CITIZENS INC
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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x 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: 000-16509
CITIZENS, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-0755371
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 East Anderson Lane, Austin, TX	78752
(Address of principal executive offices)	(Zip Code)

(512) 837-7100
(Registrant's telephone number, including area code)
N/A
(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 o 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 o 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ 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

As of July 29, 2016, the Registrant had 49,080,114 shares of Class A common stock, no par value, outstanding and 1,001,714 shares of Class B common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
(In thousands)

Assets	June 30, 2016 (Unaudited)	December 31, 2015
Investments:		
Fixed maturities available-for-sale, at fair value (cost: $784,934 and $714,137 in 2016 and 2015, respectively)	$ 835,473	735,648
Fixed maturities held-to-maturity, at amortized cost (fair value: $270,051 and $264,966 in 2016 and 2015, respectively)	256,165	259,953
Equity securities available-for-sale, at fair value (cost: $22,729 and $23,727 in 2016 and 2015, respectively)	23,234	23,438
Mortgage loans on real estate	468	594
Policy loans	63,157	60,166
Real estate held for investment (less $1,795 and $1,721 accumulated depreciation in 2016 and 2015, respectively)	7,869	7,956
Other long-term investments	75	75
Short-term investments	521	251
Total investments	1,186,962	1,088,081
Cash and cash equivalents	52,937	82,827
Accrued investment income	16,719	15,406
Receivable for securities	653	—
Reinsurance recoverable	4,068	4,166
Deferred policy acquisition costs	165,860	165,362
Cost of customer relationships acquired	20,173	21,585
Goodwill	17,255	17,255
Other intangible assets	969	971
Deferred tax asset	60,874	68,764
Property and equipment, net	6,546	6,338
Due premiums, net (less $1,446 and $1,490 allowance for doubtful accounts in 2016 and 2015, respectively)	11,485	11,819
Prepaid expenses	1,215	162
Other assets	1,286	1,304
Total assets	$ 1,547,002	1,484,040

(Continued)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
(In thousands, except share amounts)

Liabilities and Stockholders' Equity	June 30, 2016 (Unaudited)	December 31, 2015
Liabilities:		
Policy liabilities:		
Future policy benefit reserves:		
Life insurance	$1,026,980	995,972
Annuities	67,200	64,933
Accident and health	1,075	1,118
Dividend accumulations	19,362	18,465
Premiums paid in advance	45,180	43,220
Policy claims payable	9,400	9,653
Other policyholders' funds	7,230	7,518
Total policy liabilities	1,176,427	1,140,879
Commissions payable	2,424	2,757
Federal income tax payable	73,473	71,225
Payable for securities in process of settlement	7,363	2,457
Other liabilities	26,238	24,205
Total liabilities	1,285,925	1,241,523
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Class A, no par value, 100,000,000 shares authorized, 52,215,852 shares issued and outstanding in 2015 and 2014, including shares in treasury of 3,135,738 in 2015 and 2014	259,383	259,383
Class B, no par value, 2,000,000 shares authorized, 1,001,714 shares issued and outstanding in 2015 and 2014	3,184	3,184
Accumulated deficit	(23,256)	(22,626)
Accumulated other comprehensive income:		
Unrealized gains on securities, net of tax	32,777	13,587
Treasury stock, at cost	(11,011)	(11,011)
Total stockholders' equity	261,077	242,517
Total liabilities and stockholders' equity	$1,547,002	1,484,040

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Three Months Ended June 30,
(In thousands, except per share amounts)
(Unaudited)

	2016	2015
Revenues:		
Premiums:		
Life insurance	$47,351	46,748
Accident and health insurance	395	421
Property insurance	1,261	1,291
Net investment income	12,000	11,201
Realized investment losses, net	(26)	(8)
Other income	256	426
Total revenues	61,237	60,079
Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	20,969	19,240
Increase in future policy benefit reserves	17,675	19,760
Policyholders' dividends	1,816	2,540
Total insurance benefits paid or provided	40,460	41,540
Commissions	10,777	10,805
Other general expenses	8,566	10,445
Capitalization of deferred policy acquisition costs	(8,103)	(8,036)
Amortization of deferred policy acquisition costs	6,827	5,647
Amortization of cost of customer relationships acquired	402	516
Total benefits and expenses	58,929	60,917
Income (loss) before federal income tax	2,308	(838)
Federal income tax expense	989	1,076
Net income (loss)	1,319	(1,914)
Per Share Amounts:		
Basic earnings per share of Class A common stock	$0.03	(0.04)
Basic earnings per share of Class B common stock	0.01	(0.02)
Diluted earnings per share of Class A common stock	0.03	(0.04)
Diluted earnings per share of Class B common stock	0.01	(0.02)
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during period	16,374	(16,778)
Reclassification adjustment for losses included in net income	20	8
Unrealized gains (losses) on available-for-sale securities, net	16,394	(16,770)
Income tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	5,738	(5,869)
Other comprehensive income (loss)	10,656	(10,901)
Comprehensive income (loss)	$11,975	(12,815)

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Six Months Ended June 30,
(In thousands, except per share amounts)
(Unaudited)

	2016	2015
Revenues:		
Premiums:		
Life insurance	$90,124	89,647
Accident and health insurance	785	796
Property insurance	2,537	2,583
Net investment income	23,731	22,270
Realized investment losses, net	(1,822)	(79)
Other income	407	722
Total revenues	115,762	115,939
Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	39,974	38,643
Increase in future policy benefit reserves	33,665	37,058
Policyholders' dividends	3,365	4,849
Total insurance benefits paid or provided	77,004	80,550
Commissions	20,245	20,664
Other general expenses	17,884	17,996
Capitalization of deferred policy acquisition costs	(14,367)	(14,892)
Amortization of deferred policy acquisition costs	13,535	10,946
Amortization of cost of customer relationships acquired	947	1,163
Total benefits and expenses	115,248	116,427
Income (loss) before federal income tax	514	(488)
Federal income tax expense	1,144	1,001
Net loss	(630)	(1,489)
Per Share Amounts:		
Basic losses per share of Class A common stock	$(0.01)	$(0.03)
Basic losses per share of Class B common stock	(0.01)	(0.02)
Diluted losses per share of Class A common stock	(0.01)	(0.03)
Diluted losses per share of Class B common stock	(0.01)	(0.02)
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during period	27,707	(11,771)
Reclassification adjustment for losses included in net income	1,816	44
Unrealized gains (losses) on available-for-sale securities, net	29,523	(11,727)
Income tax expense (benefit) on unrealized gains on available-for-sale securities	10,333	(4,104)
Other comprehensive income (loss)	19,190	(7,623)
Comprehensive income (loss)	$18,560	(9,112)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows
Six Months Ended June 30,
(In thousands)
(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net loss	$ (630)	(1,489)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Realized losses on sale of investments and other assets	1,822	79
Net deferred policy acquisition costs	(832)	(3,946)
Amortization of cost of customer relationships acquired	947	1,163
Depreciation	405	386
Amortization of premiums and discounts on investments	6,966	5,583
Deferred federal income tax expense (benefit)	(2,442)	957
Change in:		
Accrued investment income	(1,313)	(970)
Reinsurance recoverable	98	63
Due premiums	334	(367)
Future policy benefit reserves	32,457	36,925
Other policyholders' liabilities	2,316	5,385
Federal income tax payable	2,248	(3,256)
Commissions payable and other liabilities	1,700	554
Other, net	(1,031)	(1,244)
Net cash provided by operating activities	43,045	39,823
Cash flows from investing activities:		
Maturities and calls of fixed maturities, available-for-sale	37,625	19,024
Maturities and calls of fixed maturities, held-to-maturity	6,275	9,975
Purchase of fixed maturities, available-for-sale	(109,613)	(57,065)
Purchase of fixed maturities, held-to-maturity	(5,507)	(22,959)
Sale of equity securities, available-for-sale	403	—
Calls of equity securities, available-for-sale	273	150
Purchase of equity securities, available-for-sale	—	(602)
Principal payments on mortgage loans	126	18
Increase in policy loans, net	(2,991)	(2,620)
Sale of other long-term investments	—	58
Purchase of property and equipment	(527)	(123)
Maturity of short-term investments	250	—
Purchase of short-term investments	(522)	—
Net cash used in investing activities	(74,208)	(54,144)

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
Six Months Ended June 30,
(In thousands)
(Unaudited)

	2016	2015
Cash flows from financing activities:		
Annuity deposits	$3,980	3,995
Annuity withdrawals	(2,707)	(2,562)
Net cash provided by financing activities	1,273	1,433
Net decrease in cash and cash equivalents	(29,890)	(12,888)
Cash and cash equivalents at beginning of year	82,827	50,708
Cash and cash equivalents at end of period	$52,937	37,820
Supplemental disclosures of operating activities:		
Cash paid during the period for income taxes, net	$1,339	3,300

Supplemental Disclosures of Non-Cash Investing Activities:
None.

See accompanying notes to consolidated financial statements.

(1) Financial Statements

Basis of Presentation and Consolidation

The accompanying consolidated financial statements of Citizens, Inc. and its wholly-owned subsidiaries have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

The consolidated financial statements include the accounts and operations of Citizens, Inc. ("Citizens"), a Colorado corporation, and its wholly-owned subsidiaries, CICA Life Insurance Company of America ("CICA"), Security Plan Life Insurance Company ("SPLIC"), Security Plan Fire Insurance Company ("SPFIC"), Citizens National Life Insurance Company ("CNLIC"), Magnolia Guaranty Life Insurance Company ("MGLIC"), Computing Technology, Inc. ("CTI") and Insurance Investors, Inc. ("III"). Citizens and its wholly-owned subsidiaries are collectively referred to as "the Company," "we," "us" or "our."

The consolidated statement of financial position for June 30, 2016, and the consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 and cash flows for the six-month periods ended June 30, 2016 and 2015, have been prepared by the Company without audit. In the opinion of management, all adjustments to present fairly the financial position, results of operations, and changes in cash flows at June 30, 2016 and for comparative periods have been made. The consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required for complete financial statements and should be read in conjunction with the Company’s consolidated financial statements, and notes thereto, for the year ended December 31, 2015. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

We provide primarily life insurance and a small amount of health insurance policies through our insurance subsidiaries: CICA, SPLIC, MGLIC and CNLIC. CICA and CNLIC issue ordinary whole-life policies, credit life and disability, burial insurance, pre-need policies, and accident and health related policies, throughout the Midwest and southern United States. CICA also issues ordinary whole-life and endowment policies to non-U.S. residents. SPLIC offers final expense and home service life insurance in Louisiana, Arkansas and Mississippi, and SPFIC, a wholly-owned subsidiary of SPLIC, writes a limited amount of property insurance in Louisiana. MGLIC provides industrial life policies through independent funeral homes in Mississippi.

CTI provides data processing systems and services, as well as furniture and equipment, to the Company. III provides aviation transportation to the Company.

Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in the evaluation of other-than-temporary impairments on debt and equity securities and valuation allowances on investments, actuarially determined assets and liabilities and assumptions, goodwill impairment, valuation allowance on deferred tax assets, and contingencies relating to litigation and regulatory matters. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the consolidated financial statements.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2016
(Unaudited)

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of the notes to consolidated financial statements included in our 2015 Form 10-K Annual Report, which should be read in conjunction with these accompanying consolidated financial statements.

(2) Accounting Pronouncements

Accounting Standards Recently Adopted

None.

Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

On May 21, 2015, the FASB issued ASU 2015-09, Disclosures about Short-Duration Contracts, addressing enhanced disclosure requirements for insurers relating to short-duration insurance contract claims and the unpaid claims liability rollforward for long and short-duration contracts. The disclosures are intended to provide users of financial statements with more transparent information about an insurance entity’s initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. The new disclosures may require the accumulation and reporting of new and different groupings of claims data by insurers from what is currently captured for U.S. statutory and other reporting purposes. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. The Company is currently assessing the new disclosure requirements related to short-duration contracts.

The FASB’s new lease accounting standard, ASU 2016-02, Leases (Topic 842), was issued on February 25, 2016. The ASU will require organizations that lease assets, referred to as “lessees”, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee, also known as lessor accounting, will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company will begin assessing the impact of this new standard in the second half of 2016.

On June 10, 2016, the National Association of Insurance Commissioners (“NAIC”) Executive Committee and Plenary voted to adopt a recommendation for January 1, 2017 as the operative date for the implementation of Principles-Based Reserves (“PBR”) as a national standard for life insurance products. Although this NAIC standard does not change the reserving requirements under U.S. GAAP, it can be significant for many life insurers. PBR replaces the current formulaic approach to determining policy reserves with an approach that more closely reflects the risks of highly complex products. Companies will be expected to develop “right-sized” reserves that better align with their specific product features, their observed actuarial experience, and their overall risk management procedures. There is a three-year transition period where PBR is optional until PBR becomes required on January 1, 2020. The Company has begun to assess the impact that this standard will have on its statutory reserving.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2016
(Unaudited)

(3) Segment Information

The Company has three reportable segments: Life Insurance, Home Service Insurance, and Other Non-Insurance Enterprises. The accounting policies of the segments are in accordance with U.S. GAAP and are the same as those used in the preparation of the consolidated financial statements. The Company evaluates profit and loss performance based on U.S. GAAP income before federal income taxes for its three reportable segments.

The Company has no reportable differences between segments and consolidated operations.

	Three Months Ended June 30, 2016			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$37,111	11,896	—	49,007
Net investment income	8,107	3,505	388	12,000
Realized investment gains (losses), net	208	(234)	—	(26)
Other income	256	—	—	256
Total revenue	45,682	15,167	388	61,237
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	15,157	5,812	—	20,969
Increase in future policy benefit reserves	16,319	1,356	—	17,675
Policyholders' dividends	1,802	14	—	1,816
Total insurance benefits paid or provided	33,278	7,182	—	40,460
Commissions	6,768	4,009	—	10,777
Other general expenses	4,041	3,557	968	8,566
Capitalization of deferred policy acquisition costs	(6,492)	(1,611)	—	(8,103)
Amortization of deferred policy acquisition costs	6,062	765	—	6,827
Amortization of cost of customer relationships acquired	130	272	—	402
Total benefits and expenses	43,787	14,174	968	58,929
Income (loss) before income tax expense	$1,895	993	(580)	2,308

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2016
(Unaudited)

	Six Months Ended June 30, 2016			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$69,959	23,487	—	93,446
Net investment income	16,061	6,919	751	23,731
Realized investment losses, net	(660)	(1,162)	—	(1,822)
Other income	371	3	33	407
Total revenue	85,731	29,247	784	115,762
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	28,621	11,353	—	39,974
Increase in future policy benefit reserves	31,163	2,502	—	33,665
Policyholders' dividends	3,338	27	—	3,365
Total insurance benefits paid or provided	63,122	13,882	—	77,004
Commissions	12,571	7,674	—	20,245
Other general expenses	8,125	7,747	2,012	17,884
Capitalization of deferred policy acquisition costs	(11,418)	(2,949)	—	(14,367)
Amortization of deferred policy acquisition costs	11,943	1,592	—	13,535
Amortization of cost of customer relationships acquired	300	647	—	947
Total benefits and expenses	84,643	28,593	2,012	115,248
Income (loss) before income tax expense	$1,088	654	(1,228)	514

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2016
(Unaudited)

	Three Months Ended June 30, 2015			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$36,707	11,753	—	48,460
Net investment income	7,387	3,441	373	11,201
Realized investment losses, net	(2)	(6)	—	(8)
Other income	160	22	244	426
Total revenue	44,252	15,210	617	60,079
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	13,465	5,775	—	19,240
Increase in future policy benefit reserves	18,490	1,270	—	19,760
Policyholders' dividends	2,527	13	—	2,540
Total insurance benefits paid or provided	34,482	7,058	—	41,540
Commissions	6,815	3,990	—	10,805
Other general expenses	4,872	4,459	1,114	10,445
Capitalization of deferred policy acquisition costs	(6,423)	(1,613)	—	(8,036)
Amortization of deferred policy acquisition costs	4,941	706	—	5,647
Amortization of cost of customer relationships acquired	122	394	—	516
Total benefits and expenses	44,809	14,994	1,114	60,917
Income (loss) before income tax expense	$(557)	216	(497)	(838)

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2016
(Unaudited)

	Six Months Ended June 30, 2015			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$69,686	23,340	—	93,026
Net investment income	14,618	6,905	747	22,270
Realized investment losses, net	(58)	(21)	—	(79)
Other income	374	70	278	722
Total revenue	84,620	30,294	1,025	115,939
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	27,025	11,618	—	38,643
Increase in future policy benefit reserves	34,627	2,431	—	37,058
Policyholders' dividends	4,822	27	—	4,849
Total insurance benefits paid or provided	66,474	14,076	—	80,550
Commissions	12,841	7,823	—	20,664
Other general expenses	8,031	8,289	1,676	17,996
Capitalization of deferred policy acquisition costs	(11,766)	(3,126)	—	(14,892)
Amortization of deferred policy acquisition costs	9,490	1,456	—	10,946
Amortization of cost of customer relationships acquired	322	841	—	1,163
Total benefits and expenses	85,392	29,359	1,676	116,427
Income (loss) before income tax expense	$(772)	935	(651)	(488)

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2016
(Unaudited)

(4) Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share.

	Three Months Ended	
	June 30, 2016	June 30, 2015
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income (loss)	$1,319	(1,914)
Net income (loss) allocated to Class A common stock	$1,305	(1,895)
Net income (loss) allocated to Class B common stock	14	(19)
Net income (loss)	$1,319	(1,914)
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,080	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic earnings (losses) per share of Class A common stock	$0.03	(0.04)
Basic earnings (losses) per share of Class B common stock	0.01	(0.02)
Diluted earnings (losses) per share of Class A common stock	0.03	(0.04)
Diluted earnings (losses) per share of Class B common stock	0.01	(0.02)

	Six Months Ended	
	June 30, 2016	June 30, 2015
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net loss	$(630)	(1,489)
Net loss allocated to Class A common stock	$(624)	(1,474)
Net loss allocated to Class B common stock	(6)	(15)
Net loss	$(630)	(1,489)
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,080	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic losses per share of Class A common stock	$(0.01)	(0.03)
Basic losses per share of Class B common stock	(0.01)	(0.02)
Diluted losses per share of Class A common stock	(0.01)	(0.03)

Diluted losses per share of Class B common stock	(0.01)	(0.02)

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(5) Investments

The Company invests primarily in fixed maturity securities, which totaled 88.0% of total cash, cash equivalents and investments at June 30, 2016.

	June 30, 2016		December 31, 2015	
	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
	($ In thousands)			
Fixed maturity securities	$1,091,638	88.0	$995,601	85.0
Equity securities	23,234	1.9	23,438	2.0
Mortgage loans	468	—	594	0.1
Policy loans	63,157	5.1	60,166	5.1
Real estate and other long-term investments	7,944	0.7	8,031	0.7
Short-term investments	521	—	251	—
Cash and cash equivalents	52,937	4.3	82,827	7.1
Total cash, cash equivalents and investments	$1,239,899	100.0	$1,170,908	100.0

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The following tables represent the cost, gross unrealized gains and losses and fair value for fixed maturities and equity securities as of the periods indicated.

	June 30, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale:				
U.S. Treasury securities	$9,962	3,151	—	13,113
U.S. Government-sponsored enterprises	7,701	1,328	—	9,029
States and political subdivisions	514,576	30,297	1,522	543,351
Foreign governments	103	31	—	134
Corporate	250,041	18,334	1,310	267,065
Commercial mortgage-backed	103	5	—	108
Residential mortgage-backed	2,448	228	3	2,673
Total available-for-sale securities	784,934	53,374	2,835	835,473
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	2,006	84	—	2,090
States and political subdivisions	233,058	13,708	96	246,670
Corporate	21,101	1,043	853	21,291
Total held-to-maturity securities	256,165	14,835	949	270,051
Total fixed maturities	$1,041,099	68,209	3,784	1,105,524
Short-term investments	$521	—	—	521
Equity securities:				
Stock mutual funds	$2,867	—	1	2,866
Bond mutual funds	18,451	301	—	18,752
Common stock	39	4	17	26
Preferred stock	1,372	218	—	1,590
Total equity securities	$22,729	523	18	23,234

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	December 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale securities:				
U.S. Treasury securities	$9,995	2,597	—	12,592
U.S. Government-sponsored enterprises	19,676	1,104	—	20,780
States and political subdivisions	470,319	15,815	3,085	483,049
Foreign governments	104	27	—	131
Corporate	211,245	9,683	4,847	216,081
Commercial mortgage-backed	140	5	—	145
Residential mortgage-backed	2,658	214	2	2,870
Total available-for-sale securities	714,137	29,445	7,934	735,648
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	2,010	110	—	2,120
States and political subdivisions	236,776	6,756	883	242,649
Corporate	21,167	530	1,500	20,197
Total held-to-maturity securities	259,953	7,396	2,383	264,966
Total fixed maturity securities	$974,090	36,841	10,317	1,000,614
Short-term investments	$251	—	—	251
Equity securities:				
Stock mutual funds	$3,270	—	237	3,033
Bond mutual funds	18,798	55	349	18,504
Common stock	65	—	22	43
Preferred stock	1,594	266	2	1,858
Total equity securities	$23,727	321	610	23,438

The majority of the Company's equity securities are diversified stock and bond mutual funds.

Valuation of Investments in Fixed Maturity and Equity Securities

Held-to-maturity securities are reported in the financial statements at amortized cost and available-for-sale securities are reported at fair value.

The Company monitors all debt and equity securities on an on-going basis relative to changes in credit ratings, market prices, earnings trends and financial performance, in addition to specific region or industry reviews. The assessment of whether other-than-temporary impairments have occurred is based on a case-by-case evaluation of underlying reasons for the decline in fair value. The Company determines other-than-temporary impairment by reviewing relevant evidence related to the specific security issuer as well as the Company's intent to sell the security, or if it is more likely than not that the Company would be required to sell a security before recovery of its amortized cost.

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is separated into the following: (a) the amount representing the credit loss; and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value.

The Company evaluates whether a credit impairment exists for debt securities by considering primarily the following factors: (a) changes in the financial condition of the security's underlying collateral; (b) whether the issuer is current on contractually obligated interest and principal payments; (c) changes in the financial condition, credit rating and near-term prospects of the issuer; (d) the length of time to which the fair value has been less than the amortized cost of the security; and (e) the payment structure of the security. The Company's best estimate of expected future cash flows used to determine the credit loss amount is a quantitative and qualitative process. Quantitative review includes information received from third party sources such as financial statements, pricing and rating changes, liquidity and other statistical information. Qualitative factors include judgments related to business strategies, economic impacts on the issuer and overall judgment related to estimates and industry factors. The Company's best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, and current delinquency rates. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries, which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer.

The primary factors considered in evaluating whether an impairment exists for an equity security include, but are not limited to: (a) the length of time and the extent to which the fair value has been less than the cost of the security; (b) changes in the financial condition, credit rating and near-term prospects of the issuer; (c) whether the issuer is current on contractually obligated payments; and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

Other-than-temporary impairments ("OTTI") were recognized on investment securities during the three and six months ended June 30, 2016 totaling $0.4 million and$2.3 million, respectively. No other-than-temporary impairments were recognized during the three and six months ended June 30, 2015.

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The following tables present the fair values and gross unrealized losses of fixed maturities and equity securities that have remained in a continuous unrealized loss position for the periods indicated.

	June 30, 2016								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
States and political subdivisions	$14,100	72	13	$13,314	1,450	11	$27,414	1,522	24
Corporate	28,313	445	28	10,125	865	16	38,438	1,310	44
Residential mortgage-backed	101	2	2	108	1	2	209	3	4
Total available-for-sale securities	42,514	519	43	23,547	2,316	29	66,061	2,835	72
Held-to-maturity securities:									
States and political subdivisions	5,963	66	4	3,683	30	5	9,646	96	9
Corporate	—	—	—	5,027	853	4	5,027	853	4
Total held-to-maturity securities	5,963	66	4	8,710	883	9	14,673	949	13
Total fixed maturities	$48,477	585	47	$32,257	3,199	38	$80,734	3,784	85
Equity securities:									
Stock mutual funds	$999	1	1	$—	—	—	$999	1	1
Common stocks	—	—	—	18	17	1	18	17	1
Total equities	$999	1	1	$18	17	1	$1,017	18	2

As of June 30, 2016, the Company had 29 available-for-sale fixed maturity securities and 9 held-to-maturity fixed maturity securities that were in an unrealized loss position for greater than 12 months. We reported 1 equity security holding in an unrealized loss position for greater than 12 months as of June 30, 2016.

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	December 31, 2015								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
States and political subdivisions	$136,862	1,474	129	$12,633	1,611	12	$149,495	3,085	141
Corporate	70,081	4,330	69	3,308	517	3	73,389	4,847	72
Residential mortgage-backed	57	1	2	133	1	3	190	2	5
Total available-for-sale securities	207,000	5,805	200	16,074	2,129	18	223,074	7,934	218
Held-to-maturity securities:									
States and political subdivisions	74,628	774	59	2,404	109	5	77,032	883	64
Corporate	4,585	641	4	2,160	859	2	6,745	1,500	6
Total held-to-maturity securities	79,213	1,415	63	4,564	968	7	83,777	2,383	70
Total fixed maturities	$286,213	7,220	263	$20,638	3,097	25	$306,851	10,317	288
Equity securities:									
Stock mutual funds	$3,030	237	4	$2	—	1	$3,032	237	5
Bond mutual funds	10,158	318	2	108	31	1	10,266	349	3
Preferred stocks	101	1	1	1	1	1	102	2	2
Common stock	22	1	2	21	21	2	43	22	4
Total equities	$13,311	557	9	$132	53	5	$13,443	610	14

We have reviewed these securities for the periods ended June 30, 2016 and December 31, 2015 and determined that no other-than-temporary impairment exists that have not been recognized based on our evaluation of the credit worthiness of the issuers and the fact that we do not intend to sell the investments nor is it likely that we will be required to sell the securities before recovery of their amortized cost bases, which may be maturity. We continue to monitor all securities on an on-going basis, and future information may become available which could result in other-than-temporary impairments being recorded.

The amortized cost and fair value of fixed maturity securities at June 30, 2016 by contractual maturity are shown in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date have been reflected based upon final stated maturity.

	June 30, 2016	
	Amortized Cost	Fair Value
	(In thousands)	
Available-for-sale securities:		
Due in one year or less	$38,553	39,140
Due after one year through five years	108,931	113,330
Due after five years through ten years	113,784	122,978
Due after ten years	523,666	560,025
Total available-for-sale securities	784,934	835,473
Held-to-maturity securities:		
Due in one year or less	4,185	4,206
Due after one year through five years	38,928	41,368
Due after five years through ten years	56,368	60,490
Due after ten years	156,684	163,987
Total held-to-maturity securities	256,165	270,051
Total fixed maturities	$1,041,099	1,105,524

The Company uses the specific identification method of the individual security to determine the cost basis used in the calculation of realized gains and losses related to security sales.

	Fixed Maturities Available-for-Sale				Equity Securities			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,		June 30	
	2016	2015	2016	2015	2016	2015	2016	2015
	(In thousands)							
Proceeds	$—	—	—	—	403	—	403	—
Gross realized gains	$—	—	—	—	40	—	40	—
Gross realized losses	$—	—	—	—	36	—	36	—

There were a small number of sales of equity securities in the second quarter of 2016, namely one equity security and three mutual funds. There were no sales of available-for-sale securities for the three and six month periods ended June 30, 2015. There were no securities sold from the held-to-maturity portfolio for the three and six months ended June 30, 2016 or 2015.

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(6) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We hold available-for-sale fixed maturity securities and equity securities, which are carried at fair value.

Fair value measurements are generally 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 utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

- Level 1 - Quoted prices for identical instruments in active markets.
- 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 whose inputs or whose significant value drivers are observable.
- Level 3 - Instruments whose significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as U.S. Treasury securities and actively traded mutual fund and stock investments.

Level 2 includes those financial instruments that are valued by independent pricing services or broker quotes. These models are primarily industry-standard models that consider various inputs, such as interest rates, credit spreads and foreign exchange rates for the underlying financial instruments. 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 corporate securities, U.S. Government-sponsored enterprise securities, municipal securities and certain mortgage and asset-backed securities.

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices utilizing significant inputs not based on or corroborated by readily available market information. This category consists of two private placement mortgage-backed securities.

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The following tables set forth our assets and liabilities that are measured at fair value on a recurring basis as of the dates indicated.

	June 30, 2016			
Available-for-sale investments	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$13,113	9,029	—	22,142
States and political subdivisions	—	543,351	—	543,351
Corporate	—	267,065	—	267,065
Commercial mortgage-backed	—		108	108
Residential mortgage-backed	—	2,673	—	2,673
Foreign governments	—	134	—	134
Total fixed maturities	13,113	822,252	108	835,473
Equity securities:				
Stock mutual funds	2,866	—	—	2,866
Bond mutual funds	18,752	—	—	18,752
Common stock	26	—	—	26
Preferred stock	1,590	—	—	1,590
Total equity securities	23,234	—	—	23,234
Total financial assets	$36,347	822,252	108	858,707

	December 31, 2015			
Available-for-sale investments	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$12,592	20,780	—	33,372
States and political subdivisions	—	483,049	—	483,049
Corporate	—	216,081	—	216,081
Commercial mortgage-backed	—	—	145	145
Residential mortgage-backed	—	2,870	—	2,870
Foreign governments	—	131	—	131
Total fixed maturities	12,592	722,911	145	735,648
Equity securities:				
Stock mutual funds	3,033	—	—	3,033
Bond mutual funds	18,504	—	—	18,504
Common stock	43	—	—	43
Preferred stock	1,858	—	—	1,858
Total equity securities	23,438	—	—	23,438
Total financial assets	$36,030	722,911	145	759,086

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Financial Instruments Valuation

Fixed maturity securities, available-for-sale. At June 30, 2016, our fixed maturity securities, valued using a third-party pricing source, totaled $822.3 million for Level 2 assets and comprised 95.8% of total reported fair value of our financial assets. The Level 1 and Level 2 valuations are reviewed and updated quarterly through random testing by comparisons to separate pricing models, other third-party pricing services, and back tested to recent trades. In addition, we obtain information relative to the third-party pricing models and review model parameters for reasonableness. Fair values for Level 3 assets are based upon unadjusted broker quotes that are non-binding, and consist of two private placement mortgage-backed securities with a total value of $0.1 million. Our Level 3 assets are current relative to principal and interest payments and are considered immaterial to our financial statements. For the six months ended June 30, 2016, there were no material changes to the valuation methods or assumptions used to determine fair values, and no broker or third party prices were changed from the values received.

Equity securities, available-for-sale. Our available-for-sale equity securities are classified as Level 1 assets as their fair values are based upon quoted market prices.

The following table presents additional information about fixed maturity securities measured at fair value on a recurring basis that are classified as Level 3 assets and for which we have utilized significant unobservable inputs to determine fair value.

	June 30, 2016	December 31, 2015
	(In thousands)	
Balance at beginning of period	$145	231
Total realized and unrealized gains (losses)		
Included in net income	—	—
Included in other comprehensive income	—	(2)
Principal paydowns	(37)	(84)
Transfer in and (out) of Level 3	—	—
Balance at end of period	$108	145

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. There were no transfers in or out of Level 1 or 2.

Financial Instruments not Carried at Fair Value

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instruments. The estimated fair values of financial instruments presented below are not necessarily indicative of the amounts the Company might realize in actual market transactions.

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The carrying amount and fair value for the financial assets and liabilities on the consolidated balance sheets not otherwise disclosed for the periods indicated are as follows:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities, held-to-maturity	$256,165	270,051	259,953	264,966
Mortgage loans	468	491	594	617
Policy loans	63,157	63,157	60,166	60,166
Short-term investments	521	521	251	251
Cash and cash equivalents	52,937	52,937	82,827	82,827
Financial liabilities:				
Annuity - investment contracts	48,776	49,820	47,222	46,905

Fair values for fixed income securities, which are characterized as Level 2 assets in the fair value hierarchy, are based on quoted market prices for the same or similar securities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other assumptions, including a discount rate and estimates of future cash flows.

Mortgage loans are secured principally by residential and commercial properties. Weighted average interest rates for these loans were approximately 6.2% as of June 30, 2016 and December 31, 2015, with maturities ranging from 1 to 26 years. Management estimated the fair value using an annual interest rate of 6.3% at June 30, 2016. Our mortgage loans are considered Level 3 assets in the fair value hierarchy.

Policy loans had a weighted average annual interest rate of 7.7% as of June 30, 2016 and December 31, 2015, and no specified maturity dates. The aggregate fair value of policy loans approximates the carrying value reflected on the consolidated balance sheets. These loans typically carry an interest rate that is tied to the crediting rate applied to the related policy and contract reserves. Policy loans are an integral part of the life insurance policies we have in force, cannot be valued separately and are not marketable. Therefore, the fair value of policy loans approximates the carrying value and policy loans are considered Level 3 assets in the fair value hierarchy.

The fair value of short-term investments approximate carrying value due to their short-term nature. Our short-term investments are considered Level 2 assets in the fair value hierarchy.

The fair value of cash and cash equivalents approximate carrying value and are characterized as Level 1 assets in the fair value hierarchy.

The fair value of the Company's liabilities under annuity contract policies, which are considered Level 3 assets, was estimated at June 30, 2016 using discounted cash flows based upon a swap rate curve with interest rates ranging from 1.60% to 5.71% based upon swap rates adjusted for various risk adjustments. The fair value of liabilities under all insurance contracts are taken into consideration in the overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

(7) Commitments and Contingencies

Qualification of Life Products

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As of December 31, 2014, we determined that a portion of the life insurance policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 of the Internal Revenue Code ("IRC") of 1986. This tax code section allows for qualifying products sold to clients to have favorable tax treatment such as the product's inside build up is not taxable. Because these policies were sold with the intention that they would qualify for this favorable tax treatment, holders of these policies and CICA may now be subject to additional tax liabilities. The policies at issue were sold most substantially to non-U.S. citizens residing abroad and to a lesser extent domestically. Based upon a review of the options available to the Company, we have determined we will not remediate our endowments and endowment-like products under IRC 7702 we have sold to non-U.S. citizens. We do intend to remediate the domestic products we have sold to U.S. citizens. In addition, as part of our continuing review, we determined in July 2015 that certain annuity contracts do not contain qualifying language under IRC 72(s) as intended that would have provided for favorable tax treatment of the annuities. This issue affects both our domestic and international contract holders. The Company has continued to refine the understanding of the tax failures as previously reported by preparing an individual policy calculation and has reflected the related exposure for the current reporting period as noted below. Failure of these policies to qualify under IRC Sections 7702 and 72(s) has resulted in additional liabilities and expenses as described below. The products have been and continue to be appropriately reported under U.S. GAAP for financial reporting.

The failure of these policies to qualify under Sections 7702 and 72(s) results in an estimated liability as of June 30, 2016 of $14.9 million, after tax, related to projected IRS toll charges and fees of $14.5 million as well as $0.4 million of reserve increases to bring policies into compliance. The estimated liability at June 30, 2016 is up $0.3 million from the estimated liability at March 31, 2016 and December 31, 2015 of $14.6 million, due to a continued refinement of our estimate. The probability weighted range of financial estimates relative to this issue is $7.0 million to $43.8 million, after tax. This estimated range includes projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The estimated liability and the estimated range will be updated as we continue to refine our estimates. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses. To the extent the amount reserved by the Company is insufficient to meet the actual amount of our liability and expenses, or if our estimates of those liabilities and expenses change in the future, our financial condition and results of operation may be materially adversely affected. Management believes that based upon current information we have recorded the best estimate liability to date.

Accruals for loss contingencies are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. The process of determining our best estimate and the estimated range is a complex undertaking, which includes insight from external consultants and involves management’s judgment based upon a variety of factors known at the time. We recorded additional general expenses of $1.0 million for the six months ended June 30, 2016 and $2.0 million for the twelve months ended December 31, 2015 related to our 7702 and 72(s) issues. Additional costs will be incurred in the second half of 2016 associated with these issues and we believe these costs will range from $1.0 million to $1.5 million, however, actual amounts incurred may differ from this estimate and changes will be recorded as they become probable and can be reasonably estimated.

Compliance

As part of our periodic review of our compliance controls, we completed an internal risk assessment of our compliance with the Bank Secrecy Act ("BSA") anti-money laundering requirements. We are in the process of enhancing our BSA compliance program with additional controls based on our risk assessment. Although we are not yet able to determine the extent of any potential losses related to our compliance program, we do not feel that non-compliance will have a material impact upon the Company.

Unclaimed Property Contingencies

The Company has been informed by the Louisiana Department of Treasury, Arkansas Auditor of State and the Texas State Comptroller, that they authorized an audit of Citizens, Inc. and its affiliates for compliance with unclaimed property laws. This audit is being conducted by Verus Financial LLC on behalf of the states.

The external audit may result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, interest, and changes to the Company's procedures for the identification and escheatment of abandoned property. The Company believes additional escheatment of funds in Arkansas or Texas will not be material to our financial condition or results. However, additional escheatment of funds in Louisiana, which may subsequently be deemed abandoned under the Louisiana Department of Treasury's audit, could be material for SPLIC if the Louisiana Department of Treasury chooses to disregard recent unclaimed property litigation in favor of the insurance industry. At this time, the Company is not able to estimate any of these possible amounts.

Litigation

From time to time we are subject to legal and regulatory actions relating to our business. We defend all claims vigorously. As a result, we incur defense costs, including attorneys' fees, other direct litigation costs and the expenditure of management time that otherwise would be devoted to our business.

(8) Income Taxes

The effective tax rate was 42.9% and (128.4)% for the three months and 222.6% and (205.1)% for the six months ended June 30, 2016 and 2015, respectively. Additionally there is $1.0 million and $0.7 million of tax expense recorded related to an uncertain tax position in the six months ended June 30, 2016 and June 30, 2015, respectively. In most periods where our effective tax rate is lower than the statutory tax rate of 35%, the difference, absent tax consequences of our 7702/72(s) issues, is primarily due to tax-exempt state and local bond income.

(9) Benefit Plans

The Company introduced a new employer-sponsored 401(k) plan to all eligible employees, effective March 1, 2016. This is an additional benefit offered to employees, which supplements the defined contribution profit-sharing plan which was already in existence. Employees with one year of service can participate in the new plan. Contributions are made by employees and the Company provides a matching contribution based upon the employee's level of contribution. The Company's expense related to the new 401(k) plan was not material to the Company's results of operations.

(10) Related Party Transactions

The Company has various routine related party transactions in conjunction with our holding company structure, such as a management service agreement related to costs incurred, a tax sharing agreement between entities, and inter-company dividends and capital contributions. There were no changes related to these relationships during the six months ended June 30, 2016. In June 2015 CICA made a $1 million cash capital contribution to CNLIC. See our Annual Report on Form 10-K as of December 31, 2015 for a comprehensive discussion of related party transactions.

Citizens, Inc. purchased Class A common shares in June 2016 that were held by CTI at market value as of the transaction date, which approximated $0.8 million. The transaction was eliminated for financial reporting purposes in accordance with consolidation accounting, but generated tax expense for the quarter ended June 30, 2016 totaling approximately $0.3 million.

During the second quarter of 2016, it was discovered that an ex officer of the Company, while serving as an officer, created an interest bearing deposit account associated with a company-issued life insurance policy using an interest rate in excess of normal Company limits. The excess interest was returned in the second quarter of 2016 and the ex-officer retired from the Company in all capacities at that time. The excess interest was an immaterial amount that had no material impact on the Company’s financial statements.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the "Act"), including, without limitation, statements specifically identified as forward-looking statements within this document. Many of these statements contain risk factors as well. In addition, certain statements in future filings by the Company with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with the approval of the Company, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure, and other financial items, (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services, (iii) statements of future economic performance and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "assumes," "estimates," "plans," "projects," "could," "expects," "intends," "targeted," "may," "will" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company's future results to differ materially from expected results include, but are not limited to:

- Changes in the application, interpretation or enforcement of foreign insurance laws that impact our business, which derives the majority of its revenues from residents of foreign countries;
- Potential changes in amounts reserved for in connection with the noncompliance of a portion of our insurance policies with Sections 7702 under the Internal Revenue Code and the failure of certain annuity contracts to qualify under Section 72(s) of the Internal Revenue Code;
- Changes in foreign and U.S. general economic, market, and political conditions, including the performance of financial markets and interest rates;
- Changes in consumer behavior or regulatory oversight, which may affect the Company's ability to sell its products and retain business;
- The timely development of and acceptance of new products of the Company and perceived overall value of these products and services by existing and potential customers;
- Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing the Company's products;
- The performance of our investment portfolio, which may be adversely affected by changes in interest rates, adverse developments and ratings of issuers whose debt securities we may hold, and other adverse macroeconomic events;
- Results of litigation we may be involved in;
- Changes in assumptions related to deferred acquisition costs and the value of any businesses we may acquire;
- Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company's products or services;
- Our concentration of business from persons residing in Latin America and the Pacific Rim;
- Changes in tax laws;
- Effects of acquisitions and restructuring, including possible difficulties in integrating and realizing the projected results of acquisitions;
- Changes in statutory or U.S. Generally Accepted Accounting Principles ("U.S. GAAP"), policies or practices;

- Our success at managing risks involved in the foregoing;
- The risk factors discussed in "Part II. - Item 1A - Risk Factors." of this report; and
- Changes in leadership among our board and senior management team.

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Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

We make available, free of charge, through our Internet website (http://www.citizensinc.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 Reports filed by officers and directors, news releases, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange Commission. We are not including any of the information contained on our website as part of, or incorporating it by reference into, this Quarterly Report on Form 10-Q.

Overview

Citizens is an insurance holding company serving the life insurance needs of individuals in the United States since 1969 and internationally since 1975. Through our insurance subsidiaries, we pursue a strategy of offering traditional insurance products in niche markets where we believe we are able to achieve competitive advantages. As of June 30, 2016, we had approximately $1.5 billion of total assets and approximately $4.5 billion of insurance in force. Our core insurance operations include issuing and servicing:

- U.S. Dollar-denominated ordinary whole life insurance and endowment policies predominantly sold to foreign residents, located principally in Latin America and the Pacific Rim through independent marketing consultants;
- ordinary whole life insurance policies to middle income households concentrated in the Midwest, Mountain West and southern United States through independent marketing consultants; and
- final expense and limited liability property policies to middle and lower income households in Louisiana, Arkansas and Mississippi through employee and independent agents in our home service distribution channel and funeral homes.

We were formed in 1969 by our founder, Harold E. Riley. Prior to our formation, Mr. Riley had many years of experience in the international and domestic life insurance business. Our Company has experienced significant growth through acquisitions in the domestic market and through market expansion in the international market. We seek to capitalize on the experience of our management team in marketing and operations as we strive to generate bottom line return using knowledge of our niche markets and our well-established distribution channels.

Recent Developments

See Strategic Initiatives below for initiatives the Company began in 2015, which continue to be the main areas of focus for the executive management team in 2016.

On June 8, 2016, the Company's Board of Directors (the “Board”) appointed independent Board member Dr. Robert Sloan, as non-executive Chairman. Dr. Sloan succeeds Rick Riley who became Chairman of the Board in June 2015. Kay Osbourn, Citizens’ President at that time and former Chief Financial Officer, was also unanimously appointed by the Board as interim CEO.

On June 24, 2016, Rick D. Riley announced his retirement as a Citizens, Inc. employee and his resignation from the Citizens, Inc. Board.

On July 14, 2016, independent director Dr. Terry Maness was elected Chairman of the Audit Committee (the "Audit Committee") of the Board by the other members of the Audit Committee, succeeding Tim Timmerman. Effective July 14, 2016, Tim Timmerman resigned as a director and Chairman of the Audit Committee. Dr. Maness also serves as the qualified "audit committee financial expert," as that term is defined by the Securities and Exchange Commission, and will continue to serve on the Company's Compensation Committee and Nominating and Corporate Governance Committee.

Strategic Initiatives

The Company's Board of Directors and executive management team are currently assessing the Company's business model and business strategies with the assistance and support of external consultants and advisors. Specifically, we are evaluating certain elements and assumptions underlying the Company's historical business model to consider potential changes to align with our risk profile, the current economic and regulatory environment and sustainable business objectives. Incorporated in our business model review are analyses of (1) our products and profitability; (2) a potential restructuring of our international business and operations; (3) potential upgrades to our technology systems and operations with a strategic focus on our future business needs and cyber risk; and (4) potential additions to our executive management structure, personnel needs and compensation incentives.

A prolonged low interest rate period has forced us to revisit the benefits and dividends included under many policies offered internationally. In many cases, policyholders stand to benefit from significantly higher guarantees and dividends than the financial markets might otherwise offer. As such, the Company has responded to cut discretionary dividends on existing policies and revisit the structure of new policies sold internationally to better reflect the prolonged low interest rate environment that we face.

The Company also is revisiting its investment strategies for premiums received in order to augment its rate of return. By combining more conservative interest rate features in our insurance policies with a more flexible investment strategy to manage our investment portfolio, we intend to grow bottom line returns to shareholders. There is risk that these changes will result in lower demand for new policies, or that the financial markets will make our investment strategy more difficult. Despite the risks, the Company believes that such strategies are in the best interest of our shareholders.

The following pages describe the operations of our three business segments: Life Insurance, Home Service and Other Non-Insurance Enterprises. Revenues derived from any single customer did not exceed 10% of consolidated revenues in any of the last three years.

Current Financial Highlights

Financial highlights for the three and six month period ended June 30, 2016, compared to the same periods in 2015 were:

- Insurance premiums increased slightly for the three and six month periods ended June 30, 2016 to $49.0 million and $93.4 million from $48.5 million and $93.0 million for the corresponding periods in 2015, an increase of 1.1% and 0.5% driven primarily by an increase in renewal premiums, somewhat offset by a decrease in first year premiums in both our life insurance and home service segments.
- Net investment income increased 7.1% and 6.6% for the three and six month periods ended June 30, 2016, compared to the corresponding periods in 2015. The average yield on the consolidated portfolio as of the six months ended June 30, 2016 increased to an annualized rate of 4.31% up from 4.25% for the same period in 2015.
- Other-than-temporary impairments were recorded for the three and six month periods ended June 30, 2016 totaling $0.4 million and $2.3 million related to mutual fund impairments in the second quarter of 2016 and one available-for-sale fixed maturity security impairment in the first quarter of 2016.
- Claims and surrenders expense increased 9.0% and 3.4% for the three and six months ended 2016 compared to 2015 as surrender benefits increased in both periods in the life segment and death benefits reported in both insurance segments decreased year to date in the current year compared to 2015 levels.
-

The change in reserves decreased in both the three and six month periods ended June 30, 2016 compared to the corresponding periods in 2015, primarily as a result of the increase in surrenders in both periods, while premiums remained relatively flat.

- General expenses decreased 18.0% and 0.6% for the three and six months ended June 30, 2016, respectively. The decrease for the three month period is primarily due to the $2.5 million expense recorded in the second quarter of 2015 related to our 72(s) tax compliance issue.

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Our Operating Segments

Our business is comprised of three operating business segments, as detailed below.

- Life Insurance
- Home Service Insurance
- Other Non-Insurance Enterprises

Our insurance operations are the primary focus of the Company, as those operations generate the majority of our income. See the discussion under Segment Operations for detailed analysis. The amount of insurance, number of policies, and average face amounts of ordinary life policies issued during the periods indicated are shown below.

	Six Months Ended June 30,					
	2016			2015		
	Amount of Insurance Issued	Number of Policies Issued	Average Policy Face Amount Issued	Amount of Insurance Issued	Number of Policies Issued	Average Policy Face Amount Issued
Life	$156,783,055	2,788	$56,235	$168,032,030	3,070	$54,734
Home Service	95,113,712	14,400	6,605	99,799,857	14,580	6,844

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Note: All discussions below compare or state results for the three and six-month periods ended June 30, 2016 compared to the three and six-month periods ended June 30, 2015.

Consolidated Results of Operations

A discussion of consolidated results is presented below, followed by a discussion of segment operations and financial results by segment.

Revenues

Revenues are generated primarily by insurance premiums and investment income on invested assets.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Revenues:				
Premiums:				
Life insurance	$47,351	46,748	90,124	89,647
Accident and health insurance	395	421	785	796
Property insurance	1,261	1,291	2,537	2,583
Net investment income	12,000	11,201	23,731	22,270
Realized investment losses, net	(26)	(8)	(1,822)	(79)
Other income	256	426	407	722
Total revenues	$61,237	60,079	115,762	115,939

Premium Income. Premium income derived from life, accident and health, and property insurance sales increased 1.1% and 0.5% for the three and six month periods ended June 30, 2016 compared to the same periods ended June 30, 2015. The increase is generated primarily from an increase in renewal premium, somewhat offset by an decrease in first year premium.
Net investment income performance is summarized as follows.

	June 30,	December 31,	June 30,
	2016	2015	2015
	(In thousands, except for %)		
Net investment income, annualized	$47,463	45,782	44,540
Average invested assets, at amortized cost	1,101,388	1,045,736	1,049,038
Annualized yield on average invested assets	4.31%	4.38%	4.25%

The annualized yield has remained relatively consistent as a change in portfolio mix has mitigated the impact of reinvestment in the current low rate environment.

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Investment income from debt securities accounted for approximately 87.2% of total investment income for the six months ended June 30, 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Gross investment income:				
Fixed maturity securities	$10,827	9,814	21,448	19,577
Equity securities	264	671	388	1,267
Mortgage loans	8	9	17	18
Policy loans	1,285	1,113	2,550	2,230
Long-term investments	101	73	152	147
Other investment income	19	28	30	34
Total investment income	12,504	11,708	24,585	23,273
Investment expenses	(504)	(507)	(854)	(1,003)
Net investment income	$12,000	11,201	23,731	22,270

The consolidated invested asset portfolio has increased approximately 9.1% from year end 2015 to June 30, 2016 with, primarily, investments in the fixed maturity securities portfolio accounting for the most significant increase in investment income. Bond mutual funds are the primary source of dividend income in the equity securities holdings. The decrease in equity securities investment income was due to sales of a portion of the bond mutual funds at the end of 2015. In addition, the increase in policy loans, which represents policyholders utilizing their accumulated policy cash value, contributed to the increase to investment income.

Realized Investment Losses, Net. Other-than-temporary impairments were recorded for the three and six month periods ended June 30, 2016 totaling $0.4 million and $2.3 million, related to mutual fund impairments in the second quarter and impairment of one available-for-sale fixed maturity in the first quarter of 2016. Absent the impairments, the net gains generated for the three and six months ended 2015 were due to gains on issuer calls.

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Benefits and Expenses

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	$20,969	19,240	39,974	38,643
Increase in future policy benefit reserves	17,675	19,760	33,665	37,058
Policyholders' dividends	1,816	2,540	3,365	4,849
Total insurance benefits paid or provided	40,460	41,540	77,004	80,550
Commissions	10,777	10,805	20,245	20,664
Other general expenses	8,566	10,445	17,884	17,996
Capitalization of deferred policy acquisition costs	(8,103)	(8,036)	(14,367)	(14,892)
Amortization of deferred policy acquisition costs	6,827	5,647	13,535	10,946
Amortization of cost of customer relationships acquired	402	516	947	1,163
Total benefits and expenses	$58,929	60,917	115,248	116,427

Claims and Surrenders. A detail of claims and surrender benefits is provided below.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Death claims	$6,007	5,844	11,980	13,006
Surrender benefits	9,003	7,709	16,944	14,911
Endowment benefits	3,976	4,200	7,692	7,985
Matured endowments	819	301	1,029	585
Property claims	434	496	884	785
Accident and health benefits	72	98	169	175
Other policy benefits	658	592	1,276	1,196
Total claims and surrenders	$20,969	19,240	39,974	38,643

- Death claims increased 2.8% and decreased 7.9% for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. We experienced favorable claims development in the six months ended June 30, 2016 for both the life and home service segments. Mortality experience is closely monitored by the Company and the activity is within expected levels.
- Surrenders increased 16.8% and 13.6% in the current three and six month periods, compared to 2015 primarily due to activity in the life segment. This increased surrender activity is in the earlier durations (years 1-15), which still have surrender charges. It appears there may be ex associates and potentially certain current associates that are moving business to other insurance carriers. The Company is looking into this.

Increase in Future Policy Benefit Reserves. The decrease in the change in future policy benefit reserves for the three and six months ended June 30, 2016, compared to the same periods in 2015, is primarily due to the increase in surrenders noted above.

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Policyholder Dividends. The majority of our international policies are participating, and at the time the products were developed, an assumed dividend scale was factored into the guaranteed premium rates charged. Premium rates are guaranteed at issue, but dividends are not. As our current and anticipated investment results have worsened relative to the assumptions underlying the original dividend scale development, dividend scales were reduced in 2016 in order to improve profitability as the policies mature. This dividend action affected some policies immediately, and will affect all policies in the future relative to the original dividend scales. Thus, we experienced a decrease in policyholder dividend expense in the current period and we expect dividend expense to continue to decrease as this block of insurance becomes more seasoned. Should investment experience improve significantly in the future, dividends may be increased as a result.

Commissions. Commission expense is directly related to new and renewal insurance premium fluctuations and production levels. Commission expense for the three and six months ended June 30, 2016 fluctuated directly in relation to the decrease of first year and increase of renewal premiums in the life segment compared to premium levels for the three and six months ended June 30, 2015. First year commissions are higher than renewal commissions, so the decrease in first year premium has a larger overall impact on commissions, which is shown above in the decrease in commission expense.

Other General Expenses. Expenses decreased for the three and six months ended June 30, 2016 due to:

- $2.5 million of costs associated with the 72(s) tax compliance issues recorded in the second quarter of 2015, which is the driver of the quarter-to-quarter fluctuation
- On a year-to-date basis, expenses were down slightly as we had $2.5 million of 72(s) expense in 2015, somewhat offset by higher first half 2016 consulting costs primarily related to our tax compliance issues and $0.7 million of additional audit-related costs in the first quarter of 2016.

Capitalized and Amortized Deferred Policy Acquisition Costs. Costs capitalized under current accounting guidance include certain commissions, policy issuance costs, and underwriting and agency expenses that relate to successful sales efforts for insurance contracts. The fluctuation in capitalized deferred policy acquisition costs tracks closely with the fluctuation of commissions, the largest component of capitalized costs.

Amortization for the three and six months ended June 30, 2016, increased compared to the same periods in 2015, primarily due to the higher early duration elections to convert to reduced paid up ("RPU") or extended term insurance ("ETI") in 2016. There are higher deferred acquisition costs associated with early duration conversions to RPU or ETI, which, when converted, increases amortization expense. Amortization of deferred policy acquisition costs is impacted by persistency and may fluctuate from year to year.

Federal Income Tax. The effective tax rate was 42.9% and (128.4)% for the three months and 222.6% and (205.1)% for the six months ended June 30, 2016 and 2015, respectively. Additionally there is $1.0 million and $0.7 million of tax expense related to an uncertain tax position in the six months ended June 30, 2016 and June 30, 2015, respectively. Differences between our effective tax rate and the statutory tax rate result from income and expense items that are treated differently for financial reporting and tax purposes. See Note 8 - Income Taxes in the consolidated financial statements for further discussion.

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Segment Operations

The Company has three reportable segments: Life Insurance, Home Service Insurance and Other Non-Insurance Enterprises. These segments are reported in accordance with U.S. GAAP. The Company evaluates profit and loss performance of its segments based on net income or loss before income taxes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Life Insurance	$1,895	(557)	1,088	(772)
Home Service Insurance	993	216	654	935
Other Non-Insurance Enterprises	(580)	(497)	(1,228)	(651)
Total	$2,308	(838)	514	(488)

Life Insurance

Our Life Insurance segment issues ordinary whole life insurance in the United States and in U.S. Dollar-denominated amounts to foreign residents. These contracts are designed to provide a fixed amount of insurance coverage over the life of the insured and can utilize rider benefits to provide additional increasing or decreasing coverage and annuity benefits to enhance accumulations. Additionally, endowment contracts are issued by the Company, which are principally accumulation contracts that incorporate an element of life insurance protection. For the majority of our business, we retain the first $100,000 of risk on any one life, reinsuring the remainder of the risk. We operate this segment through our CICA and CNLIC insurance subsidiaries.

International Sales

We focus our sales of U.S. Dollar-denominated ordinary whole life insurance and endowment policies to residents in Latin America and the Pacific Rim. We have participated in the foreign marketplace since 1975, and we continue to seek opportunities for expansion of our foreign operations. We believe positive attributes of our international insurance business include:

- larger face amount policies typically issued when compared to our U.S. operations, which results in lower underwriting and administrative costs per unit of coverage;
- premiums typically paid annually rather than monthly or quarterly, which reduces our administrative expenses, accelerates cash flow and results in lower policy lapse rates than premiums with more frequently scheduled payments; and
- persistency experience and mortality rates that are comparable to U.S. policies.

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International Products

We offer several ordinary whole life insurance and endowment products designed to meet the needs of our non-U.S. policyowners. These policies have been structured to provide:

- U.S. Dollar-denominated cash values that accumulate, beginning in the first policy year, to a policyholder during his or her lifetime;
- premium rates that are competitive with or better than most foreign local companies;
- a hedge against local currency inflation;
- protection against devaluation of foreign currency;
- capital investment in a more secure economic environment (i.e., the United States); and
- lifetime income guarantees for an insured or for surviving beneficiaries.

Our international products have living benefit features. Every policy contains guaranteed cash values and most are participating (i.e., provides for cash dividends as apportioned by the board of directors). Once a policyowner pays the annual premium and the policy is issued, the owner becomes entitled to a cash dividend as well as an annual guaranteed endowment, if elected. The policyowner has several options with regard to the dividend and annual guaranteed endowments, including the right to assign policy values to the Citizens, Inc. Stock Investment Plan, registered under the Securities Act of 1933 (the "Securities Act"), and administered in the United States by Computershare, our plan administrator and transfer agent.

The following table sets forth, by country, our direct premiums from our international life insurance business for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Country				
Venezuela	$7,826	8,214	14,857	15,434
Colombia	7,396	7,198	13,367	13,274
Taiwan	4,202	4,015	8,814	8,496
Ecuador	3,908	4,124	7,245	7,667
Argentina	2,571	2,466	4,390	4,388
Other Non-U.S.	10,178	9,492	19,193	17,821
Total	$36,081	35,509	67,866	67,080

We generally see increased sales from our top producing countries as noted above, although Venezuela is down from the prior year, presumably from the turmoil in the country. Our international business and premium collections could be impacted by future changes relative to laws, regulations or economic events in the countries from which we accept applications as well as, by marketing or operational changes made by the Company.

Domestic Sales

In the Midwest, Mountain West and the southern United States, we seek to serve middle income households through the sale of cash accumulation ordinary whole life insurance products. The majority of our inforce business results from blocks of business of insurance companies we have acquired over the past 17 years. Over the past few years, new product sales have been modest while existing policies have been running off at a greater pace compressing the block of insurance in force.

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Domestic Products

Our domestic life insurance products focus primarily on living needs and provide benefits focused toward accumulating money for living benefits while providing a modest death benefit for the policyowner. The features of our domestic life insurance products include:

- cash accumulation/living benefits;
- tax-deferred annuity interest earnings;
- guaranteed lifetime income options;
- monthly income for surviving family members;
- accidental death benefit coverage options; and
- an option to waive premium payments in the event of disability.

Our life insurance products are principally designed to address the insured's concern about outliving his or her monthly income, while at the same time providing death benefits. The primary purpose of our product portfolio is to help the insured create capital for needs such as retirement income, children's higher education funds, business opportunities, emergencies and extraordinary health care needs.

The following table sets forth our direct premiums by state for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
State				
Texas	$570	643	1,101	1,226
Indiana	330	366	628	718
Florida	99	126	236	261
Missouri	111	116	227	221
Kentucky	93	105	192	226
Other States	420	464	861	925
Total	$1,623	1,820	3,245	3,577

A number of domestic life insurance companies we acquired had blocks of accident and health insurance policies, which we did not consider to be a core part of our business. We have ceded the majority of our accident and health insurance business to an unaffiliated insurance company under a coinsurance agreement.

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The results of operations for the life insurance segment for the periods indicated are as follows.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Revenue:				
Premiums	$37,111	36,707	69,959	69,686
Net investment income	8,107	7,387	16,061	14,618
Realized investment gains (losses), net	208	(2)	(660)	(58)
Other income	256	160	371	374
Total revenue	45,682	44,252	85,731	84,620
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	15,157	13,465	28,621	27,025
Increase in future policy benefit reserves	16,319	18,490	31,163	34,627
Policyholders' dividends	1,802	2,527	3,338	4,822
Total insurance benefits paid or provided	33,278	34,482	63,122	66,474
Commissions	6,768	6,815	12,571	12,841
Other general expenses	4,041	4,872	8,125	8,031
Capitalization of deferred policy acquisition costs	(6,492)	(6,423)	(11,418)	(11,766)
Amortization of deferred policy acquisition costs	6,062	4,941	11,943	9,490
Amortization of cost of customer relationships acquired	130	122	300	322
Total benefits and expenses	43,787	44,809	84,643	85,392
Income (loss) before income tax expense	$1,895	(557)	1,088	(772)

Premiums. Premium revenues increased for the three and six month periods ended June 30, 2016, compared to the same periods in 2015, due primarily to higher renewal business showing strong persistency as this block of insurance ages, somewhat offset by lower new international business. First year premium revenues for the six months ended June 30, 2016, reflected sales internationally with endowment to age sixty-five and the twenty-year endowment products continuing as the top performers in the current year. Endowment sales sold to our international clients represented approximately 80.4% and 82.8% of total new first year premium for the three and six months ended June 30, 2016, respectively.

Life insurance premium breakout is detailed below.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Premiums:				
First year	$4,788	5,163	8,759	9,554
Renewal	32,323	31,544	61,200	60,132
Total premiums	$37,111	36,707	69,959	69,686

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Net Investment Income. Net investment income increased primarily due to the growth in average invested assets.

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
	(In thousands, except for %)		
Net investment income, annualized	$32,122	30,206	29,237
Average invested assets, at amortized cost	740,441	684,590	684,485
Annualized yield on average invested assets	4.34 %	4.41 %	4.27 %

Realized Investment Losses, Net. Other-than-temporary impairments were recorded for the six month period ended June 30, 2016 totaling $1.0 million related to one available-for-sale fixed maturity impairment in the first quarter of 2016. Absent the impairments, net gains for the three and six months ended 2015 were due to gains on issuer calls.

Claims and Surrenders. These amounts fluctuate from period to period but were within anticipated ranges based upon management's expectations, other than surrender activity as described below.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In thousands)			
Death claims	$1,529	1,351	3,259	3,876
Surrender benefits	8,228	7,095	15,462	13,518
Endowment benefits	3,974	4,196	7,684	7,977
Matured endowments	679	168	771	336
Accident and health benefits	94	67	178	132
Other policy benefits	653	588	1,267	1,186
Total claims and surrenders	$15,157	13,465	28,621	27,025

- Death claims expense was unfavorable for the three months ended and favorable for the six months ended June 30, 2016, based upon reported claims. Death claims had an unusual spike in the first three months of 2015, but returned to more normal levels in subsequent quarters as can be seen in year to date numbers above. Mortality experience is closely monitored by the Company as a key performance indicator and these amounts were within expected levels.
- Surrenders increased in the three and six month periods ended June 30, 2016 by 16.0% and 14.4%, compared to 2015. This increased surrender activity is in the earlier durations (years 1-15), which still have surrender charges. It appears there may be ex associates and potentially certain current associates that are moving business to other carriers. The Company is looking into this.
- Endowment benefit expense primarily results from the election by policyholders of a product feature providing an annual guaranteed benefit. This is a fixed benefit over the life of the contract, thus this expense will increase with new sales and improved persistency.

Increase in Future Policy Benefit Reserves. Policy benefit reserves decreased for the three and six months ended June 30, 2016 compared to the same periods in 2015, primarily due to the increase in surrenders noted above.

Commissions. Commission expense decreased for the three and six months ended June 30, 2016, compared to the same periods in 2015. This expense fluctuates directly with new premium revenues and commission rates paid are higher on first year premium sales, which were down for the three and six months ended June 30, 2016, compared to the same periods in 2015. Renewal premiums for the three and six months, for which we pay commissions at lower rates, were up from the prior year.

Other General Expenses. These expenses are allocated by segment, based upon an annual expense study performed by the Company. General expenses are down for the quarter as we recorded $1.9 million of costs associated with the 72(s) tax compliance issue in the second quarter of 2015. On a year-to-date basis, expenses were up slightly due to higher 2016 expense from higher consulting costs primarily related to our tax compliance issues and $0.7 million of additional audit-related costs in the first quarter of 2016.

Capitalization of Deferred Policy Acquisition Costs ("DAC"). Capitalized costs generally fluctuate in direct relation to commissions, based upon first year and renewal premiums and related commissions paid compared to 2015.

Amortization of Deferred Policy Acquisition Costs. Amortization for the three and six months ended June 30, 2016 increased primarily due to the higher early duration elections to convert to reduced paid up ("RPU") or extended term insurance ("ETI") in 2016. There are higher deferred acquisition costs associated with early duration conversions to RPU or ETI, which, when converted, increases amortization expense.

Home Service Insurance

We operate in the Home Service insurance market through our subsidiaries Security Plan Life Insurance Company ("SPLIC"), Magnolia Guaranty Life Insurance Company ("MGLIC") and Security Plan Fire Insurance Company ("SPFIC"), and focus on the life insurance needs of the middle and lower income markets, primarily in Louisiana, Mississippi and Arkansas. Our policies are sold and serviced through a home service marketing distribution system of employee-agents who work full time on a route system and through funeral homes that sell policies, collect premiums and service policyholders.

The following table sets forth our direct premiums by state for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
State				
Louisiana	$10,732	10,675	21,318	21,269
Mississippi	764	673	1,370	1,300
Arkansas	387	422	793	810
Other States	225	209	442	428
Total	$12,108	11,979	23,923	23,807

Home Service Insurance Products

Our home service insurance products consist primarily of small face amount ordinary whole life and pre-need policies, which are designed to fund final expenses for the insured, primarily consisting of funeral and burial costs. To a much lesser extent, our home service insurance segment sells limited-liability, named-peril property policies covering dwellings and contents. We provide $30,000 maximum coverage on any one dwelling and contents, while content only coverage and dwelling only coverage is limited to $20,000, respectively.

We provide final expense ordinary life insurance and annuity products primarily to middle and lower income individuals in Louisiana, Mississippi and Arkansas.

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The results of operations for the home service insurance segment for the periods indicated are as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Revenue:				
Premiums	$11,896	11,753	23,487	23,340
Net investment income	3,505	3,441	6,919	6,905
Realized investment losses, net	(234)	(6)	(1,162)	(21)
Other income	—	22	3	70
Total revenue	15,167	15,210	29,247	30,294
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	5,812	5,775	11,353	11,618
Increase in future policy benefit reserves	1,356	1,270	2,502	2,431
Policyholders' dividends	14	13	27	27
Total insurance benefits paid or provided	7,182	7,058	13,882	14,076
Commissions	4,009	3,990	7,674	7,823
Other general expenses	3,557	4,459	7,747	8,289
Capitalization of deferred policy acquisition costs	(1,611)	(1,613)	(2,949)	(3,126)
Amortization of deferred policy acquisition costs	765	706	1,592	1,456
Amortization of cost of customer relationships acquired	272	394	647	841
Total benefits and expenses	14,174	14,994	28,593	29,359
Income before income tax expense	$993	216	654	935

Premiums. Premiums were up slightly for the three and six month periods ended June 30, 2016, compared to 2015, as first year premiums were down slightly, while renewal premiums were up slightly more.

Net Investment Income. Net investment income for our home service insurance segment was as follows.

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
	(In thousands, except for %)		
Net investment income, annualized	$13,838	14,063	13,810
Average invested assets, at amortized cost	299,453	300,174	303,342
Annualized yield on average invested assets	4.62 %	4.68 %	4.55 %

Realized Investment Losses, Net. Other-than-temporary impairments were recorded for the three and six month periods ended June 30, 2016 of $0.4 million and $1.3 million, respectively, related to mutual fund impairments in the second quarter of 2016 and one available-for-sale fixed maturity impairment in the first quarter of 2016. Absent the impairments, net gains for the three and six months ended 2015 were due to gains on issuer calls.

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Claims and Surrenders. Claims and surrenders decreased for the three and six months ended June 30, 2016, compared to the same periods in 2015, based upon reported claims compared to the prior year, but were within expected ranges.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Death claims	$4,479	4,491	8,722	9,129
Surrender benefits	774	614	1,481	1,394
Endowment benefits	3	4	8	8
Matured endowments	140	133	258	249
Property claims	434	496	884	785
Accident and health benefits	(22)	31	(9)	43
Other policy benefits	4	6	9	10
Total claims and surrenders	$5,812	5,775	11,353	11,618

- Death claims expense fluctuates based upon reported claims. We experienced a lower number of reported claims in the six months ended June 30, 2016. Mortality experience is closely monitored by the Company as a key performance indicator and amounts were within expected levels.
- Surrender benefits increased for the three and six months ended in 2016, compared to the same periods in 2015. Management is not aware of any unusual surrender activity, but will continue to monitor for any developing trends.
- Property claims increased 12.6 % for the six months ended June 30, 2016 as we experienced more weather-related claims in 2016.

Increase in Future Policy Benefit Reserves. The Company recorded relatively flat future policy benefit reserves for the three and six months ended June 30, 2016, compared to the corresponding periods in 2015.

Commissions. Commission expense fluctuated for the three and six months ended June 30, 2016, compared to the same periods in 2015 consistent with the first year and renewal premium collections.

Other General Expenses. Expenses are allocated by segment based upon an annual expense study performed by the Company and decreased between 2016 and 2015 due primarily to $0.6 of expense recorded related to our 72(s) tax compliance issue booked in the second quarter of 2015.

Capitalization of Deferred Policy Acquisition Costs ("DAC"). Capitalized costs decreased for the six months ended June 30, 2016, as commission expense decreased during the period. DAC capitalization is directly correlated to fluctuations in new business and commissions.

Amortization of Deferred Policy Acquisition Costs. Amortization for the three and six months ended June 30, 2016 increased compared to the corresponding periods in 2015, as this segment experienced persistency changes compared to the prior year, which resulted in higher amortization.

Other Non-Insurance Enterprises
This segment represents the administrative support entities to the insurance operations whose revenues are primarily intercompany and have been eliminated in consolidation under GAAP. The segment loss reported for the three and six months of 2016 and 2015 is typical since the elimination of intercompany revenue is its primary source of revenue.

Investments

The administration of our investment portfolios is handled by our management, pursuant to board-approved investment guidelines, with all trading activity approved by a committee of each entity's respective boards of directors. The guidelines used require that fixed maturities, both government and corporate, are investment grade and comprise a majority of the investment portfolio. State insurance statutes prescribe the quality and percentage of the various types of investments that may be made by insurance companies and generally permit investment in qualified state, municipal, federal and foreign government obligations, high quality corporate bonds, preferred and common stock, mortgage loans and real estate within certain specified percentages. The assets are intended to mature in accordance with the average maturity of the insurance products and to provide the cash flow for our insurance company subsidiaries to meet their respective policyholder obligations.

The following table shows the carrying value of our investments by investment category and cash and cash equivalents, and the percentage of each to total invested cash, cash equivalents and investments.

	June 30, 2016		December 31, 2015	
	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
	(In thousands)		(In thousands)	
Marketable debt securities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$24,148	2.0	$35,382	3.0
States and political subdivisions	776,409	62.6	719,825	61.5
Corporate	288,166	23.2	237,248	20.3
Mortgage-backed (1)	2,781	0.2	3,015	0.2
Foreign governments	134	—	131	—
Short-term investments	521	—	251	—
Total marketable debt securities	1,092,159	88.0	995,852	85.0
Cash and cash equivalents	52,937	4.3	82,827	7.1
Other investments:				
Policy loans	63,157	5.1	60,166	5.1
Equity securities	23,234	1.9	23,438	2.0
Mortgage loans	468	0.1	594	0.1
Real estate	7,869	0.6	7,956	0.7
Other long-term investments	75	—	75	—
Total cash, cash equivalents and investments	$1,239,899	100.0	$1,170,908	100.0

(1) Includes $2.4 million and $2.6 million of U.S. Government-sponsored enterprises at June 30, 2016, and December 31, 2015, respectively.

Cash and cash equivalents decreased as of June 30, 2016 due to timing of cash inflows and investment of excess cash at the end of 2015 into marketable securities in the first half of 2016. Cash was high at the end of 2015, due to proceeds from sales of certain mutual funds late in the year.

The held-to-maturity portfolio as of June 30, 2016 represented 23.5% of the total fixed maturity securities owned based upon carrying values, with the remaining 76.5% classified as available-for-sale. Held-to-maturity securities are reported in the financial statements at amortized cost and available-for-sale securities are reported at fair value.

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The following table sets forth the distribution of the credit ratings of our portfolio of fixed maturity securities by carrying value as of June 30, 2016 and December 31, 2015.

	June 30, 2016		December 31, 2015	
	Carrying Value (In thousands)	% of Total Carrying Value	Carrying Value (In thousands)	% of Total Carrying Value
AAA	$87,321	8.0	$76,026	7.6
AA	530,291	48.6	497,781	50.0
A	260,931	23.9	247,381	24.9
BBB	183,332	16.8	148,656	14.9
BB and other	29,763	2.7	25,757	2.6
Totals	$1,091,638	100.0	$995,601	100.0

Credit ratings reported for the periods indicated are assigned by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Moody's Investors Service, Standard & Poor's or Fitch Ratings. A credit rating assigned by an NRSRO is a quality based rating, with AAA representing the highest quality and D the lowest, with BBB and above being considered investment grade. In addition, the Company may use credit ratings of the National Association of Insurance Commissioners ("NAIC") Securities Valuation Office ("SVO") as assigned, if there is no NRSRO rating. Securities rated by the SVO are grouped in the equivalent NRSRO category as stated by the SVO and securities that are not rated by an NRSRO are included in the "other" category.

The Company has no direct sovereign European debt exposure as of June 30, 2016. We do have indirect exposure in one bond mutual fund holding, but the amount is deemed immaterial to the current investment holdings and consolidated financials.

As of June 30, 2016, the Company held municipal securities that include third party guarantees. Detailed below is a presentation by NRSRO rating of our municipal holdings by funding type.

Municipals shown including third party guarantees

	June 30, 2016								
	General Obligation		Special Revenue		Other		Total		% Based on
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Amortized Cost
	(In thousands)								
AAA	$58,414	54,598	24,649	23,343	—	—	83,063	77,941	10.4
AA	167,306	158,645	293,544	278,098	21,968	20,491	482,818	457,234	61.2
A	23,849	23,020	152,829	143,599	10,796	9,901	187,474	176,520	23.6
BBB	8,460	8,768	23,202	21,463	591	571	32,253	30,802	4.1
BB and other	3,541	4,296	872	841	—	—	4,413	5,137	0.7
Total	$261,570	249,327	495,096	467,344	33,355	30,963	790,021	747,634	100.0

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Municipals shown excluding third party guarantees

	June 30, 2016								
	General Obligation		Special Revenue		Other		Total		% Based on
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Amortized Cost
	(In thousands)								
AAA	$31,313	30,357	4,505	4,423	—	—	35,818	34,780	4.7
AA	125,575	118,359	260,195	245,847	21,398	19,932	407,168	384,138	51.3
A	40,152	37,816	143,683	135,471	9,657	8,835	193,492	182,122	24.4
BBB	14,519	14,522	27,802	25,819	—	—	42,321	40,341	5.4
BB and other	50,011	48,273	58,911	55,784	2,300	2,196	111,222	106,253	14.2
Total	$261,570	249,327	495,096	467,344	33,355	30,963	790,021	747,634	100.0

The Company held investments in special revenue bonds that had a greater than 10% exposure based upon activity as noted in the table below.

	Fair Value	Amortized Cost	% of Total Fair Value
	(In thousands)		
Utilities	$168,746	158,238	21.4
Education	107,520	100,744	13.6

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The tables below represent the Company's exposure of municipal holdings in Louisiana, Texas and Florida, the three states with the largest municipal holdings as of June 30, 2016.

	June 30, 2016							
	General Obligation		Special Revenue		Other		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(In thousands)							
Louisiana securities including third party guarantees								
AA	$7,357	7,167	20,582	19,287	—	—	27,939	26,454
A	6,960	6,627	8,661	8,304	—	—	15,621	14,931
BBB	—	—	386	384	—	—	386	384
BB and other	—	—	363	357	—	—	363	357
Total	$14,317	13,794	29,992	28,332	—	—	44,309	42,126
Louisiana securities excluding third party guarantees								
AA	$7,996	7,614	18,670	17,610	—	—	26,666	25,224
A	5,800	5,655	7,700	7,368	—	—	13,500	13,023
BBB	—	—	1,148	1,044	—	—	1,148	1,044
BB and other	521	525	2,474	2,310	—	—	2,995	2,835
Total	$14,317	13,794	29,992	28,332	—	—	44,309	42,126
Texas securities including third party guarantees								
AAA	$56,230	52,559	16,412	15,387	—	—	72,642	67,946
AA	61,049	58,787	30,991	29,538	—	—	92,040	88,325
A	1,218	1,214	17,801	16,640	—	—	19,019	17,854
BBB	—		9,828	9,180	—	—	9,828	9,180
BB and other	544	537	—	—	—	—	544	537
Total	$119,041	113,097	75,032	70,745	—	—	194,073	183,842
Texas securities excluding third party guarantees								
AAA	$30,286	29,354	1,566	1,550	—	—	31,852	30,904
AA	64,182	60,321	35,071	33,080	—	—	99,253	93,401
A	6,617	6,182	21,595	20,263	—	—	28,212	26,445
BBB	2,914	2,744	8,119	7,385	—	—	11,033	10,129
BB and other	15,042	14,496	8,681	8,467	—	—	23,723	22,963
Total	$119,041	113,097	75,032	70,745	—	—	194,073	183,842

	June 30, 2016 General Obligation		Special Revenue		Other		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(In thousands)							
Florida securities including third party guarantees								
AAA	$555	522	3,879	3,671	—	—	4,434	4,193
AA	—	—	60,769	58,210	4,036	3,989	64,805	62,199
A	—	—	12,115	11,234	10,796	9,901	22,911	21,135
BB and other	—	—	509	484	—	—	509	484
Total	$555	522	77,272	73,599	14,832	13,890	92,659	88,011
Florida securities excluding third party guarantees								
AAA	$—	$ —	1,096	1,052	—	—	1,096	1,052
AA	555	522	41,971	40,206	3,466	3,431	45,992	44,159
A	—	—	29,962	28,302	9,656	8,835	39,618	37,137
BB and other	—	—	4,243	4,039	1,710	1,624	5,953	5,663
Total	$555	522	77,272	73,599	14,832	13,890	92,659	88,011

The Company invests in municipal securities of issuers in the state of Louisiana and receives a credit that reduces its premium tax liability in that state. At June 30, 2016, total holdings of municipal securities in Texas represented 24.6% of all municipal holdings based upon fair value. The Company also holds 11.7% of its municipal holdings in Florida issuers. There were no other states or individual issuer holdings that represented or exceeded 10% of the total municipal portfolio as of June 30, 2016. The next largest municipal holdings are in Louisiana, which the Company holds 5.6% of its municipal holdings.

Valuation of Investments

We evaluate the carrying value of our fixed maturity and equity securities at least quarterly. The Company monitors all debt and equity securities on an on-going basis relative to changes in credit ratings, market prices, earnings trends and financial performance, in addition to specific region or industry reviews. The assessment of whether other-than-temporary impairments have occurred is based on a case-by-case evaluation of underlying reasons for the decline in fair value. The Company determines other-than-temporary impairment by reviewing all relevant evidence related to the specific security issuer as well as the Company's intent to sell the security, or if it is more likely than not that the Company would be required to sell a security before recovery of its amortized cost.

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is separated into the following: a) the amount representing the credit loss; and b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value.

The Company recognized an other-than-temporary impairment of $0.4 million and $2.3 million for the three and six months ended June 30, 2016, respectively. No other-than-temporary impairments were recognized for the three and six months ended June 30, 2015.

Liquidity and Capital Resources

Liquidity refers to a company's ability to generate sufficient cash flows to meet the needs of its operations. Liquidity is managed on insurance operations to ensure stable and reliable sources of cash flows to meet obligations provided by a variety of sources.

Liquidity requirements of the Company are met primarily by funds provided from operations. Premium deposits and revenues, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. We historically have not had to liquidate investments to provide cash flow and did not do so during the first six months of 2016. Our investments as of June 30, 2016, consist of 70.4% of marketable debt securities classified as available-for-sale that could be readily converted to cash for liquidity needs.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our insurance policies, such as surrender charges, that help limit and discourage early withdrawals. Since these contractual withdrawals, as well as the level of surrenders experienced, have been largely consistent with our assumptions in asset liability management, our associated cash outflows have, historically, not had an adverse impact on our overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and cash flow tests under various market interest rate scenarios are also performed annually to assist in evaluating liquidity needs and adequacy. We currently anticipate that available liquidity sources and future cash flows will be adequate to meet our needs for funds.

Cash flows from our insurance operations historically have been sufficient to meet current needs. Cash flows from operating activities were $43.0 million and $39.8 million for the six months ended June 30, 2016 and 2015, respectively. We have traditionally also had significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows, for the most part, are reinvested in fixed income securities. Net cash outflows from investing activities totaled $74.2 million and $54.1 million for the six months ended June 30, 2016 and 2015, respectively. The investing activities fluctuate from period to period due to timing of securities activities such as calls and maturities and reinvestment of those funds.

In 2015, we determined that a portion of the life insurance and annuity policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 and 72(s) of the Internal Revenue Code ("IRC") of 1986. As a result, we have established a liability reserve of $14.9 million, net of tax for probable liabilities and expenses associated with this tax compliance matter, which represents management’s estimate and we have disclosed an estimated range related to probable liabilities and expenses of $7.0 million to $43.8 million, net of tax. This estimate and range includes projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses.

This tax compliance issue impacts our policyholders and their tax liabilities relative to these products that fail 7702 and 72(s) for those that will not be remediated. The exposure related to future sales or products in force is unknown at this time. Policyholders could decide to surrender their policies due to this issue which would subsequently result in higher cash outflows due to an increase in surrender activity.

Dividends are declared and paid from time to time from the insurance affiliates as determined by their respective boards.

The NAIC has established minimum capital requirements in the form of Risk-Based Capital ("RBC"). RBC factors the type of business written by an insurance company, the quality of its assets, and various other aspects of an insurance company's business to develop a minimum level of capital called "authorized control level risk-based capital" and compares this level to adjusted statutory capital that includes capital and surplus as reported under statutory accounting principles, plus certain investment reserves. Should the ratio of adjusted statutory capital to control level RBC fall below 200%, a series of remedial actions by the affected company would be required. Capital balances could be impacted by this tax compliance issue for the insurance companies affected. The holding company would anticipate funding the life companies as needed to keep capital amounts within required levels.

All insurance subsidiaries were above the RBC minimums at June 30, 2016.

Contractual Obligations and Off-balance Sheet Arrangements

There have been no material changes in contractual obligations from those reported in the Company's Form 10-K for the year ended December 31, 2015. The Company does not have off-balance sheet arrangements at June 30, 2016. We do not utilize special purpose entities as investment vehicles, nor are there any such entities in which we have an investment that engage in speculative activities of any nature, and we do not use such investments to hedge our investment positions.

Parent Company Liquidity and Capital Resources

Citizens is a holding company and has had minimal operations of its own. Its assets consist primarily of the capital stock of its subsidiaries, cash, fixed income securities, mutual funds and investment real estate. Accordingly, Citizens' cash flows depend upon the availability of statutorily permissible payments, primarily payments under management agreements from its two primary life insurance subsidiaries, CICA and SPLIC. The ability to make payments is limited by applicable laws and regulations of Colorado, CICA's state of domicile, and Louisiana, SPLIC's state of domicile, which subject insurance operations to significant regulatory restrictions. These laws and regulations require, among other things, that these insurance subsidiaries maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay to the holding company. Citizens historically has not relied upon dividends from subsidiaries for its cash flow needs. However, CICA and SPLIC do dividend available funds from time to time in relation to new acquisition target strategies.

Critical Accounting Policies

We have prepared a current assessment of our critical accounting policies and estimates in connection with preparing our interim unaudited consolidated financial statements as of and for the three and six months ended June 30, 2016 and 2015. We believe that the accounting policies set forth in the Notes to our Consolidated Financial Statements and “Critical Accounting Policies and Estimates” in the Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015 continue to describe the significant judgments and estimates used in the preparation of our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The nature of our business exposes us to market risk relative to our invested assets and policy liabilities. Market risk is the risk of loss that may occur when changes in interest rates and public equity prices adversely affect the value of our invested assets. Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the fair value of our investments. The fair value of our fixed maturity portfolio generally increases when interest rates decrease and decreases when interest rates increase. For additional information regarding market risks to which we are subject, see "Item 1 Financial Statements - Note 5. Investments - Valuation of Investments in Fixed Maturity and Equity Securities" above.

The following table summarizes net unrealized gains and losses as of the dates indicated.

	June 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	Net Unrealized Gains(Losses)	Amortized Cost	Fair Value	Net Unrealized Gains (Losses)
	(In thousands)					
Fixed maturities, available-for-sale	$784,934	835,473	50,539	714,137	735,648	21,511
Fixed maturities, held-to-maturity	$256,165	270,051	13,886	259,953	264,966	5,013
Total fixed maturities	$1,041,099	1,105,524	64,425	974,090	1,000,614	26,524
Total equity securities	$22,729	23,234	505	23,727	23,438	(289)

Market Risk Related to Interest Rates

Our exposure to interest rate changes results from our significant holdings of fixed maturity investments, which comprised 92.0% of our investment portfolio based on carrying value as of June 30, 2016. These investments are mainly exposed to changes in U.S. Treasury rates. Our fixed maturity investments include U.S. Government-sponsored enterprises, U.S. Government bonds, securities issued by government agencies, municipal bonds and corporate bonds.

To manage interest rate risk, we perform periodic projections of asset and liability cash flows to evaluate the potential sensitivity of our investments and liabilities. We assess interest rate sensitivity annually with respect to our available-for-sale fixed maturities investments using hypothetical test scenarios that assume either upward or downward shifts in the prevailing interest rates. The changes in fair values of our debt and equity securities as of June 30, 2016 were within the expected range of this analysis.

Changes in interest rates typically have a sizable effect on the fair values of our debt and equity securities. The interest rate of the ten-year U.S. Treasury bond decreased to 1.5% during the quarter ended June 30, 2016, from 2.3% at December 31, 2015. Net unrealized gains on fixed maturity securities totaled $64.4 million at June 30, 2016, compared to $26.5 million at December 31, 2015.

The fixed maturity portfolio is exposed to call risk, as a significant portion of the current bond holdings are callable. A decreasing interest rate environment can result in increased call activity as experienced over the past several years, and an increasing rate environment will likely result in securities being paid at their stated maturity.

There are no fixed maturities or other investments classified as trading instruments. Approximately 75.6% of fixed maturities were held in available-for-sale and 24.4% in held-to-maturity based upon fair value at June 30, 2016. At June 30, 2016 and

December 31, 2015, we had no investments in derivative instruments, nor did we have any subprime or collateralized debt obligation risk.

Market Risk Related to Equity Prices

Changes in the level or volatility of equity prices affect the value of equity securities we hold as investments. Our equity investments portfolio represented 2.0% of our total investments at June 30, 2016, with 93.0% invested in diversified equity and bond mutual funds. We believe that significant decreases in the equity markets would not have a material adverse impact on our total investment portfolio.

Item 4. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures to ensure, among other things, that material information relating to our Company, including its consolidated subsidiaries, is made known to our officers who certify our financial reports and to the other members of our senior management and the Board of Directors.

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon an evaluation at the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

During the three months ended June 30, 2016, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act). The Company is in the process of remediating the material weakness identified as an ineffective management review control as it pertains to our tax review of external tax experts' complex documentation as of December 31, 2015.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the normal course of business, the Company is subject to various legal and regulatory actions which are immaterial to the Company's financial statements. For more information about the risks related to litigation and regulatory actions, please see the risk factor titled “We are a defendant in lawsuits, which may adversely affect our financial condition and detract from the time our management is able to devote to our business, and we are subject to risks related to litigation and regulatory matters.” in Item 1A. Risk Factors.

Item 1A. RISK FACTORS

Investing in our Company involves certain risks. Set forth below are certain risks with respect to our Company. Readers should carefully review these risks, together with the other information contained in this report. The risks and uncertainties we have described in this report are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem not material, may also adversely affect our business. Any of the risks discussed in this report or that are presently unknown or believed to be not material, if they were to actually occur, could result in a significant adverse impact on our business, operating results, prospects or financial condition. References in the risk factors below to "we," "us," "our," "Citizens" and like terms relate to Citizens, Inc. and its subsidiaries on a U.S. GAAP consolidated financial statement basis, unless specifically identified otherwise. We operate our subsidiaries as separate and distinct entities with respect to corporate formalities.
Risks Relating to Our Business

The majority of our sales derive from residents of foreign countries and are subject to risks associated with political instability, currency control laws and foreign insurance laws. A significant loss of sales in these foreign markets could have a material adverse effect on our results of operations and financial condition.

The majority of our direct premiums, approximately 71% for the first six months of 2016 and 2015, are from foreign countries, primarily those in Latin America and the Pacific Rim. These sales are made through independent consultants who are located in these foreign countries. Many of these countries have a history of political instability, including regime changes, political uprisings, currency fluctuations and anti-democratic or anti-U.S. policies. There is a risk that political instability in these countries could have a material adverse effect on the ability of people living in these countries to purchase our insurance policies or our ability to sell our policies in those countries through our independent consultants or otherwise. The Company’s future sales and financial results depend upon avoiding significant regulatory interruptions in receiving insurance policy applications and premiums from, and issuing insurance policies to, residents outside of the United States.

Currency control laws or other currency exchange restrictions in foreign countries could materially adversely affect our revenues by imposing restrictions on asset transfers outside of a country where our insureds reside. Difficulties in transferring funds from or converting currencies in certain countries could prevent our insureds in those countries from purchasing or paying premiums on our policies. There can be no assurance that such restrictions will not be imposed and that our revenues, results of operations and financial condition will not be materially adversely affected if they do occur.

We also face risks associated with the application of foreign laws to our sales of policies to residents in foreign countries. Traditionally, we have sought to address risks associated with the potential application of foreign laws to our sales of insurance policies in our foreign markets by, among other things, not locating any of our offices or assets in foreign countries, selling policies only through independent consultants rather than our own employees, requiring that all applications for insurance be submitted to and accepted only in our offices in the U.S., and requiring that policy premiums be paid to us in U.S. Dollars. Because we consider ourselves to be doing business only in the U.S., we have never sought to qualify to do business in any foreign country and have never submitted the insurance policies that we issue to residents of foreign countries for approval by any foreign or domestic insurance regulatory agency. We have sold our policies to residents of foreign countries using independent consultants and we have relied on those persons to comply with applicable laws in marketing our insurance products.

We recently have undertaken a comprehensive review of risks associated with the potential application of foreign laws to our sales of insurance policies in foreign countries, including laws that might require us to qualify to do business in a foreign country or to submit our policies for approval by a foreign insurance regulatory authority. The application of foreign laws to our sales of insurance policies in foreign countries requires a country-by-country analysis due to the lack of uniformity of regulation in those countries, and the application of the laws of some countries to our sales of insurance policies may be uncertain due to unclear regulations or the absence of legal precedent addressing circumstances similar to ours. While our compliance review is ongoing and we cannot predict its ultimate outcome, preliminary results indicate a risk that the government of a foreign country could determine, under its existing laws, that its residents may not buy life insurance from us unless we become qualified to do business in that country or unless our policies purchased by its residents receive prior approval from its insurance regulators. There also is a risk that foreign regulators may become more aggressive in enforcing any perceived violations of their laws. There is no assurance that, if a foreign country were to deem our sales of policies in that country to require that we qualify to do business in that country or submit our policies for approval by that country's regulatory authorities, we would be able to, or would conclude that it is advisable to, comply with those requirements. Any determination by a foreign country that we or our policy sales are subject to regulation under their laws could therefore have a material adverse effect on our ability to sell policies in that country and, in turn, on our revenues and profitability. Ultimately, we may decide to withdraw from or avoid a particular market if we conclude that we are subject to its laws and regulations.

Any disruption to the marketing and sale of our policies to residents of a foreign country, resulting from the action of foreign regulatory authorities or otherwise, could have a material adverse effect on our revenues and profitability.

Our operating results and financial condition may be affected if the liabilities actually incurred differ, or if our estimates of those liabilities change, from the amounts we have reserved for in connection with the noncompliance of a portion of our life insurance policies with Section 7702 of the Internal Revenue Code and the failure of certain annuity contracts to qualify under Section 72(s) of the Internal Revenue Code.

We previously announced that we determined that a portion of the life and annuity insurance policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 and 72(s) of the Internal Revenue Code ("IRC") of 1986. To the extent that these policies had unreported income build-up, we may be liable to the IRS for failure to withhold taxes or to notify policyholders of their obligation to pay taxes directly to the IRS. We have undertaken an analysis of our potential liability to the IRS arising from this matter, as well as other expenses we may incur to remediate (i.e., conform to the requirements of the IRS) certain previously issued domestic life insurance and annuity policies and to address any missed reporting for policies issued to non-U.S. citizens and have established a best estimate reserve of $14.9 million, net of tax as of June 30, 2016 for probable liabilities and expenses. We estimate the range of those probable liabilities and expenses to be $7.0 million to $43.8 million, net of tax. This estimated range includes projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses. To the extent the amount reserved by the Company is insufficient to meet the actual amount of our liability and expenses, or if our estimates of those liabilities and expenses change in the future, our financial condition and results of operation may be materially adversely affected.

We face financial and capital market risks in our operations.

As an insurance holding company with significant investment exposure, we face material financial and capital markets risk in our operations. Due to the low interest rate environment in recent years, we experienced significant call activity on our fixed income portfolio that decreased our investment yields compared to prior years. We also have recorded other-than-temporary impairments in the past several years due to credit related market declines and equity market volatility.

Economic uncertainty has recently been exacerbated by the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency, Brexit and the negative impact of such events on global financial institutions and capital markets generally. Actions or inactions of European governments may impact these actual or perceived risks. Future actions or inactions of the United States government, including a shutdown of the federal government, could increase the actual or perceived risk that the U.S. may not ultimately pay its obligations when due and may disrupt financial markets.

Changes in market interest rates may significantly affect our profitability.

Some of our products, principally traditional whole life insurance with annuity riders, expose us to the risk that changes in interest rates will reduce our "spread," or the difference between the amounts we are required to pay under our contracts to policyholders and the rate of return we are able to earn on our investments intended to support obligations under the contracts. Our spread is an integral component of our net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured, prepaid, been sold, or called at lower yields, reducing our investment margin. Our fixed income bond portfolio is exposed to interest rate risk as a significant portion of the portfolio is callable. Lowering interest crediting rates can help offset decreases in investment margins on some of our products. However, our ability to lower these rates could be limited by competition or contractually guaranteed minimum rates, and may not match the timing or magnitude of changes in asset yields.

Our investment portfolio is subject to various risks that may result in realized investment losses. In particular, decreases in the fair value of fixed maturities may significantly reduce the value of our investments, and as a result, our financial condition may suffer.

We are subject to credit risk in our investment portfolio. Defaults by third parties in the payment or performance of their obligations under these securities could reduce our investment income and realized investment gains or result in the recognition of investment losses. The value of our investments may be materially adversely affected by increases in interest rates, downgrades in the bonds included in our portfolio and by other factors that may result in the recognition of other-than-temporary impairments. Each of these events may cause us to reduce the carrying value of our investment portfolio.

In particular, at June 30, 2016, fixed maturities represented $1,091.6 million or 92.0% of our total investments of $1,187.0 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows resulting from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our consolidated financial statements, as a large portion of our fixed maturities are classified as available-for- sale, with changes in fair value reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income and/or cash flows. Although at June 30, 2016, approximately 97.3% of our fixed maturities were investment grade with 80.5% rated A or above, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst-case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

Gross unrealized losses on fixed maturity and equity securities may be realized or result in future impairments, resulting in a reduction in our net income.

Fixed maturity and equity securities classified as available-for-sale are reported at fair value. Unrealized gains and losses on available-for-sale securities are recognized as a component of other comprehensive income (loss) and are, therefore, excluded from our net income. Our total gross unrealized losses on our available-for-sale securities portfolio at June 30, 2016 were $2.8 million. The accumulated change in estimated fair value of these securities is recognized in net income when the gain or loss is realized upon sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary and an impairment charge to earnings is taken. Realized losses or impairments may have a material adverse effect on our net income in a particular quarterly or annual period.

Our actual claims losses may exceed our reserves for claims, and we may be required to establish additional reserves, which in turn may adversely impact our results of operations and financial condition.

We maintain reserves to cover our estimated exposure for claims relating to our issued insurance policies. Reserves, whether calculated under U.S. generally accepted accounting principles or statutory accounting practices prescribed by various state insurance regulators, do not represent an exact calculation of exposure, but instead represent our best estimates, generally involving actuarial projections, of what we expect claims will be based on mortality assumptions that are determined by various regulatory authorities. Many reserve assumptions are not directly quantifiable, particularly on a prospective basis. In addition, when we acquire other domestic life insurance companies, our assessment of the adequacy of acquired policy liabilities is subject to our estimates and assumptions. Reserve estimates are refined as experience develops, and adjustments to reserves are reflected in our statements of operations for the period in which such estimates are updated. Because establishing reserves is an inherently uncertain process involving estimates of future losses, future developments may require us to increase claims reserves, which may have a material adverse effect on our results of operations and financial condition in the periods in which such increases occur.

Unanticipated increases in early policyholder withdrawals or surrenders could negatively impact liquidity.

A primary liquidity concern is the risk of unanticipated or extraordinary early policyholder withdrawals or surrenders. Our insurance policies include provisions, such as surrender charges, that help limit and discourage early withdrawals, and we track and manage liabilities and attempt to align our investment portfolio to maintain sufficient liquidity to support anticipated withdrawal demands. However, early withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, including changes in economic conditions, changes in policyholder behavior or financial needs, changes in relationships with our independent consultants, changes in our claims-paying ability, or increases in surrenders among more mature policies that have been in force for more than fifteen years and are no longer subject to surrender charges. Any of these occurrences could adversely affect our liquidity, profitability and financial condition.

While we own a significant amount of liquid assets, a certain portion of investment assets are relatively illiquid. If we experience unanticipated early withdrawal or surrender activity, we could exhaust all other sources of liquidity and be forced to obtain additional financing or liquidate assets, perhaps on unfavorable terms. The availability of additional financing will depend on a variety of factors, such as market conditions, the availability of credit in general or more specifically in the insurance industry, the strength or weakness of the capital markets, the volume of trading activities, our credit capacity, and the perception of our long- or short-term financial prospects if we incur large realized or unrealized investment losses or if the level of business activity declines due to a market downturn. If we are forced to dispose of assets on unfavorable terms, it could have an adverse effect on our liquidity, results of operations and financial condition.

We may be required to accelerate the amortization of deferred acquisition costs and the costs of customer relationships acquired, which would increase our expenses and adversely affect our results of operations and financial condition.

At June 30, 2016, we had $165.9 million of deferred policy acquisition costs, or DAC. DAC represents costs that vary with and are primarily related to the successful sale and issuance of our insurance policies and are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material costs and some support costs, such as underwriting and contract and policy issuance expenses. Under U.S. GAAP, DAC is generally amortized to income over the lives of the underlying policies, in relation to the premium-paying period of the policies.

In addition, when we acquire a block of insurance policies, we assign a portion of the purchase price to the right to receive future net cash flows from existing insurance and investment contracts and policies. This intangible asset, called the cost of customer relationships acquired, or CCRA, represents the actuarially estimated present value of future cash flows from the acquired policies. At June 30, 2016, we had $20.2 million of CCRA. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

Our recoverability of DAC and CCRA generally depends upon anticipated profits from investments, surrender and other policy charges, mortality, morbidity, persistency and maintenance expense margins. For example, if our insurance policy lapse and surrender rates were to exceed the assumptions upon which we priced our insurance policies, or if actual persistency proves to be less than our persistency assumptions, especially in the early years of a policy, we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. We regularly review the quality of our DAC and CCRA to determine if they are recoverable from future income. If these costs are not recoverable, they are charged to expenses in the financial period in which we make this determination.

Unfavorable experience with regard to expected expenses, investment returns, surrender and other policy charges, mortality, morbidity, lapses or persistency may cause us to increase the amortization of DAC or CCRA, or both, or to record a current period expense to increase benefit reserves, any of which could have a material adverse effect on our results of operations and financial condition.

We may be required to recognize an impairment on the value of our goodwill, which would increase our expenses and materially adversely affect our results of operations and financial condition.

Goodwill represents the excess of the amount paid by us to acquire various life insurance companies over the fair value of their net assets at the date of the acquisition. Under U.S. GAAP, we test the carrying value of goodwill for impairment at least annually at the "reporting unit" level, which is either an operating segment or a business that is one level below the operating segment. Goodwill is impaired if its carrying value exceeds its implied fair value. This may occur for various reasons, including changes in actual or expected earnings or cash flows of a reporting unit, generation of earnings by a reporting unit at a lower rate than similar businesses or declines in market prices for publicly traded businesses similar to our reporting units. If any portion of our goodwill becomes impaired, we would be required to recognize the amount of the impairment as a current-period expense, which could have a material adverse effect on our results of operations and financial condition. Goodwill in our consolidated financial statements was $17.3 million as of June 30, 2016.

We are a defendant in lawsuits, which may adversely affect our financial condition and detract from the time our management is able to devote to our business, and we are subject to risks related to litigation and regulatory matters.

From time to time we are, and have been, subject to a variety of legal and regulatory actions and investigations relating to our business operations, including, but not limited to:

- disputes over insurance coverage or claims adjudication;
- regulatory compliance with state laws, including insurance and securities regulations;
- regulatory compliance with U.S. federal securities laws, tax, anti-money laundering, bank secrecy, anti-bribery, anti-corruption and foreign asset control laws, among others;
- disputes with our independent marketing firms, independent consultants and employee-agents over compensation, termination of contracts and related claims;
- disputes regarding our tax liabilities;
- disputes relating to reinsurance and coinsurance agreements; and
- disputes relating to businesses acquired and operated by us.

In the absence of countervailing considerations, we would expect to defend any such claims vigorously. However, in doing so, we could incur significant defense costs, including attorneys' fees, other direct litigation costs and the expenditure of substantial amounts of management time that otherwise would be devoted to our business. Further, if we suffer an adverse judgment as a result of any claim, it could have a material adverse effect on our business, results of operations and financial condition.

A number of U.S. jurisdictions have been investigating life insurer practices for compliance with unclaimed property laws. Highly publicized incidents disclosed the practice by certain companies of using data available on the U.S. Social Security Administration's Death Master File or a similar database in order to avoid paying periodic benefits under annuity contracts, but not using the same data base to determine when death benefits were owed. This asymmetric conduct by certain insurers has led a number of jurisdictions to require life insurers to use this same data to identify instances where amounts under life insurance policies and annuity contracts are payable and to locate and pay beneficiaries under such contracts. The National Conference of Insurance Legislators ("NCOIL") has adopted the Model Unclaimed Life Insurance Benefits Act ("Model Act") and several states have adopted legislation that is substantially similar to the Model Act adopted by NCOIL. The Model Act imposes new requirements on insurers to periodically compare their in force life insurance and annuity policies against the Death Master File, investigate any identified matches to confirm the death of the insured and determine whether benefits are due and attempt to locate the beneficiaries or, if no beneficiary can be located, escheat the policy benefit to the respective state government as unclaimed property. The Model Act could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, and/or administrative penalties. It is also possible that life insurers may be subject to claims regarding their business practices as a result given the legal uncertainty in this area. However, recent court decisions in West Virginia and Florida have upheld the well-established insurance law principal that life insurance policies are not due and payable until the insurance company receives due proof of death, and have further held an insurance company has no duty to search the Death Master File or other databases to determine whether deaths have occurred that have not been reported to the company.

Despite the fact we have no history of the asymmetric conduct in question, we have received notices from the Louisiana Department of Treasury, the Arkansas Auditor of State and the Texas State Comptroller, indicating they intend to audit Citizens, Inc. and certain of its affiliates for compliance with unclaimed property laws. The audits may result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, interest, and changes to the Company's procedures for the identification and escheatment of abandoned property. The Company believes additional escheatment of funds in Arkansas or Texas will not be material to our financial condition or results. However, additional escheatment of funds in Louisiana, which may subsequently be deemed abandoned under the Louisiana Department of Treasury’s audit, could be substantial for SPLIC. At this time, the Company is not able to estimate any of these possible amounts.

Reinsurers with which we do business could increase their premium rates and may not honor their obligations, leaving us liable for the reinsured coverage.

We reinsure certain risks underwritten by our various insurance subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. The high cost of reinsurance or lack of affordable coverage could adversely affect our results of operations and financial condition.

Our reinsurance facilities are generally subject to annual renewal. We may not be able to maintain our current reinsurance facilities and, even if highly desirable or necessary, we may not be able to obtain replacement reinsurance facilities in adequate amounts or at rates economic to us. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposures would increase or, if we are unwilling or unable to bear an increase in net exposures, we may have to reduce the level of our underwriting commitments. In addition, our reinsurance facilities may be canceled, pursuant to their terms, upon the occurrence of certain specified events, including a change of control of our Company (generally defined as the acquisition of 10% or more of our voting equity securities) or the failure of our insurance company subsidiaries to maintain the minimum required levels of statutory surplus. Any of these potential developments could materially adversely affect our revenues, results of operations and financial condition.

In 2015, we reinsured $516.9 million of face amount of our life insurance policies. Amounts reinsured in 2015 represented 10.4% of the face amount of direct life insurance in force in that year. Although the cost of reinsurance is, in some cases, reflected in premium rates, under certain reinsurance agreements, the reinsurer may increase the rate it charges us for reinsurance. If our cost of reinsurance were to increase, we might not be able to recover these increased costs, and our results of operations and financial condition could be materially adversely affected. See Note 5 to the Company's Consolidated Financial Statements for the period ended December 31, 2015.

Our international and domestic markets face significant competition. If we are unable to compete effectively in our markets, our business, results of operations and profitability may be adversely affected.

Our international marketing plan focuses on making available U.S. Dollar-denominated life insurance products to upper middle income and high net worth, high income individuals residing in more than 30 countries. New competition could increase the supply of available insurance, which could affect our ability to price our products at attractive profitable rates to us, thereby adversely affecting our revenues, results of operations and financial condition. Existing barriers to entry in the foreign markets we serve may not be sufficient to impede potential competitors from entering such markets. In connection with our business with foreign nationals, we experience competition primarily from the following sources, many of which have substantially greater financial, marketing and other resources than we have:

- Foreign operated companies with U.S. Dollar policies. We face direct competition from companies that operate in the same manner as we operate in our international markets.

- Companies foreign to the countries in which their policies are sold but that issue local currency policies. Another group of our competitors in the international marketplace consists of companies that are foreign to the countries in which their policies are sold but issue life insurance policies denominated in the local currencies of those countries. Local currency policies provide the benefit of assets located in the country of foreign residents, but entail risks of uncertainty due to local currency fluctuations, as well as the perceived instability and weakness of local currencies.

- Locally operated companies with local currency policies. We compete with companies formed and operated in the country in which our foreign insureds reside. Generally, these companies are subject to risks of currency fluctuations, and they primarily use mortality tables based on experience of the local population as a whole. These mortality tables are typically based on significantly shorter life spans than those we use. As a result, the cost of insurance from these companies tends to be higher than ours. Although these companies typically market their policies to a broader section of the population than do our independent marketing firms and independent consultants, there can be no assurance that these companies will not endeavor to place a greater emphasis on our target market and compete more directly with us.

In the United States, we compete with more than 800 other life insurance companies of various sizes. The life insurance business in the United States is highly competitive, in part because it is a mature industry that, in recent years, has experienced little to no growth in life insurance sales. Many domestic life insurance companies have substantially greater financial resources, longer business histories, larger sales forces and more diversified lines of insurance coverage than we do. Competition in the United States has also increased recently because the life insurance industry is consolidating, with larger, more efficient organizations emerging from the consolidation.

In addition, from time to time, companies enter and exit the markets in which we operate, thereby increasing competition at times when there are new entrants. We may lose business to competitors offering competitive products at lower prices, or for other reasons.

There can be no assurance that we will be able to compete effectively in any of our markets. If we do not, our business, results of operations and financial condition will be materially adversely affected.

Sales of our insurance products may be reduced if we are unable to (i) establish and maintain commercial relationships with independent marketing firms and independent consultants, (ii) attract and retain employee agents or (iii) develop and maintain our distribution sources.

We distribute our insurance products through several distribution channels, including independent marketing firms, independent consultants and our employee agents. These relationships are significant for both our revenues and our profits. In our life insurance segment, we depend almost exclusively on the services of independent marketing firms and independent consultants. In our home service insurance segment, we depend on employee agents whose role in our distribution process is integral to developing and maintaining relationships with policyholders. Significant competition exists among insurers in attracting and maintaining marketers of demonstrated ability. Some of our competitors may offer better compensation packages for marketing firms, independent consultants and agents and broader arrays of products and have a greater diversity of distribution resources, better brand recognition, more competitive pricing, lower cost structures and greater financial strength or claims paying ratings than we do. We compete with other insurers for marketing firms, independent consultants and employee agents primarily on the basis of our compensation and support services. Any reduction in our ability to attract and retain effective sales representatives could materially adversely affect our revenues, results of operations and financial condition.

Changes among our board and senior management team, or the failure to fill key vacancies or effectively manage succession, could hinder our operations, marketing and business strategy and adversely impact our results of operations, financial condition or prospects.

Since June 2015, our board and executive leadership have undergone significant changes, including: the retirement of our founder, who was our initial Chairman and Chief Executive Officer; the retirement of the founder’s son, who was the successor as Chairman and Chief Executive Officer; and the resignation of a long serving board member and Audit Committee Chairman. These changes led to searches for other key executive roles. The effectiveness of new leaders in these roles, and further transition as a result of these changes, could have a significant impact on our results of operations. Subsequent to the retirement and resignation of Rick D. Riley on June 24, 2016, we rely on our senior executive team comprised of Interim Chief Executive Officer and President, Kay E. Osbourn (age 49), Chief Financial Officer and Treasurer, David S. Jorgensen (age 52) and Chief Legal Officer, Geoffrey M. Kolander (age 40) to develop and execute our operating and marketing plans and strategy for expanding our business. We anticipate that their expertise will continue to be of substantial value in connection with our business and compliance strategies. The loss of the services of any of these individuals, or the failure to effectively manage succession or fill key vacancies such as our Chief Actuary position for an extended period of time, could have a significant adverse effect on our business and prospects. Due to our historical compensation philosophy that has focused primarily on cash compensation and excluded equity-based incentive compensation, employment agreements, change of control agreements or other compensation components of similar publicly traded companies, we face risk that we may limit our ability to retain and effectively incentivize our key executives and our ability to attract directors and new executive talent in the competitive insurance industry. Further, we do not carry key-man insurance policies on any of their lives.

We are subject to extensive governmental regulation in the United States, which increases our costs of doing business and could restrict the conduct of our business.

We are subject to extensive regulation and supervision in U.S. jurisdictions where we do business, including state insurance regulations and U.S. federal securities, tax, anti-money laundering, bank secrecy, anti-corruption and foreign asset control laws. Insurance company regulation is generally designed to protect the interests of policyholders, with substantially lesser protections to shareholders of the regulated insurance companies. To that end, all the states in which we do business have insurance regulatory agencies with broad legal powers with respect to licensing companies to transact business; mandating capital and surplus requirements; regulating trade and claims practices; approving policy forms; and restricting companies' ability to enter and exit markets.

The capacity for an insurance company's growth in premiums is partially a function of its required statutory surplus. Maintaining appropriate levels of statutory surplus, as measured by statutory accounting practices prescribed or permitted by a company's state of domicile, is considered important by all state insurance regulatory authorities. Failure to maintain required levels of statutory surplus could result in increased regulatory scrutiny and enforcement action by regulatory authorities.

Most insurance regulatory authorities have broad discretion to grant, renew, suspend and revoke licenses and approvals, and could preclude or temporarily suspend us from carrying on some or all of our activities, including acquisitions of other insurance companies, require us to add capital to our insurance company subsidiaries, or fine us. If we are unable to maintain all required licenses and approvals, or if our insurance business is determined not to comply fully with the wide variety of applicable laws and regulations and their interpretations, including the USA Patriot Act, our revenues, results of operations and financial condition could be materially adversely affected.

Although the U.S. federal government has not historically regulated the insurance business, the Dodd-Frank Act, enacted in July 2010, expands the federal presence in insurance oversight. The Act's requirements include streamlining the state-based regulation of reinsurance and non-admitted insurance (also known as surplus lines insurance, which is property or casualty insurance written by a company that is not licensed to sell policies of insurance in a given state). This legislation also establishes a new Federal Insurance Office within the U.S. Department of the Treasury with powers over all lines of insurance except health insurance, certain long-term care insurance and crop insurance. The Federal Insurance Office is authorized to, among other things, gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters and preempt state insurance measures under certain circumstances. As this Act calls for numerous studies and contemplates further regulation, the future impact of the Act on our results of operations or our financial condition cannot be determined at this time, but could have an adverse impact on profitable operations.

Changes in U.S. regulation may adversely affect our results of operations and financial condition and limit our prospective growth.

Currently, the U.S. Federal Government does not directly regulate the insurance business, although initiatives for federal regulation of insurance are proposed by members of the U.S. Congress from time to time. However, federal legislation, regulations and administrative policies in several other areas can materially and adversely affect insurance companies, including our business. These areas include U.S. anti-money laundering laws and related regulations, including the Bank Secrecy Act and its implementing regulations (collectively, the “BSA”), other financial services regulations, securities regulation, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed from time to time.

Our failure to maintain effective information systems could adversely affect our business.

We must maintain and enhance our existing information systems and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. If we do not maintain adequate systems, we could experience adverse consequences, including products acquired through acquisition, inadequate information on which to base pricing, underwriting and reserve decisions, regulatory problems, failure to meet prompt payment obligations, increases in administrative expenses and loss of customers.

Some of our information technology systems and software are mainframe-based, legacy-type systems that require an ongoing commitment of resources to maintain current standards. Our systems utilize proprietary code requiring highly skilled personnel. Due to the unique nature of our proprietary operating environment, we could have difficulty finding personnel with the skills required to provide ongoing system maintenance and development as we seek to keep pace with changes in our products and business models, information processing technology, evolving industry and regulatory standards and policyholder needs. Our success is dependent upon, among other things, maintaining and enhancing the effectiveness of existing systems, as well as continuing to integrate, develop and enhance our information systems to support business processes in a cost-effective manner.

Our failure to maintain effective and efficient information systems, or our failure to efficiently and effectively consolidate our information systems to eliminate redundant or obsolete applications, could have a material adverse effect on our results of operations and financial condition.

Our failure to protect confidential information and privacy could result in the unauthorized disclosure of sensitive or confidential corporate or customer information, damage to our reputation, loss of customers, fines, penalties and adverse effects on our results of operations and financial condition.

Our insurance subsidiaries are subject to privacy regulations. The actions we take to protect confidential information include among other things: monitoring our record retention plans and policies and any changes in state or federal privacy and compliance requirements; maintaining secure storage facilities for tangible records; and limiting access to electronic information in order to safeguard certain information.

In addition, the Gramm-Leach-Bliley Act requires that we deliver a notice regarding our privacy policy both at the delivery of an insurance policy and annually thereafter. Certain exceptions are allowed for sharing of information under joint marketing agreements. However, certain state laws may require us to obtain a policyholder's consent before we share information.

We have a written information security program with appropriate administrative, technical and physical safeguards to protect such confidential information. Cyber security attacks are on the rise throughout the world and while we believe we have taken reasonable steps to secure our customer information we could experience a breach of data. We closely monitor cyber attack attempts on our system, and we are not aware of any material breach of our cybersecurity, administrative, technical and physical safeguards or client data. Nevertheless, it is possible a cyber attack could go undetected and that preventative actions we take to reduce this risk of cyber-incidents and protect our information may be insufficient to prevent cyber attacks or other security breaches.

If we do not comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, loss of reputation, litigation exposure, disruptions to our operations or significant technical, legal and operating expenses, any of which could have a material adverse effect on our business, results of operations and financial condition.

General economic, financial market and political conditions may materially adversely affect our results of operations and financial condition.

Our results of operations and financial condition may be materially adversely affected from time to time by general economic, financial market and political conditions, both in the United States and in the foreign countries where our policyowners reside. These conditions include economic cycles such as: levels of consumer spending; levels of inflation; movements of the financial markets; availability of credit; fluctuations in interest rates, monetary policy or demographics; and legislative and competitive changes.

During periods of economic downturn, our insureds may choose not to purchase our insurance products, may terminate existing policies, permit policies to lapse or may choose to reduce the amount of coverage purchased, any of which could have a material adverse effect on our results of operations and financial condition. Also, our sales of new insurance policies might decrease.

Our insurance subsidiaries are restricted by applicable laws and regulations in the amounts of fees, dividends and other distributions they may make to us. The inability of our subsidiaries to make payments to us in sufficient amounts for us to conduct our operations could adversely affect our ability to meet our obligations or expand our business.

As a holding company, our principal asset is the stock of our subsidiaries. We rely primarily on statutorily permissible payments from our insurance company subsidiaries, principally through service agreements we have with our subsidiaries, to meet our working capital and other corporate expenses. The ability of our insurance company subsidiaries to make payments to us is subject to regulation by the states in which they are domiciled, and these payments depend primarily on approved service agreements between us and these subsidiaries and, to a lesser extent, the statutory surplus (which is the excess of assets over liabilities as determined under statutory accounting practices prescribed by an insurance company's state of domicile), future statutory earnings (which are earnings as determined in accordance with statutory accounting practices) and regulatory restrictions.

Generally, the net assets of our insurance company subsidiaries available for dividends are limited to either the lesser or greater (depending on the state of domicile) of the subsidiary's net gain from operations during the preceding year and 10% of the subsidiary's net statutory surplus as of the end of the preceding year as determined in accordance with accounting practices prescribed by insurance regulatory authorities.

Except to the extent that we are a creditor with recognized claims against our subsidiaries, claims of our subsidiaries' creditors, including policyholders, have priority with respect to the assets and earnings of the subsidiaries over the claims of our creditors and shareholders. If any of our subsidiaries becomes insolvent, liquidates or otherwise reorganizes, our creditors and shareholders will have no right to proceed in their own right against the assets of that subsidiary or to cause the liquidation, bankruptcy or winding-up of the subsidiary under applicable liquidation, bankruptcy or winding-up laws.

Adverse capital and credit market conditions may significantly affect our access to debt and equity capital and our cost of capital in seeking to expand our business.

The availability of equity and debt financing to us will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit capacity, as well as the possibility that investors or lenders could develop a negative perception of our long- or short-term financial prospects. Disruptions, uncertainty or volatility in the capital markets may also limit our access to equity capital for us to seek to expand our business. As such, we may be forced to delay raising debt or equity capital, or bear an unattractive cost of capital, which could adversely affect our ability to seek any acquisitions and negatively impact profitability of an acquisition.

Unexpected losses in future reporting periods may require us to adjust the valuation allowance against our deferred tax assets.

We evaluate our deferred tax asset (“DTA”) quarterly for recoverability based on available evidence. This process involves management's judgment about assumptions, which are subject to change from period to period due to tax rate changes or variances between our projected operating performance and our actual results. Ultimately, future adjustments to the DTA valuation allowance, if any, will be determined based upon changes in the expected realization of the net deferred tax assets. The realization of the deferred tax assets depends on the existence of sufficient taxable income in either the carry back or carry forward periods under applicable tax law. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we may be required to record a valuation allowance in future reporting periods. Such an adjustment could have a material adverse effect on our results of operation, financial condition and capital position.

We may experience greater risks associated with certain deficiencies recently identified in our BSA Program.

As required by the BSA regulations applicable to insurance companies, we have developed and implemented an anti-money laundering program that includes policies and procedures for complying with applicable BSA program, reporting and recordkeeping requirements and for preventing and detecting potential money laundering and other criminal activity (“BSA Program”). Based on an internal risk assessment and review we began in the first quarter of 2015, we have identified certain deficiencies in our BSA Program, and we are in the process of enhancing our BSA Program with additional controls based on our internal risk assessment.

Risks Relating to Our Capital Stock

If our foreign policyholders reduced or ceased participation in our Stock Investment Plan (the “Plan”) or if a securities regulatory authority were to deem the Plan's operation contrary to securities laws, the volume of Class A common stock purchased on the open market through the Plan, and the price of our Class A common stock, could fall.

More than 98% percent of the shares of Class A common stock purchased under the Plan in 2015 were purchased by foreign holders of life insurance policies (or related brokers); the remaining 2% of the shares of Class A common stock purchased under the Plan in 2015 were purchased by approximately 640 participants resident in the United States. The Plan is registered with the SEC pursuant to a registration statement under the Securities Act of 1933, but is not registered under the laws of any foreign jurisdiction. If a foreign securities regulatory authority were to determine the offer and sale of our Class A common stock under the Plan were contrary to applicable laws and regulations of its jurisdiction, such authority may issue or assert a fine, penalty or cease and desist order against us in that foreign jurisdiction. There is a risk our Class A common stock price could be negatively impacted by a decrease in participation in the Plan. If fewer policyholders elect to participate in the Plan, or our international premium collections were to decrease as a result of regulatory, economic, or marketing impediments, the trading volume of our Class A common stock may decline from its present levels, the demand for our Class A common stock could be negatively impacted and the price of our Class A common stock could fall.

Control of our Company, through the ownership of our Class B Common Stock, may transfer from our Founder to a 501(c)(3) charitable foundation established by our Founder, and we cannot determine whether any change in our management, operations, or operating strategies will occur as a result of such an ownership change.

Harold E. Riley, our Founder and Chairman Emeritus, is the beneficial owner of 100% of our Class B common stock, which is held in the name of the Harold E. Riley Trust ("Trust"), of which he serves as Trustee. Our Class A and Class B common stock are identical in all respects, except the Class B common stock elects a simple majority of the Board and receives one-half of any cash dividends paid, on a per share basis, to the Class A shares. Therefore, Mr. Riley controls our Company. The Class A common stock elects the remainder of the Board. The Trust documents provide that upon Mr. Riley's death, the Class B common stock will be transferred from the Trust to the Harold E. Riley Foundation, a charitable organization established under 501(c)(3) of the Internal Revenue Code (the "Foundation"). The Foundation is organized as a public support charity for the benefit of its charitable beneficiaries, Baylor University and Southwestern Baptist Theological Seminary. The Foundation is governed by 11 trustees, five of which are appointed by its sole member, Harold Riley, three of which are appointed by Baylor University and three of which are appointed by Southwestern Baptist Theological Seminary. The trustees appointed by Harold Riley include himself, Dottie Riley and Rick Riley. In addition, the Trust documents provide that Mr. Riley may at any time transfer the Class B common stock held by the Trust to the Foundation. It is unclear what, if any, changes would occur to our board, management structure, or corporate operating strategies as a result of different ownership of our Class B common stock.

There are a substantial number of our shares of Class A common stock issued to our executive officers, directors and management which are eligible for future sale in the public market. The sale of these shares could cause the market price of our Class A common stock to fall.

There were 49,080,114 shares of our Class A common stock issued and outstanding as of December 31, 2015. Our executive officers, directors and management owned approximately 3,172,927 shares of our Class A common stock as of December 31, 2015, representing approximately 6.5% of our then outstanding Class A common stock. Almost all of these shares have been registered for public resale and generally may be sold freely. In the event of a sale of some or all of these shares or the perceived sale of these shares, the market price of our Class A common stock could fall substantially.

The price of our Class A common stock may be volatile and may be affected by market conditions beyond our control.

Our Class A common stock price has historically fluctuated and is likely to fluctuate in the future and could decline materially because of the volatility of the stock market in general, decreased participation in the Plan referred to above or a variety of other factors, many of which are beyond our control, including: quarterly or annual variations in actual or anticipated results of our operations; interest rate fluctuations; changes in financial estimates by securities analysts; competition and other factors affecting the life insurance business generally; and conditions in the U.S. and world economies.

Our international markets, and the specific manner in which we conduct our business in those jurisdictions, may be subject to negative publicity in social media or other channels, which may negatively impact the market price of our Class A common stock

We interface with and distribute our products to residents of foreign countries that may be subject to the risks disclosed in our Item 1A. Risk Factor under the heading, “The majority of our sales derive from residents of foreign countries and are subject to risks associated with widespread political instability, currency control laws and foreign insurance laws. A significant loss of sales in these foreign markets could have a material adverse effect on our results of operations and financial condition". Venezuela is one such example. Accordingly, from time to time, bloggers or other social media outlets relevant to investors may focus attention on our exposure to these countries and the negative circumstances surrounding their governments, thereby subjecting us to periodic negative publicity. Negative publicity on investor blogs or through other media channels could impact trading in our stock and ultimately cause the market price of our Class A common stock to fall.

Our articles of incorporation and bylaws, as well as applicable state insurance laws, may discourage takeovers and business combinations that our shareholders might consider to be in their best interests.

Our articles of incorporation and bylaws, as well as various state insurance laws, may delay, deter, render more difficult or prevent a takeover attempt our shareholders might consider in their best interests. As a result, our shareholders will be prevented from receiving the benefit from any premium to the market price of our Class A common stock that may be offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging takeover attempts in the future.

The following provisions in our articles of incorporation and bylaws make it difficult for our Class A shareholders to replace or remove our directors and have other anti-takeover effects that may delay, deter or prevent a takeover attempt:

- holders of shares of our Class B common stock elect a simple majority of our board of directors, and all of these shares are owned by the Harold E. Riley Trust; and
- our board of directors may issue one or more series of preferred stock without the approval of our shareholders.

State insurance laws generally require prior approval of a change in control of an insurance company. Generally, such laws provide that control over an insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of the insurer. In considering an application to acquire control of an insurer, an insurance commissioner generally will consider such factors as the experience, competence and financial strength of the proposed acquirer, the integrity of the proposed acquirer's board of directors and executive officers, the proposed acquirer's plans for the management and operation of the insurer, and any anti-competitive results that may arise from the acquisition. In addition, a person seeking to acquire control of an insurance company is required in some states to make filings prior to completing an acquisition if the acquirer and the target insurance company and their affiliates have sufficiently large market shares in particular lines of insurance in those states. These state insurance requirements may delay, deter or prevent our ability to complete an acquisition.

We have never paid any cash dividends on our Class A common stock and do not anticipate doing so in the foreseeable future.

We have never paid cash dividends on our Class A common stock, as it is our policy to retain earnings for use in the operation and expansion of our business. We do not expect to pay cash dividends on our Class A common stock for the foreseeable future.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	The following exhibits are filed herewith:
3.1	Restated and Amended Articles of Incorporation (a)
3.2	Amended and Restated Bylaws dated June 7, 2016 (b)
4.1	Amendment to State Series A-1 and A-2 Senior Convertible Preferred Stock (c)
11	Statement re: Computation of per share earnings (see financial statements)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
101.INS	XBRL Instance Document*

101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

* Filed herewith.
(a) Filed on March 15, 2004 with the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 2003 as Exhibit 3.1, and incorporated herein by reference.
(b) Filed on June 10, 2016 with the Registrants' Current Report on Form 8-K and incorporated herein by reference.
(c) Filed on July 15, 2004, with the Registrant's Current Report on Form 8-K as Exhibit 4.1, and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITIZENS, INC.

By: /s/ Kay E. Osbourn
Kay E. Osbourn
Interim CEO & President

By: /s/ David S. Jorgensen
David S. Jorgensen
Vice President, Chief Financial Officer and Treasurer

Date: August 9, 2016