Primerica, Inc.
Form 10-Q
May 05, 2016

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, 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 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, 2016
Common Stock, $0.01 Par Value	47,045,782 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited) March 31, 2016	December 31, 2015
	(In thousands)	
Assets		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $1,640,210 in 2016 and $1,690,043 in 2015)	$1,705,705	$1,731,459
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: $424,007 in 2016 and $371,742 in 2015)	404,860	365,220
Equity securities available-for-sale, at fair value (cost: $40,159 in 2016 and $39,969 in 2015)	49,554	47,839
Trading securities, at fair value (cost: $7,626 in 2016 and $5,383 in 2015)	7,620	5,358
Policy loans	29,825	28,627
Total investments	2,197,564	2,178,503
Cash and cash equivalents	175,717	152,294
Accrued investment income	17,930	17,080
Due from reinsurers	4,160,266	4,110,628
Deferred policy acquisition costs, net	1,559,833	1,500,259
Premiums and other receivables	204,406	193,841
Intangible assets, net (accumulated amortization: $72,680 in 2016 and $71,828 in 2015)	57,467	58,318
Deferred income taxes	31,796	30,112
Other assets	343,701	304,356
Separate account assets	2,264,108	2,063,899
Total assets	$11,012,788	$10,609,290
Liabilities and Stockholders' Equity		
Liabilities:		
Future policy benefits	$5,518,834	$5,431,711
Unearned premiums	594	628
Policy claims and other benefits payable	243,813	238,157
Other policyholders' funds	352,650	356,123
Notes payable	372,643	372,552
Surplus note	404,079	364,424
Income taxes	177,457	148,125
Other liabilities	418,469	416,417
Payable under securities lending	87,383	71,482
Separate account liabilities	2,264,108	2,063,899

Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	9,840,030	9,463,518
Stockholders’ equity:		
Common stock ($0.01 par value; authorized 500,000 in 2016 and 2015; issued and outstanding 47,295 shares in 2016 and 48,297 shares in 2015)	473	483
Paid-in capital	137,855	180,250
Retained earnings	989,685	952,804
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(3,933)	(19,801)
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	48,747	32,107
Net unrealized investment losses other-than-temporarily impaired	(69)	(71)
Total stockholders’ equity	1,172,758	1,145,772
Total liabilities and stockholders’ equity	$11,012,788	$10,609,290

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income – Unaudited

	Three months ended March 31, 2016	2015
	(In thousands, except per-share amounts)	
Revenues:		
Direct premiums	$597,130	$577,458
Ceded premiums	(395,333)	(397,540)
Net premiums	201,797	179,918
Commissions and fees	128,821	132,835
Investment income net of investment expenses	25,392	23,648
Interest expense on surplus note	(4,154)	(2,475)
Net investment income	21,238	21,173
Realized investment gains (losses), including other-than-temporary impairment losses	(783)	1,284
Other, net	11,889	9,636
Total revenues	362,962	344,846
Benefits and expenses:		
Benefits and claims	90,977	82,500
Amortization of deferred policy acquisition costs	43,129	36,213
Sales commissions	66,643	68,457
Insurance expenses	33,311	34,348
Insurance commissions	4,147	3,190
Interest expense	7,173	8,676
Other operating expenses	47,370	44,653
Total benefits and expenses	292,750	278,037
Income before income taxes	70,212	66,809
Income taxes	25,036	23,408
Net income	$45,176	$43,401
Earnings per share:		
Basic earnings per share	$0.92	$0.82
Diluted earnings per share	$0.92	$0.82
Weighted-average shares used in computing earnings per share:		
Basic	48,550	52,643
Diluted	48,574	52,691
Supplemental disclosures:		
Total impairment losses	$(2,027)	$(237)
Impairment losses recognized in other comprehensive income before income taxes	-	-
Net impairment losses recognized in earnings	(2,027)	(237)
Other net realized investment gains (losses)	1,244	1,521

Realized investment gains (losses), including other-than-temporary impairment losses	$(783)	$1,284
Dividends declared per share	$0.17	$0.16

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,	
	2016	2015
	(In thousands)	
Net income	$45,176	$43,401
Other comprehensive income (loss) before income taxes:		
Unrealized investment gains (losses):		
Change in unrealized holding gains/(losses) on investment securities	24,717	15,661
Reclassification adjustment for realized investment (gains) losses included in net income	887	(1,670)
Foreign currency translation adjustments:		
Change in unrealized foreign currency translation gains (losses) before income tax expense (benefit)	16,036	(20,566)
Total other comprehensive income (loss) before income taxes	41,640	(6,575)
Income tax expense (benefit) related to items of other comprehensive income (loss)	9,130	4,667
Other comprehensive income (loss), net of income taxes	32,510	(11,242)
Total comprehensive income	$77,686	$32,159

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Three months ended March 31, 2016	2015
	(In thousands)	
Common stock:		
Balance, beginning of period	$483	$522
Repurchases of common stock	(12)	(9)
Net issuance of common stock	2	3
Balance, end of period	473	516
Paid-in capital:		
Balance, beginning of period	180,250	353,337
Share-based compensation	10,580	15,307
Net issuance of common stock	(2)	(3)
Repurchases of common stock	(52,973)	(44,781)
Adjustments to paid-in capital, other	-	136
Balance, end of period	137,855	323,996
Retained earnings:		
Balance, beginning of period	952,804	795,740
Net income	45,176	43,401
Dividends	(8,295)	(8,517)
Balance, end of period	989,685	830,624
Accumulated other comprehensive income (loss):		
Balance, beginning of period	12,235	95,527
Change in foreign currency translation adjustment, net of income tax expense (benefit)	15,868	(20,336)
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)	16,640	9,094
Change in net unrealized investment losses other-than-temporarily impaired, net of income tax expense (benefit)	2	-
Balance, end of period	44,745	84,285
Total stockholders' equity	$1,172,758	$1,239,421

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	$45,176	$43,401
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	60,985	47,672
Deferral of policy acquisition costs	(86,925)	(75,434)
Amortization of deferred policy acquisition costs	43,129	36,213
Change in income taxes	20,855	18,576
Realized investment (gains) losses, including other-than-temporary impairments	783	(1,284)
Accretion and amortization of investments	(597)	(438)
Depreciation and amortization	3,139	2,633
Change in due from reinsurers	(28,825)	(6,956)
Change in premiums and other receivables	(12,919)	456
Trading securities sold, matured, or called (acquired), net	(2,268)	365
Share-based compensation	7,483	8,943
Change in other operating assets and liabilities, net	(15,099)	(10,809)
Net cash provided by (used in) operating activities	34,917	63,338
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	25,104	23,278
Fixed-maturity securities — matured or called	86,609	72,979
Equity securities	-	1,659
Available-for-sale investments acquired:		
Fixed-maturity securities	(55,886)	(122,264)
Equity securities	(99)	(625)
Purchases of property and equipment and other investing activities, net	(7,761)	(1,635)
Cash collateral received (returned) on loaned securities, net	15,901	5,411
Sales (purchases) of short-term investments using securities lending collateral, net	(15,901)	(5,411)
Net cash provided by (used in) investing activities	47,967	(26,608)
Cash flows from financing activities:		
Dividends paid	(8,295)	(8,517)
Common stock repurchased	(49,945)	(38,749)
Excess tax benefits on share-based compensation	405	3,456
Tax withholdings on share-based compensation	(3,040)	(6,041)
Cash proceeds from stock options exercised	-	136
Net cash provided by (used in) financing activities	(60,875)	(49,715)
Effect of foreign exchange rate changes on cash	1,414	(2,388)
Change in cash and cash equivalents	23,423	(15,373)

Cash and cash equivalents, beginning of period	152,294	191,997
Cash and cash equivalents, end of period	$175,717	$176,624

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 March 31, 2016 and December 31, 2015 and the statements of income, comprehensive income (loss), stockholders' equity and cash flows for the three months ended March 31, 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 March 31, 2016.

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

New Accounting Principles. In April 2015, the Financial Accounting Standards Board (“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”). Prior to the adoption of ASU 2015-03, debt issuance costs related to a recognized debt liability were 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. We adopted ASU 2015-03 during the three months ended March 31, 2016 and the amendments in the update were applied retrospectively, which resulted in the deduction of debt issuance costs of approximately $2.8 million from other assets and a corresponding reduction in the carrying amounts of the notes payable and surplus note of approximately $2.0 million and $0.8 million, respectively, in our consolidated balance sheets as of December 31, 2015. This update had no impact on our results of operations.

In February 2016, FASB issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (ASC 842). ASU 2016-02 intends to enhance transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet. The amendments in ASU 2016-02 are effective for the Company beginning in fiscal year 2019, with early adoption permitted. The Company intends to adopt the amendments in ASU 2016-02 beginning in the first quarter of 2019, and we are currently in the process of evaluating its impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No 2016-09 (“ASU 2016-09”) Compensation—Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 intends to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. While we are still in the process of evaluating the guidance in ASU 2016-09, we anticipate that its most notable impact on the Company’s financial statements will involve the change in accounting for the income tax consequences associated with share-based payment transactions in the income statement. The amendments in ASU 2016-09 require that the tax effect of the difference between the cumulative compensation cost of a share-based award recognized for financial reporting purposes and the deduction of the award for tax purposes (“excess tax benefits or deficiencies”) be recognized as income tax expense or benefit in the income statement. Under current U.S. GAAP, the Company recognizes excess tax benefits or deficiencies as an adjustment to additional paid-in capital in the statement of stockholders’ equity. The amendments in ASU 2016-09 that require a change in the accounting for excess tax benefits and deficiencies in the income statement are effective prospectively, with early adoption permitted. The Company intends to adopt the amendments in ASU 2016-09 beginning in the first quarter of 2017. The impact on the income tax consequences of share-based payment transactions from adopting the amendments in ASU 2016-09 will be affected by future market prices of our common stock when we deduct the cost of share-based payment transactions for income tax purposes, and therefore, we are unable to quantify the impact at this time.

Future Application of Accounting Standards. Recent accounting guidance not discussed here and in the 2015 Annual Report is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business.

(2) Segment and Geographical Information

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

Results of operations by segment were as follows:

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Revenues:		
Term life insurance segment	$206,278	$182,196
Investment and savings products segment	125,034	129,074
Corporate and other distributed products segment	31,650	33,576
Total revenues	$362,962	$344,846

Income (loss) before income taxes:		
Term life insurance segment	$46,080	$36,076
Investment and savings products segment	31,689	35,044
Corporate and other distributed products segment	(7,557)	(4,311)
Total income before income taxes	$70,212	$66,809

Total assets by segment were as follows:

	March 31, 2016	December 31, 2015
	(In thousands)	
Assets:		
Term life insurance segment	$5,742,576	$5,638,682
Investment and savings products segment[1]	2,367,439	2,157,548
Corporate and other distributed products segment	2,902,773	2,813,060
Total assets	$11,012,788	$10,609,290

[1] The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately $103.5 million and $93.8 million as of March 31, 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 $15.9 million and $4.1 million, respectively, for the three months ended

March 31, 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.

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 March 31, 2016	2015
	(In thousands)	
Revenues by country:		
United States	$305,015	$286,141
Canada	57,947	58,705
Total revenues	$362,962	$344,846
Income before income taxes by country:		
United States	$54,958	$48,856
Canada	15,254	17,953
Total income before income taxes	$70,212	$66,809

	March 31, 2016	December 31, 2015
	(In thousands)	
Long-lived assets by country:		
United States	$28,756	$ 28,621
Canada	859	787
Total long-lived assets	$29,615	$ 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:

	March 31, 2016			
	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	$16,675	$ 565	$ -	$17,240
Foreign government	111,706	7,937	(858)	118,785
States and political subdivisions	41,093	2,892	(565)	43,420
Corporates	1,243,942	62,343	(18,400)	1,287,885
Mortgage- and asset-backed securities	226,794	11,872	(291)	238,375
Total fixed-maturity securities[1]	1,640,210	85,609	(20,114)	1,705,705

Equity securities	40,159	10,034	(639)	49,554
Total fixed-maturity and equity securities	$1,680,369	$ 95,643	$ (20,753)	$1,755,259

[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.

	December 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	$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
Mortgage- and asset-backed securities	239,194	9,818	(755)	248,257
Total fixed-maturity securities[1]	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

(1) 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 March 31, 2016 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$71,107	$71,731
Due after one year through five years	675,707	711,733
Due after five years through 10 years	618,931	632,263
Due after 10 years	47,671	51,603
	1,413,416	1,467,330
Mortgage- and asset-backed securities	226,794	238,375
Total fixed-maturity securities	$1,640,210	$1,705,705

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, 2016	December 31, 2015
	(In thousands)	
Net unrealized investment gains including OTTI:		
Fixed-maturity and equity securities	$74,890	$49,286
OTTI	107	109
Net unrealized investment gains excluding OTTI	74,997	49,395
Deferred income taxes	(26,250)	(17,288)
Net unrealized investment gains excluding OTTI, net of tax	$48,747	$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 $7.6 million and $5.4 million as of March 31, 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 March 31, 2016, the LLC Note, which was rated A+ by Fitch Ratings, had an estimated unrealized holding gain of $19.1 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 $18.0 million and $18.1 million as of March 31, 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 $87.4 million and $71.5 million as of March 31, 2016 and December 31, 2015, respectively.

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

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Fixed-maturity securities (available-for-sale)	$19,249	$19,795
Fixed-maturity security (held-to-maturity)	4,154	2,475
Equity securities	520	516
Policy loans and other invested assets	330	359
Cash and cash equivalents	149	43
Market return on deposit asset underlying 10% coinsurance agreement	2,200	1,672
Gross investment income	26,602	24,860
Investment expenses	(1,210)	(1,212)
Investment income net of investment expenses	25,392	23,648
Interest expense on surplus note	(4,154)	(2,475)
Net investment income	$21,238	$21,173

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,	
	2016	2015
	(In thousands)	
Net realized investment gains (losses):		
Gross gains from sales	$1,285	$1,934
Gross losses from sales	(145)	(27)
Other-than-temporary impairment losses	(2,027)	(237)
Gains (losses) from bifurcated options	104	(386)
Net realized investment gains (losses)	$(783)	$1,284

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 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 $324.0 million and $626.0 million as of March 31, 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:

	March 31, 2016					
	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	$ -	$ -	-	$ -	$ -	-
Foreign government	8,025	(286)	8	5,659	(572)	6
States and political subdivisions	-	-	-	807	(565)	2
Corporates	181,790	(10,925)	192	60,763	(7,475)	79
Mortgage-and asset-backed securities	22,832	(122)	34	16,891	(169)	24
Total fixed-maturity securities	212,647	(11,333)		84,120	(8,781)	
Equity securities	5,009	(555)	12	1,429	(84)	7
Total fixed-maturity and equity securities	$217,656	$ (11,888)		$85,549	$ (8,865)	

	December 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	$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
Mortgage-and asset-backed securities	92,508	(631)	81	8,221	(124)	15
Total fixed-maturity securities	545,591	(19,007)		46,119	(8,044)	
Equity securities	3,652	(287)	17	3,209	(95)	8
Total fixed-maturity and equity securities	$549,243	$ (19,294)		$49,328	$ (8,139)	

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

	March 31, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	$134	$374	$138	$262

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

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Impairments on fixed-maturity securities not in default	$1,996	$161
Impairments on fixed-maturity securities in default	4	-
Impairments on equity securities	27	76
Total impairment charges	$2,027	$237

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 March 31, 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 March 31,	
	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	$441	$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	441	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	1,586	144
Net impairment losses recognized in earnings	$2,027	$237

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

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Cumulative OTTI recognized in net income for securities still held, beginning of period	$11,856	$9,550
Additions for OTTI securities where no OTTI were recognized prior to the beginning of the period	433	21
Additions for OTTI securities where OTTI have been recognized prior to the beginning of the period	1,567	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	(1,920)	(956)
Reductions for exchanges of securities previously impaired	(1,056)	(1,277)
Cumulative OTTI recognized in net income for securities still held, end of period	$10,880	$7,478

As of March 31, 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 March 31, 2016 and December 31, 2015, the fair value of these bifurcated options was approximately $5.5 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 March 31, 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:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	$-	$17,240	$-	$17,240
Foreign government	-	118,785	-	118,785
States and political subdivisions	-	43,420	-	43,420
Corporates	2,156	1,285,726	3	1,287,885
Mortgage- and asset-backed securities	-	237,673	702	238,375
Total fixed-maturity securities	2,156	1,702,844	705	1,705,705
Equity securities	42,942	6,564	48	49,554
Trading securities	-	7,620	-	7,620
Separate accounts	-	2,264,108	-	2,264,108
Total fair value assets	$45,098	$3,981,136	$753	$4,026,987
Fair value liabilities:				
Separate accounts	$-	$2,264,108	$-	$2,264,108
Total fair value liabilities	$-	$2,264,108	$-	$2,264,108

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
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
Mortgage- and asset-backed securities	-	247,525	732	248,257
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

Fair value liabilities:				
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.

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

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Level 3 assets, beginning of period	$783	$1,165
Net unrealized gains (losses) included in other comprehensive income	6	6
Realized gains (losses) and accretion (amortization) recognized in earnings, including OTTI	4	-
Sales	(3)	-
Settlements	(36)	(37)
Transfers into Level 3	-	-
Transfers out of Level 3	(1)	-
Level 3 assets, end of period	$753	$1,134

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 months ended March 31, 2016 and 2015.

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

	March 31, 2016		December 31, 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
Assets:				
Fixed-maturity securities (available-for-sale)	$1,705,705	$1,705,705	$1,731,459	$1,731,459
Fixed-maturity security (held-to-maturity)	404,860	424,007	365,220	371,742
Equity securities	49,554	49,554	47,839	47,839
Trading securities	7,620	7,620	5,358	5,358
Policy loans	29,825	29,825	28,627	28,627
Deposit asset underlying 10% coinsurance agreement	189,326	189,326	181,889	181,889
Separate accounts	2,264,108	2,264,108	2,063,899	2,063,899
Liabilities:				
Notes payable(1)	$372,643	$405,800	$372,552	$398,649
Surplus note(1)	404,079	423,283	364,424	371,498
Separate accounts	2,264,108	2,264,108	2,063,899	2,063,899

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[1] 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:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Direct life insurance in force	$708,276,575	$696,884,429
Amounts ceded to other companies	(624,513,906)	(616,252,839)
Net life insurance in force	$83,762,669	$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:

	March 31, 2016		December 31, 2015	
	Reinsurance receivable	A.M. Best rating	Reinsurance receivable	A.M. Best rating
	(In thousands)			
Pecan Re Inc.[(1)] [(2)]	$2,720,922	NR	$-	-
Prime Reinsurance Company[(2)]	-	-	2,692,721	NR
SCOR Global Life Reinsurance Companies[(3)]	358,520	A	362,195	A
Financial Reassurance Company 2010, Ltd.[(2)]	293,892	NR	270,306	NR
Swiss Re Life & Health America Inc.[(4)]	251,801	A+	254,461	A+
American Health and Life Insurance Company[(2)]	176,694	B	176,790	B
Munich American Reassurance Company	101,992	A+	101,466	A+
Korean Reinsurance Company	93,526	A	91,605	A
RGA Reinsurance Company	81,722	A+	81,217	A+
TOA Reinsurance Company	21,702	A+	22,242	A+
Hannover Life Reassurance Company	21,156	A+	20,650	A+
All other reinsurers	38,339	-	36,975	-
Due from reinsurers	$4,160,266		$4,110,628	

NR – not rated

[1] Pecan Re Inc. is a wholly owned subsidiary of Swiss Re Life & Health America Inc.
[2] 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 March 31, 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 March 31, 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 March 31, 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 March 31, 2016, the principal amount outstanding on the Surplus Note issued by Vidalia Re was $404.9 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.

	Three months ended March 31,	
	2016	2015
	(In thousands)	
Common stock, beginning of period	48,297	52,169
Shares issued upon the exercise of stock options	-	89
Shares of common stock issued upon lapse of restricted stock units ("RSUs")	229	208
Common stock retired	(1,231)	(911)
Common stock, end of period	47,295	51,555

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, 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 2,280,895 shares of our common stock in open market transactions for an aggregate purchase price of approximately $99.9 million through March 31, 2016. As of March 31, 2016, there is approximately $100.1 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 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 March 31,	
	2016	2015
	(In thousands, except per-share amounts)	
Basic EPS		
Numerator:		
Net income	$45,176	$43,401
Net income attributable to unvested participating securities	(370)	(444)
Net income used in calculating basic EPS	$44,806	$42,957
Denominator:		
Weighted-average vested shares	48,550	