ended	
	June 30,	2015	June 30,	2015
	2016		2016	
	(In thousands)			
<b>Revenues by country:</b>				
United States	\$319,284	\$291,808	\$624,299	\$577,949
Canada	59,960	58,709	117,906	117,414
Total revenues	\$379,244	\$350,517	\$742,205	\$695,363
<b>Income before income taxes by country:</b>				
United States	\$73,653	\$60,199	\$128,610	\$109,055
Canada	18,227	16,626	33,482	34,580
Total income before income taxes	\$91,880	\$76,825	\$162,092	\$143,635

	June 30,	December
	2016	31, 2015
	(In thousands)	
<b>Long-lived assets by country:</b>		
United States	\$28,238	\$28,621
Canada	948	787
Total long-lived assets	\$29,186	\$29,408

(3) Investments

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

	June 30, 2016			
	Cost or	Gross	Gross	Fair value
	amortized	unrealized	unrealized	
	cost	gains	losses	
	(In thousands)			
<b>Securities available-for-sale, carried at fair value:</b>				
<b>Fixed-maturity securities:</b>				
U.S. government and agencies	\$15,915	\$626	\$-	\$16,541
Foreign government	118,549	9,590	(324)	127,815
States and political subdivisions	40,520	3,434	(1)	43,953
Corporates	1,239,031	77,347	(7,108)	1,309,270
Residential mortgage-backed securities	83,159	7,201	(148)	90,212
Commercial mortgage-backed securities	100,033	4,632	(28)	104,637
Other asset-backed securities	33,962	432	(48)	34,346
Total fixed-maturity securities <sup>(1)</sup>	1,631,169	103,262	(7,657)	1,726,774
Equity securities	39,407	10,532	(899)	49,040
Total fixed-maturity and equity securities	\$1,670,576	\$113,794	\$(8,556)	\$1,775,814

(1)

Includes approximately \$0.1 million of other-than-temporary impairment (“OTTI”) losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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	December 31, 2015			
	Cost or amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	\$20,233	\$ 448	\$ (22 )	\$20,659
Foreign government	114,656	7,082	(1,522 )	120,216
States and political subdivisions	38,995	2,111	(541 )	40,565
Corporates	1,276,965	49,008	(24,211 )	1,301,762
Residential mortgage-backed securities	94,532	6,814	(121 )	101,225
Commercial mortgage-backed securities	97,666	2,875	(555 )	99,986
Other asset-backed securities	46,996	129	(79 )	47,046
Total fixed-maturity securities <sup>(1)</sup>	1,690,043	68,467	(27,051 )	1,731,459
Equity securities	39,969	8,252	(382 )	47,839
Total fixed-maturity and equity securities	\$1,730,012	\$ 76,719	\$ (27,433 )	\$1,779,298

<sup>(1)</sup>Includes approximately \$0.1 million of OTTI 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 maturity distribution of the available-for-sale fixed-maturity portfolio at June 30, 2016 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	\$69,978	\$71,003
Due after one year through five years	678,313	722,228
Due after five years through 10 years	618,256	651,188
Due after 10 years	47,468	53,160
	1,414,015	1,497,579
Mortgage-and asset-backed securities	217,154	229,195
Total fixed-maturity securities	\$1,631,169	\$1,726,774

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:

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	June 30, 2016	December 31, 2015
	(In thousands)	
Net unrealized investment gains including OTTI:		
Fixed-maturity and equity securities	\$ 105,238	\$ 49,286
OTTI	104	109
Net unrealized investment gains excluding OTTI	105,342	49,395
Deferred income taxes	(36,870 )	(17,288 )
Net unrealized investment gains excluding OTTI, net of tax	\$ 68,472	\$ 32,107

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 \$8.0 million and \$5.4 million as of June 30, 2016 and December 31, 2015, respectively.

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

annual interest rate of 4.50%. The LLC Note is guaranteed by Hannover Re through a credit enhancement feature in exchange for a fee, which is reflected in interest expense on our unaudited condensed consolidated statements of income.

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

The LLC Note is classified as a held-to-maturity debt security in the Company's invested asset portfolio as we have the positive intent and ability to hold the security until maturity. As of June 30, 2016, the LLC Note, which was rated A+ by Fitch Ratings, had an estimated unrealized holding gain of \$35.3 million based on its amortized cost and estimated fair value, which is derived using the valuation techniques described in Note 4 (Fair Value of Financial Instruments).

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

Investments on Deposit with Governmental Authorities. As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately \$18.2 million and \$18.1 million as of June 30, 2016 and December 31, 2015, 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 \$91.9 million and \$71.5 million as of June 30, 2016 and December 31, 2015, respectively.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Fixed-maturity securities (available-for-sale)	\$18,377	\$19,551	\$37,626	\$39,346
Fixed-maturity security (held-to-maturity)	4,605	2,707	8,760	5,182
Equity securities	502	503	1,021	1,019
Policy loans and other invested assets	351	337	681	695
Cash and cash equivalents	200	47	349	90
Market return on deposit asset underlying 10% coinsurance agreement	2,185	(116 )	4,385	1,556
Gross investment income	26,220	23,029	52,822	47,888
Investment expenses	(1,226 )	(1,247 )	(2,435 )	(2,457 )
Investment income net of investment expenses	24,994	21,782	50,387	45,431

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Interest expense on surplus note	(4,605 )	(2,707 )	(8,760 )	(5,182 )
Net investment income	\$20,389	\$19,075	\$41,627	\$40,249

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

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	2015	2015	2015	2015
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	\$4,400	\$1,466	\$5,685	\$3,400
Gross losses from sales	(378 )	(232 )	(523 )	(259 )
Other-than-temporary impairment losses	(803 )	(632 )	(2,830)	(869 )
Gains (losses) from bifurcated options	221	(5 )	325	(391 )
Net realized investment gains (losses)	\$3,440	\$597	\$2,657	\$1,881

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible 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

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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 2015 Annual Report.

Available-for-sale fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately \$176.8 million and \$626.0 million as of June 30, 2016 and December 31, 2015, respectively.

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

	June 30, 2016			12 months or longer		
	Less than 12 months		Number	12 months or longer		Number
	Fair value	Unrealized losses	of securities	Fair value	Unrealized losses	of securities
	(Dollars in thousands)					
<b>Fixed-maturity securities:</b>						
U.S. government and agencies	\$-	\$ -	-	\$-	\$ -	-
Foreign government	1,432	(54 )	1	3,512	(270 )	5
States and political subdivisions	-	-	-	690	(1 )	1
Corporates	49,324	(1,585 )	54	81,298	(5,523 )	98
Residential mortgage-backed securities	1,746	(33 )	8	4,987	(115 )	8
Commercial mortgage-backed securities	6,095	(4 )	6	5,717	(24 )	8
Other asset-backed securities	5,257	(46 )	10	2,246	(2 )	4
<b>Total fixed-maturity securities</b>	<b>63,854</b>	<b>(1,722 )</b>		<b>98,450</b>	<b>(5,935 )</b>	
Equity securities	4,209	(733 )	10	1,726	(166 )	8
<b>Total fixed-maturity and equity securities</b>	<b>\$68,063</b>	<b>\$ (2,455 )</b>		<b>\$100,176</b>	<b>\$ (6,101 )</b>	

	December 31, 2015			12 months or longer		
	Less than 12 months		Number	12 months or longer		Number
	Fair value	Unrealized losses	of securities	Fair value	Unrealized losses	of securities
	(Dollars in thousands)					
<b>Fixed-maturity securities:</b>						
U.S. government and agencies	\$13,651	\$(22 )	7	\$-	\$ -	-
Foreign government	23,572	(829 )	20	2,396	(693 )	3
States and political subdivisions	2,729	(44 )	6	878	(497 )	2
Corporates	413,131	(17,481 )	393	34,624	(6,730 )	54
Residential mortgage-backed securities	9,681	(61 )	9	4,762	(60 )	7
Commercial mortgage-backed securities	56,216	(493 )	49	3,199	(62 )	6
Other asset-backed securities	26,611	(77 )	23	260	(2 )	2
<b>Total fixed-maturity securities</b>	<b>545,591</b>	<b>(19,007 )</b>		<b>46,119</b>	<b>(8,044 )</b>	
Equity securities	3,652	(287 )	17	3,209	(95 )	8
<b>Total fixed-maturity and equity securities</b>	<b>\$549,243</b>	<b>\$ (19,294 )</b>		<b>\$49,328</b>	<b>\$ (8,139 )</b>	

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

	June 30, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	\$227	\$482	\$138	\$262

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

	Three months ended June 30, 2016		Six months ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Impairments on fixed-maturity securities not in default	\$683	\$627	\$2,679	\$788
Impairments on fixed-maturity securities in default	115	5	119	5
Impairments on equity securities	5	-	32	76
Total impairment charges	\$803	\$632	\$2,830	\$869



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. We also recognized impairment losses related to invested assets held at the Parent company that we intended to sell to fund share repurchases, as well as credit impairments on certain other investments.

As of June 30, 2016, the unrealized losses on our available-for-sale invested asset portfolio were largely caused by interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by movements in interest rates and credit spreads have little bearing on the recoverability of our investments. We do not consider these investments to be other-than-temporarily impaired because we have the ability to hold these investments until maturity or a market price recovery, and we have no present intention to dispose of them.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(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	\$488	\$8	\$929	\$101
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)	-	-	-	-
Net impairment losses recognized in earnings for securities which the Company does not intend to sell or more-likely-than-not will not be required to sell before recovery	488	8	929	101
OTTI losses recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery	315	624	1,901	768
Net impairment losses recognized in earnings	\$803	\$632	\$2,830	\$869

The rollforward of the OTTI recognized in net income for all fixed-maturity securities still held follows:

Three months ended June 30,		Six months ended June 30,	
2016	2015	2016	2015

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(In thousands)

Cumulative OTTI recognized in net income for securities still held,				
beginning of period	\$10,880	\$7,478	\$11,856	\$9,550
Additions for OTTI securities where no OTTI were recognized				
prior to the beginning of the period	798	46	1,231	67
Additions for OTTI securities where OTTI have been recognized				
prior to the beginning of the period	-	586	1,567	726
Reductions due to sales, maturities, calls, amortization or increases				
in cash flows expected to be collected over the remaining life of				
credit impaired securities	(3,574 )	(409 )	(5,494 )	(1,365 )
Reductions for exchanges of securities previously impaired	(615 )	-	(1,671 )	(1,277 )
Cumulative OTTI recognized in net income for securities still				
held, end of period	\$7,489	\$7,701	\$7,489	\$7,701

As of June 30, 2016, no impairment losses have been recognized on the LLC Note held-to-maturity security.

Derivatives. Embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. As of June 30, 2016 and December 31, 2015, the fair value of these bifurcated options was approximately \$6.1 million and \$5.4 million, respectively.

We have a deferred loss related to closed forward contracts, which were settled several years ago, that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was approximately \$26.4 million as of June 30, 2016 and December 31, 2015. 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, mortgage-and asset-backed securities.

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

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

	June 30, 2016			Total
	Level 1	Level 2	Level 3	
	(In thousands)			
<b>Fair value assets:</b>				
<b>Fixed-maturity securities:</b>				
U.S. government and agencies	\$-	\$16,541	\$-	\$16,541
Foreign government	-	127,815	-	127,815
States and political subdivisions	-	43,953	-	43,953
Corporates	3,337	1,305,930	3	1,309,270
Residential mortgage-backed securities	-	89,546	666	90,212
Commercial mortgage-backed securities	-	104,637	-	104,637
Other asset-backed securities	-	34,346	-	34,346
Total fixed-maturity securities	3,337	1,722,768	669	1,726,774
Equity securities	41,891	7,101	48	49,040
Trading securities	-	8,012	-	8,012
Separate accounts	-	2,311,124	-	2,311,124

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Total fair value assets	\$45,228	\$4,049,005	\$717	\$4,094,950
Fair value liabilities:				
Separate accounts	\$-	\$2,311,124	\$-	\$2,311,124
Total fair value liabilities	\$-	\$2,311,124	\$-	\$2,311,124

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	December 31, 2015			Total
	Level 1 (In thousands)	Level 2	Level 3	
<b>Fair value assets:</b>				
<b>Fixed-maturity securities:</b>				
U.S. government and agencies	\$-	\$20,659	\$-	\$20,659
Foreign government	-	120,216	-	120,216
States and political subdivisions	-	40,565	-	40,565
Corporates	2,146	1,299,613	3	1,301,762
Residential mortgage-backed securities	-	100,493	732	101,225
Commercial mortgage-backed securities	-	99,986	-	99,986
Other asset-backed securities	-	47,046	-	47,046
Total fixed-maturity securities	2,146	1,728,578	735	1,731,459
Equity securities	41,341	6,450	48	47,839
Trading securities	-	5,358	-	5,358
Separate accounts	-	2,063,899	-	2,063,899
Total fair value assets	\$43,487	\$3,804,285	\$783	\$3,848,555
<b>Fair value liabilities:</b>				
Separate accounts	\$-	\$2,063,899	\$-	\$2,063,899
Total fair value liabilities	\$-	\$2,063,899	\$-	\$2,063,899

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 such as private placements and are 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, third party pricing services generally determine fair value using industry-standard methodologies, which vary by asset class. For corporates, governments, and agency securities, these methodologies include developing prices by incorporating available market information such as U.S. Treasury curves, benchmarking of similar securities including new issues, 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 (such as mortgage-and asset-backed securities) with limited trading activity, third-party pricing services generally use industry-standard pricing methodologies that incorporate market information, such as index prices, or discounting expected future cash flows based on underlying collateral, and quotes from market participants, 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.

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

	Three months ended June 30, 2016		Six months ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Level 3 assets, beginning of period	\$753	\$1,134	\$783	\$1,165
Net unrealized gains (losses) included in other comprehensive income	(1 )	(12 )	5	(6 )
Realized gains (losses) and accretion (amortization) recognized				
in earnings, including OTTI	1	-	5	-
Sales	-	-	(3 )	-
Settlements	(37 )	(39 )	(73 )	(76 )
Transfers into Level 3	1	2	1	2
Transfers out of Level 3	-	(223 )	(1 )	(223 )
Level 3 assets, end of period	\$717	\$862	\$717	\$862

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 material transfers between Level 1 and Level 2 or between Level 1 and Level 3 during the three and six months ended June 30, 2016. During the three and six months ended June 30, 2015, we transferred a \$1.0 million equity security from Level 1 to Level 2 as it was not consistently trading in an active market. During the three and six months ended June 30, 2015, a fixed maturity security was transferred from Level 3 to Level 2 as we were able to obtain an independent pricing quote based on observable inputs for this security.

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

	June 30, 2016		December 31, 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
<b>Assets:</b>				
Fixed-maturity securities (available-for-sale)	\$1,726,774	\$1,726,774	\$1,731,459	\$1,731,459
Fixed-maturity security (held-to-maturity)	431,000	466,324	365,220	371,742
Equity securities	49,040	49,040	47,839	47,839
Trading securities	8,012	8,012	5,358	5,358
Policy loans	30,817	30,817	28,627	28,627
Deposit asset underlying 10% coinsurance agreement	193,268	193,268	181,889	181,889
Separate accounts	2,311,124	2,311,124	2,063,899	2,063,899
<b>Liabilities:</b>				
Notes payable <sup>(1)</sup>	\$372,735	\$413,178	\$372,552	\$398,649
Surplus note <sup>(1)</sup>	430,233	464,974	364,424	371,498
Separate accounts	2,311,124	2,311,124	2,063,899	2,063,899

<sup>(1)</sup>Carrying value amounts shown are net of issuance costs.

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 a 10% coinsurance agreement 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:

	June 30, 2016	December 31, 2015
	(Dollars in thousands)	
Direct life insurance in force	\$718,282,157	\$696,884,429
Amounts ceded to other companies	(632,443,458)	(616,252,839)
Net life insurance in force	\$85,838,699	\$80,631,590
Percentage of reinsured life insurance in force	88	% 88 %

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

	June 30, 2016		December 31, 2015	
	Reinsurance receivable	A.M. Best rating	Reinsurance receivable	A.M. Best rating
	(In thousands)			
Pecan Re Inc. <sup>(1) (2)</sup>	\$2,714,957	NR	\$-	-
Prime Reinsurance Company <sup>(2)</sup>	-	-	2,692,721	NR
SCOR Global Life Reinsurance Companies <sup>(3)</sup>	356,377	A	362,195	A
Financial Reassurance Company 2010, Ltd. <sup>(2)</sup>	291,204	NR	270,306	NR
Swiss Re Life & Health America Inc. <sup>(4)</sup>	246,946	A+	254,461	A+
American Health and Life Insurance Company <sup>(2)</sup>	178,066	B	176,790	B
Munich American Reassurance Company	102,974	A+	101,466	A+
Korean Reinsurance Company	93,536	A	91,605	A
RGA Reinsurance Company	80,934	A+	81,217	A+
TOA Reinsurance Company	22,927	A+	22,242	A+
Hannover Life Reassurance Company	21,137	A+	20,650	A+
All other reinsurers	38,226	-	36,975	-
Due from reinsurers	\$4,147,284		\$4,110,628	

NR – not rated

<sup>(1)</sup> Pecan Re Inc. is a wholly owned subsidiary of Swiss Re Life & Health America Inc.

<sup>(2)</sup> Includes balances ceded under coinsurance transactions of term life insurance policies that were in force as of December 31, 2009. Amounts shown are net of their share of the reinsurance receivable from other reinsurers.

- (3) Includes amounts ceded to Transamerica Reinsurance Companies and fully retroceded to SCOR Global Life Reinsurance Companies.
- (4) Includes amounts ceded to Lincoln National Life Insurance and fully retroceded to Swiss Re Life & Health America Inc.

Prior to January 1, 2016, Primerica Life had a coinsurance agreement in place with Prime Reinsurance Company (“Prime Re”), an insurance company owned by Citigroup Inc. (“Citigroup”), under which we ceded 80% of the risks and rewards of our U.S. (except New York) term life insurance policies that were in force as of December 31, 2009 (the “80% Coinsurance Agreement”). Beginning on January 1, 2016, Pecan Re Inc. (“Pecan Re”), an insurance company owned by Swiss Re Life & Health America Inc. (“Swiss Re”), assumed Prime Re’s obligations under the 80% Coinsurance Agreement through a novation agreement (the “Novation Agreement”). In addition, the counterparties to the related trust and capital maintenance agreements that provide Primerica Life with statutory reinsurance credit for the 80% Coinsurance Agreement were replaced by Pecan Re and Swiss Re, respectively. No material terms and conditions of the 80% Coinsurance Agreement and the related trust and capital maintenance agreements were modified.

A separate 10% coinsurance agreement remains in place between Primerica Life and Prime Re (the “10% Coinsurance Agreement”) that includes an experience refund provision and does not satisfy U.S. GAAP risk transfer rules. In exchange for our consent to the Novation Agreement, the finance charge on the statutory reserves in excess of economic reserves funded by Prime Re in support of the 10% Coinsurance Agreement was reduced from 3.0% to 2.0% beginning on July 1, 2015 and then from 2.0% to 0.5% beginning on January 1, 2016.

## (6) Debt

Notes Payable. At June 30, 2016, 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 June 30, 2016, 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 June 30, 2016.

Further discussion on the Company's notes payable is included in Note 10 (Debt) to our consolidated financial statements within our 2015 Annual Report.

Surplus Note. At June 30, 2016, the principal amount outstanding on the Surplus Note issued by Vidalia Re was \$431.0 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 2015 Annual Report.

## (7) Stockholders' Equity

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

	Six months ended June 30, 2016    2015 (In thousands)	
Common stock, beginning of period	48,297	52,169
Shares issued upon the exercise of stock options	108	89
Shares of common stock issued upon lapse		
of restricted stock units ("RSUs")	322	312
Common stock retired	(2,125 )	(2,459 )
Common stock, end of period	46,602	50,111

The above reconciliation excludes RSUs, which do not have voting rights. As the RSUs lapse, we issue common shares with voting rights. As of June 30, 2016, we had a total of approximately 1.2 million RSUs outstanding, excluding the performance-based vesting stock units ("PSUs") discussed in Note 9 (Share-Based Transactions).

Our Board of Directors authorized a share repurchase program for up to \$200.0 million of our outstanding common stock in August 2015 (the "share repurchase program") for purchases through December 31, 2016. Under the share repurchase program, we repurchased 3,088,088 shares of our common stock in open market transactions for an aggregate purchase price of approximately \$140.5 million through June 30, 2016. As of June 30, 2016, there is approximately \$59.5 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, PSUs 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 PSUs and stock options outstanding ("contingently issuable shares") on EPS using the treasury-stock method. Under this method, we determine the proceeds that would be received from the issuance of the contingently issuable shares if the end of the reporting period were the end of the contingency period. The proceeds from the contingently issuable shares include: the remaining unrecognized compensation expense of the awards, the cash received for the exercise price on stock options, and the resulting effect on the income tax deduction from the vesting of PSUs and the exercise of stock options. We then use the average market price of our common shares during the period the contingently issuable shares were outstanding to determine how

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many shares we could repurchase with the proceeds raised from the issuance of the contingently issuable shares. 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands, except per-share amounts)			
<b>Basic EPS</b>				
Numerator:				
Net income	\$59,326	\$49,173	\$104,502	\$92,573
Income attributable to unvested participating securities	(491 )	(366 )	(861 )	(814 )
Net income used in calculating basic EPS	\$58,835	\$48,807	\$103,641	\$91,759
Denominator:				
Weighted-average vested shares	47,658	51,787	48,104	52,212
Basic EPS	\$1.23	\$0.94	\$2.15	\$1.76
<b>Diluted EPS</b>				
Numerator:				
Net income	\$59,326	\$49,173	\$104,502	\$92,573
Income attributable to unvested participating securities	(490 )	(366 )	(860 )	(813 )
Net income used in calculating diluted EPS	\$58,836	\$48,807	\$103,642	\$91,760
Denominator:				
Weighted-average vested shares	47,658	51,787	48,104	52,212
Dilutive effect of incremental shares to be issued for				
contingently issuable shares	50	25	37	37
Weighted-average shares used in calculating diluted EPS	47,708	51,812	48,141	52,249
Diluted EPS	\$1.23	\$0.94	\$2.15	\$1.76

(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 2015 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 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:

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	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Total equity awards expense recognized	\$2,548	\$1,917	\$10,031	\$10,858
Quarterly incentive awards expense deferred	2,702	4,207	5,394	7,114

On February 24, 2016, the Compensation Committee of the Board of Directors granted the following equity awards to employees in connection with the annual approval of management incentive compensation:

- 204,558 RSUs awarded to management with a measurement-date fair value of \$41.88 per unit that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.
- 89,540 stock options awarded to the four members of our executive management team (the “executive team”) with a measurement-date fair value of \$8.21 per option that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.
- 18,385 PSUs awarded under the OIP to the executive team with a measurement-date fair value of \$41.88 per unit. The PSUs will be earned on March 1, 2019 contingent upon the Company achieving a target annual average three-year return on

adjusted equity (“ROAE”) for the period from January 1, 2016 through December 31, 2018. The actual number of PSUs that will vest will vary based on the actual ROAE relative to the target ROAE and can range from zero PSUs to 27,577.

All awards granted to employees on February 24, 2016 provide for such awards to vest upon 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. The number of PSUs that will ultimately vest for a retirement-eligible employee is equal to the amount calculated using the Company’s actual cumulative three-year ROAE ending on December 31, 2018, even if that employee retires prior to March 1, 2019.

#### (10) Commitments and Contingent Liabilities

Letter of Credit (“LOC”). 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 June 30, 2016, the Company was in compliance with all financial covenants under the Credit Facility Agreement. At June 30, 2016, the amount of the LOC outstanding was approximately \$434.5 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 2015 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 unless otherwise indicated.

The Company is currently undergoing multi-state treasurer unclaimed property audits by 30 jurisdictions focusing on the life insurance claims paying practices of its subsidiaries, Primerica Life and NBLIC. The West Virginia State Treasurer brought a suit against Primerica Life and other insurance companies alleging violations of the West Virginia unclaimed property act. Other jurisdictions may pursue similar audits, examinations and litigation. 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.

#### (11) Other Comprehensive Income

The components of OCI, including the income tax expense or benefit allocated to each component, were as follows:

Three months ended June 30,		Six months ended June 30,	
2016	2015	2016	2015
(in thousands)			

Foreign currency translation adjustments:

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Change in unrealized foreign currency translation gains (losses)				
before income taxes	\$ (1,167 )	\$ 3,157	\$ 14,869	\$ (17,409)
Income tax expense (benefit) on unrealized foreign currency				
translation gains (losses)	(10 )	35	159	(195 )
Change in unrealized foreign currency translation gains				
(losses), net of income taxes	\$ (1,157 )	\$ 3,122	\$ 14,710	\$ (17,214)
Unrealized gain (losses) on available-for-sale securities:				
Change in unrealized holding gains (losses) arising during				
period before income taxes	\$ 33,568	\$ (32,720)	\$ 58,284	\$ (17,059)
Income tax expense (benefit) on unrealized holding gains				
(losses) arising during period	11,749	(11,451)	20,398	(5,971 )
Change in unrealized holding gains (losses) on available-for-sale				
securities arising during period, net of income taxes	21,819	(21,269)	37,886	(11,088)
Reclassification from accumulated OCI to net income for (gains)				
losses realized on available-for-sale securities	(3,219 )	(602 )	(2,332 )	(2,272 )
Income tax (expense) benefit on (gains) losses reclassified from				
accumulated OCI to net income	(1,127 )	(211 )	(816 )	(795 )
Reclassification from accumulated OCI to net income for (gains)				
losses realized on available-for-sale securities, net of income				
taxes	(2,092 )	(391 )	(1,516 )	(1,477 )
Change in unrealized gains (losses) on available-for-sale				
securities, net of income taxes and reclassification adjustment	\$ 19,727	\$ (21,660)	\$ 36,370	\$ (12,565)



## 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, 2015 to June 30, 2016. 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, 2015 ("2015 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 2015 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 account 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. Net investment income earned on our invested asset portfolio is recorded in our Corporate and Other Distributed Products segment, with the exception of the assumed net interest accreted to our Term Life Insurance segment's future policy benefit reserve liability less deferred acquisition costs. Interest expense incurred by the Company is attributed solely to the Corporate and Other Distributed Products segment.

#### 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. Our customers' perception of the strength of the capital markets will influence their decisions to invest in the Investment and savings products we distribute.

The financial and distribution results of our operations in Canada, as reported in U.S. dollars, are affected by changes in the currency exchange rate. While the Canadian dollar spot rate at June 30, 2016 has improved since December 31, 2015, the average exchange rate for the quarter remained lower on a year-over-year basis. The effects of these trends and conditions are discussed below and in the Results of Operations section.

#### Size of Our Independent Sales Force.

Our ability to increase the size of our independent sales force is largely based on the success of our recruiting efforts as well as 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.

Regulatory changes can also impact the size of our independent sales force. For example, the insurance regulators in Canada have recently implemented a new life insurance licensing examination program. We believe that the new licensing program has the potential to result in a decrease in the number of applicants who obtain their life insurance licenses in Canada. However, we have undertaken efforts to adapt our licensing process to the new program in order to help mitigate any such decline. In addition, the Canadian regulators have committed to evaluate the new program in an effort to ensure that it will remain an entry level credentialing exam constructed in accordance with generally accepted psychometric principles.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
New recruits	65,273	60,246	128,700	113,546
New life-licensed sales representatives	12,171	10,439	21,837	17,925

New recruits increased for the three and six months ended June 30, 2016 compared to the prior year period primarily due to the continued positive momentum in our business. New life-licensed sales representatives increased during the three and six months ended June 30, 2016 compared to the prior year period largely due to growth in recruiting levels and our strong focus on training and encouraging new representatives to become licensed to sell life insurance.

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

	June 30, 2016	March 31, 2016	December 31, 2015
Life-licensed insurance sales representatives	112,365	108,220	106,710

The size of our life-licensed sales force at June 30, 2016 increased compared to March 31, 2016 and December 31, 2015 primarily due to the recent growth in new life-licensed representatives and slightly lower non-renewals and terminations during the second quarter of 2016 compared to the first quarter of 2016 and the fourth quarter of 2015.

#### Term Life Insurance Product Sales and Face Amount In Force.

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 June 30,	Six months ended June 30,
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	2016	2015	2016	2015
Average number of life-licensed sales representatives	110,261	99,487	108,862	98,920
Number of new policies issued	77,384	68,097	143,760	123,774
Average monthly rate of new policies issued per life-licensed sales representative	0.23	0.23	0.22	0.21

The average monthly rate of new policies issued per life-licensed sales representative during the three months ended June 30, 2016 remained consistent with the three months ended June 30, 2015 and slightly above the historical range. The increase in the number of new policies issued during the three months ended June 30, 2016 compared to the prior year period was largely driven by our larger distribution network over recent periods.

The average monthly rate of new policies issued per life-licensed sales representative was relatively consistent during the six month periods ended June 30, 2016 and 2015 and near the high end of the historical range. The number of new policies issued increased during the six months ended June 30, 2016 compared to the prior year period primarily due to the same factors discussed above in the three-month comparison.

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The changes in the face amount of our in-force book of term life insurance policies were as follows:

	Three months ended June 30,				Six months ended June 30,			
	2016	% of beginning balance	2015	% of beginning balance	2016	% of beginning balance	2015	% of beginning balance
Face amount in force, beginning of period	\$704,632		\$678,517		\$693,194		\$681,927	
Net change in face amount:								
Issued face amount	23,145	3 %	20,585	3 %	42,935	6 %	37,766	6 %
Terminations	(12,700 )	(2 )%	(12,064 )	(2 )%	(26,514 )	(4 )%	(25,408 )	(4 )%
Foreign currency	(321 )	*	1,125	*	5,141	1 %	(6,122 )	(1 )%
Net change in face amount	10,124	1 %	9,646	1 %	21,562	3 %	6,236	1 %
Face amount in force, end of period	\$714,756		\$688,163		\$714,756		\$688,163	

\*Less than 1%.

The face amount of term life insurance policies in force as of June 30, 2016 increased 4% as compared with June 30, 2015, which was primarily attributable to the impact of strong policy sales and consistent persistency levels, which allowed issued face amount to outpace policy terminations.

As a percentage of the increased beginning face amount in force, issued face amount as well as terminations remained consistent during each of the three and six months ended June 30, 2016 and the three and six months ended June 30, 2015. The year-over-year impact of foreign currency translation on face amount in force was minimal during the three-month periods ending June 30, 2016 and 2015. During the six months ended June 30, 2016, the strengthening of the Canadian dollar spot rate relative to the U.S. dollar contributed to the increase in face amount in force. During the six months ended June 30, 2015, the opposite effect of the weakening of the Canadian dollar spot rate relative to the U.S. dollar partially offset the growth in the overall face amount in force.

Investment and Savings Products Sales and Asset Values and Accounts.

Investment and savings products sales and average client asset values were as follows:

	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change \$	Change %	2016	2015	Change \$	Change %
	(Dollars in millions)				(Dollars in millions)			
Product sales:								
Retail mutual funds	\$853	\$869	\$(16 )	(2 )%	\$1,662	\$1,725	\$(63 )	(4 )%
Annuities and other	498	543	(45 )	(8 )%	932	1,022	(90 )	(9 )%
Total sales-based revenue generating product sales	1,351	1,412	(61 )	(4 )%	2,594	2,747	(153 )	(6 )%
Managed investments	55	72	(17 )	(24)%	101	138	(37 )	(27)%
Segregated funds and other	64	83	(19 )	(23)%	151	197	(46 )	(23)%
Total product sales	\$1,470	\$1,567	\$(97 )	(6 )%	\$2,846	\$3,082	\$(236 )	(8 )%
Average client asset values:								
Retail mutual funds	\$30,289	\$31,271	\$(982)	(3 )%	\$29,578	\$31,047	\$(1,469)	(5 )%

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Annuities and other	14,678	14,455	223	2 %	14,377	14,269	108	1 %
Managed investments	1,680	1,526	154	10 %	1,631	1,486	145	10 %
Segregated funds	2,289	2,381	(92 )	(4 )%	2,204	2,385	(181 )	(8 )%
Total average client asset								
values	\$48,936	\$49,633	\$(697)	(1 )%	\$47,790	\$49,187	\$(1,397)	(3 )%

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The rollforward of asset values in client accounts was as follows:

	Three months ended June 30,			Six months ended June 30,			% of beginning balance
	2016	% of beginning balance	2015	2016	% of beginning balance	2015	
	(Dollars in millions)			(Dollars in millions)			
Asset values, beginning of period	\$48,174		\$49,195	\$47,353		\$48,656	
Net change in asset values:							
Inflows	1,470	3 %	1,567	2,846	6 %	3,082	6 %
Redemptions	(1,222)	(3)%	(1,267)	(2,376)	(5)%		