Primerica, Inc.
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34680

Primerica, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-1204330 (I.R.S. Employer Identification No.)
3120 Breckinridge Boulevard Duluth, Georgia	30099
(Address of principal executive offices)	(ZIP Code)

(770) 381-1000
(Registrant's telephone number, including area code)
(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. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Class	As of August 5, 2011
Common Stock, $.01 Par Value	73,718,177 shares

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.
PRIMERICA, INC. AND SUBSIDIARIES
Condensed Balance Sheets

	June 30, 2011 (unaudited)	December 31, 2010
	(In thousands, except per-share amounts)	
Assets		
Investments:		
Fixed-maturity securities available for sale, at fair value (amortized cost: $1,934,312 in 2011 and $1,929,757 in 2010)	$2,099,236	$2,081,361
Equity securities available for sale, at fair value (cost: $16,605 in 2011 and $17,394 in 2010)	22,786	23,213
Trading securities, at fair value (cost: $36,101 in 2011 and $22,619 in 2010)	35,877	22,767
Policy loans	25,049	26,229
Other invested assets	14	14
Total investments	2,182,962	2,153,584
Cash and cash equivalents	114,051	126,038
Accrued investment income	23,446	22,328
Due from reinsurers	3,795,348	3,731,634
Deferred policy acquisition costs, net	966,094	853,211
Premiums and other receivables	178,917	168,026
Intangible assets	73,629	75,357
Other assets	291,490	307,342
Separate account assets	2,544,429	2,446,786
Total assets	$10,170,366	$9,884,306
Liabilities and Stockholders' Equity		
Liabilities:		
Future policy benefits	$4,532,615	$4,409,183
Unearned premiums	8,102	5,563
Policy claims and other benefits payable	233,964	229,895
Other policyholders' funds	346,136	357,253
Note payable	300,000	300,000
Income taxes	130,283	136,226
Other liabilities	364,533	386,182
Payable under securities lending	163,342	181,726
Separate account liabilities	2,544,429	2,446,786
Total liabilities	8,623,404	8,452,814
Stockholders' equity:		
Common Stock of $.01 par value. Authorized 500,000 in 2011 and 2010 and issued 73,603 shares in 2011 and 72,843 shares in 2010	736	728
Paid-in capital	894,018	883,168
Retained earnings	488,520	395,057
Accumulated other comprehensive income, net of income tax:		
Unrealized foreign currency translation gains	60,316	56,492
Net unrealized investment gains (losses):		

Net unrealized investment gains not other-than-temporarily impaired	105,647	98,322
Net unrealized investment losses other-than-temporarily impaired	(2,275)	(2,275)
Total stockholders' equity	1,546,962	1,431,492
Total liabilities and stockholders' equity	$10,170,366	$9,884,306

See accompanying notes to condensed financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Statements of Income - Unaudited

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010	
	(In thousands, except per-share amounts)				
Revenues:					
Direct premiums	$560,881	$547,455	$1,112,950	$1,085,300	
Ceded premiums	(435,564)	(447,213)	(857,802)	(595,332)	
Net premiums	125,317	100,242	255,148	489,968	
Commissions and fees	108,698	93,226	214,814	184,915	
Net investment income	27,229	27,991	55,855	110,568	
Realized investment gains, including other-than-temporary impairment losses	2,035	374	2,362	31,429	
Other, net	11,816	12,466	23,268	24,359	
Total revenues	275,095	234,299	551,447	841,239	
Benefits and expenses:					
Benefits and claims	57,272	45,124	114,907	215,859	
Amortization of deferred policy acquisition costs	27,385	22,899	52,941	114,655	
Sales commissions	50,163	43,511	100,519	87,393	
Insurance expenses	19,154	10,083	28,706	47,610	
Insurance commissions	4,219	4,233	9,219	10,601	
Interest expense	6,998	6,928	13,995	6,928	
Other operating expenses	41,743	65,183	81,854	101,453	
Total benefits and expenses	206,934	197,961	402,141	584,499	
Income before income taxes	68,161	36,338	149,306	256,740	
Income taxes	24,138	14,330	52,816	91,446	
Net income	$44,023	$22,008	$96,490	$165,294	
Earnings per share:					
Basic	$0.58	$0.29	$1.28	$2.20	(1)
Diluted	$0.58	$0.29	$1.26	$2.18	(1)
Weighted-average shares used in computing earnings per share:					
Basic	73,457	71,844	73,067	71,844	(1)
Diluted	74,201	72,734	74,028	72,734	(1)

(1) Pro forma basis using weighted-average shares, including the shares issued or issuable upon lapse of restrictions following our April 1, 2010 corporate reorganization as though they had been issued and outstanding on January 1, 2010.

Supplemental disclosures:				
Total impairment losses	$(66)	$(1,808)	$(333)	$(12,369)
Impairment losses recognized in other comprehensive income before income taxes	—	553	—	553
Net impairment losses recognized in earnings	(66)	(1,255)	(333)	(11,816)
Other net realized investment gains	2,101	1,629	2,695	43,245
Realized investment gains, including other-than-temporary impairment losses	$2,035	$374	$2,362	$31,429

See accompanying notes to condensed financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Statements of Stockholders' Equity - Unaudited

	Six months ended June 30, 2011	2010
	(In thousands)	
Common stock:		
Balance, beginning of period	$728	$—
Net issuance of common stock	8	727
Balance, end of period	736	727
Paid-in capital:		
Balance, beginning of period	883,168	1,124,096
Share-based compensation	12,136	33,406
Net issuance of common stock	(8)	(727)
Net capital contributed (to) from Citi	(1,278)	172,806
Issuance of warrants to Citi	—	18,464
Issuance of note payable to Citi	—	(300,000)
Tax election under Section 338(h)(10) of the Internal Revenue Code	—	(177,339)
Balance, end of period	894,018	870,706
Retained earnings:		
Balance, beginning of period	395,057	3,648,801
Net income	96,490	165,294
Dividends to stockholders ($0.04 per share in 2011)	(3,027)	—
Distributions of warrants to Citi	—	(18,464)
Distributions to Citi	—	(3,491,556)
Balance, end of period	488,520	304,075
Accumulated other comprehensive income:		
Balance, beginning of period	152,539	170,876
Change in foreign currency translation adjustment, net of income tax expense of $0 in 2011 and $4,630 in 2010	3,824	7,396
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of $2,825 in 2011 and $(26,418) in 2010	7,325	(48,601)
Change in net unrealized investment gains (losses) other-than-temporarily impaired, net of income tax expense of $0 in 2011 and $6,686 in 2010	—	12,417
Balance, end of period	163,688	142,088
Total stockholders' equity	$1,546,962	$1,317,596

See accompanying notes to condensed financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Statements of Comprehensive Income - Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	$44,023	$22,008	$96,490	$165,294
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized gains on investment securities	16,081	20,849	12,443	107,869
Reclassification adjustment for realized investment gains included in net income	(2,073)	(787)	(2,293)	(31,097)
Reclassification adjustment for unrealized gains on investment securities transferred	—	—	—	(132,688)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains	1,094	(4,792)	3,824	12,027
Total other comprehensive income (loss) before income taxes	15,102	15,270	13,974	(43,889)
Income tax expense (benefit) related to items of other comprehensive income (loss)	4,903	7,280	2,825	(15,101)
Other comprehensive income (loss), net of income taxes	10,199	7,990	11,149	(28,788)
Total comprehensive income	$54,222	$29,998	$107,639	$136,506

See accompanying notes to condensed financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES
Condensed Statements of Cash Flows - Unaudited

	Six months ended June 30, 2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$96,490	$165,294
Adjustments to reconcile net income to cash provided by operating activities:		
Change in future policy benefits and other policy benefits	35,579	56,019
Deferral of policy acquisition costs	(153,670)	(159,406)
Amortization of deferred policy acquisition costs	52,941	114,655
Change in income taxes	(7,030)	(12,556)
Realized investment gains, including other-than-temporary impairments	(2,362)	(31,429)
Accretion and amortization of investments	(1,910)	(1,254)
Loss (income) recognized on equity method investments	395	(188)
Depreciation and amortization	5,265	4,814
Change in due from reinsurers	17,795	3,552
Change in due to/from affiliates	—	(44,012)
Change in premiums and other receivables	(11,575)	(27,564)
Trading securities (acquired) sold, net	(13,505)	2,905
Share-based compensation	3,598	27,139
Other, net	(32,261)	(38,761)
Net cash (used in) provided by operating activities	(10,250)	59,208
Cash flows from investing activities:		
Available-for sale investments sold, matured or called:		
Fixed-maturity securities - sold	36,635	931,831
Fixed-maturity securities - matured or called	230,947	313,230
Equity securities	3,026	33,955
Available-for-sale investments acquired:		
Fixed-maturity securities	(267,793)	(452,450)
Equity securities	(73)	(3,887)
Net decrease in policy loans	1,180	2,082
Purchases of furniture and equipment, net	(1,262)	(3,991)
Cash collateral returned on loaned securities, net	(18,384)	(349,045)
Sales of short-term investments using securities lending collateral, net	18,384	349,045
Net cash provided by investing activities	2,660	820,770
Cash flows from financing activities:		
Dividends to stockholders	(3,027)	—
Net distributions to Citi	—	(1,288,391)
Net cash used in financing activities	(3,027)	(1,288,391)
Effect of foreign exchange rate changes on cash	(1,370)	16,397
Decrease in cash and cash equivalents	(11,987)	(392,016)
Cash and cash equivalents, beginning of period	126,038	602,522
Cash and cash equivalents, end of period	$114,051	$210,506
Supplemental disclosures of cash flow information:		
Income taxes paid	$60,925	$190,822
Interest paid	13,316	2,278
Impairment losses included in realized investment gains	333	11,816

Non-cash activities:		
Share-based compensation	$16,244	$33,406
Net distributions to Citi	1,278	(2,030,359)

See accompanying notes to condensed financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Financial Statements—Unaudited

(1) Summary of Significant Accounting Policies

Description of Business. Primerica, Inc. (the Parent Company) together with its subsidiaries (collectively, we or the Company) is a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. Our primary subsidiaries include the following entities: Primerica Financial Services, Inc., a general agency and marketing company; Primerica Life Insurance Company (Primerica Life), our principal life insurance company; Primerica Financial Services (Canada) Ltd., a holding company for our Canadian operations, which includes Primerica Life Insurance Company of Canada (Primerica Life Canada); and PFS Investments, Inc., an investment products company and broker-dealer. Primerica Life, domiciled in Massachusetts, owns National Benefit Life Insurance Company (NBLIC), a New York life insurance company. Each of these entities was indirectly wholly owned by Citigroup Inc. (together with its non-Primerica affiliates, Citi) through March 31, 2010.

On March 31, 2010, Primerica Life, Primerica Life Canada and NBLIC entered into significant coinsurance transactions with Prime Reinsurance Company, Inc. (Prime Re) and two affiliates of Citi (collectively, the Citi reinsurers). In April 2010, Citi transferred the legal entities that comprise our business to us and we completed a series of transactions including the distribution of Prime Re to Citi and an initial public offering of our common stock by Citi pursuant to the Securities Act of 1933 (the Offering).

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

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

The accompanying unaudited condensed consolidated and combined financial statements include the accounts of the Company and those entities required to be consolidated or combined under applicable accounting standards. All material intercompany profits, transactions, and balances among the consolidated or combined entities have been eliminated. Financial statements for dates subsequent to or periods beginning after March 31, 2010 have been consolidated while financial statements for periods ended before April 1, 2010 have been combined. These financial statements include those assets, liabilities, revenues, and expenses directly attributable to the Company's operations.

The accompanying unaudited condensed consolidated and combined financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of June 30, 2011 and December 31, 2010, and the statements of income and comprehensive income for the three and six months ended June 30, 2011 and 2010, and the statements of stockholders' equity and cash flows for the six months ended June 30, 2011 and 2010. Results of operations for interim periods are not necessarily indicative of results for the entire year and, due to the transactions effected in connection with the Offering, are not necessarily indicative of the results to be expected in future periods.

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

December 31, 2010 (the 2010 Annual Report).
Reclassifications. Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications. These reclassifications had no impact on net income or total stockholders’ equity.

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Significant Accounting Policies. All significant accounting policies remain unchanged from the 2010 Annual Report.

Future Application of Accounting Principles

Accounting for Deferred Policy Acquisition Costs. In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26). The update creates a more limited definition than the current guidance, which defines deferred policy acquisition costs as those that vary with, and primarily relate to, the acquisition of insurance contracts. Under the revised definition, deferred acquisition costs will include incremental direct costs of contract acquisitions that result directly from and are essential to the contract transaction(s) and would not have been incurred had the contract transaction(s) not occurred. All other acquisition-related costs — including costs for soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development — will be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and will be charged to expense as incurred. The revised definition will increase the portion of acquisition costs being expensed as incurred rather than deferred and amortized over the lives of the underlying policies. The update allows either prospective or retrospective adoption and is required to be adopted for our fiscal year beginning January 1, 2012. While we have not yet determined the method of adoption and are currently unable to quantify the impact of implementation, we expect that this update may have a material adverse effect on our results of operations, as we will be required to accelerate the recognition of certain expenses associated with acquiring life insurance business. The update will have no impact on cash flows or required capital. The update will only impact the timing of expense recognition for certain acquisition costs.

For additional information on new accounting pronouncements and their impact, if any, on our financial position or results of operations, see Note 1 of the notes to the consolidated and combined financial statements in our 2010 Annual Report.

(2) Corporate Reorganization

We were incorporated in Delaware in 2009 by Citi to serve as a holding company for the life insurance and financial product distribution businesses that we have operated for more than 30 years. At such time, we issued 100 shares of common stock to Citi. These businesses, which prior to April 1, 2010 were wholly owned indirect subsidiaries of Citi, were transferred to us on April 1, 2010. In conjunction with our reorganization, we issued to a wholly owned subsidiary of Citi (i) 74,999,900 shares of our common stock (of which 24,564,000 shares of common stock were subsequently sold by Citi in the initial public offering (the Offering) completed in April 2010; 16,412,440 shares of common stock were subsequently sold by Citi in April 2010 to certain private equity funds managed by Warburg Pincus LLC (Warburg Pincus) (the private sale); and 5,021,412 shares of common stock were immediately contributed back to us for equity awards granted to our employees and sales force leaders in connection with the Offering), (ii) warrants to purchase from us an aggregate of 4,103,110 shares of our common stock (which were subsequently transferred by Citi to Warburg Pincus pursuant to the private sale), and (iii) a $300.0 million note payable due on March 31, 2015 bearing interest at an annual rate of 5.5% (the Citi note). Prior to our corporate reorganization, we had no material assets or liabilities. Upon completion of the corporate reorganization, we became a holding company with our primary asset being the capital stock of our operating subsidiaries and our primary liability being the Citi note.

Reinsurance Transactions

As part of the corporate reorganization and prior to completion of the Offering, we formed a new subsidiary, Prime Re, to which we made an initial capital contribution. On March 31, 2010, we entered into a series of coinsurance agreements with the Citi reinsurers. Under these agreements, we ceded between 80% and 90% of the risks and rewards of our term life insurance policies in force at year-end 2009. Because these agreements were part of a business reorganization among entities under common control, they did not generate any deferred gain or loss upon their execution. Concurrent with signing these agreements, we transferred the corresponding account balances in respect of the coinsured policies along with the assets to support the statutory liabilities assumed by the Citi reinsurers. On April 1, 2010, as part of our corporate reorganization, we transferred all of the issued and outstanding capital stock of Prime Re to Citi. Each of the transferred account balances, including the invested assets and the distribution of Prime Re, were transferred at book value with no gain or loss recorded in net income.

Three of the Citi coinsurance agreements satisfy GAAP risk transfer rules. Under these agreements, we ceded between 80% and 90% of our term life future policy benefit reserves, and we transferred a corresponding amount of assets to the Citi reinsurers. These transactions did not impact our future policy benefit reserves. As such, we have recorded an asset for the same amount of risk transferred in due from reinsurers. We also reduced DAC by a

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corresponding amount, which reduces future amortization expenses. In addition, we are transferring between 80% and 90% of all future premiums and benefits and claims associated with these policies to the corresponding reinsurance entities. We receive ongoing ceding allowances, which are reflected as a reduction to insurance expenses, to cover policy and claims administration expenses as well as certain corporate overhead charges under each of these reinsurance contracts.

A fourth coinsurance agreement relates to a 10% reinsurance transaction that includes an experience refund provision. This agreement does not satisfy GAAP risk transfer rules. As a result, we have accounted for this contract using deposit method accounting and have recognized a deposit asset in other assets on our balance sheet for assets backing the economic reserves. The deposit assets held in support of this agreement were $51.8 million at June 30, 2011, with no associated liability. We make contributions to the deposit asset during the life of the agreement to fulfill our responsibility of funding the economic reserve. The market return on these deposit assets is reflected in net investment income during the life of the agreement. Prime Re is responsible for ensuring that there are sufficient assets to meet all statutory requirements. We pay Prime Re a 3% finance charge for any statutory reserves required above the economic reserves. This finance charge is reflected in interest expense in our statements of income.

The net impact of these transactions was reflected as an increase in paid-in capital. Because the agreements were executed on March 31, 2010, but transferred the economic impact of the agreements retroactive to January 1, 2010, we recognized the earnings attributable to the underlying policies through March 31, 2010 in our statement of income. The corresponding impact on retained earnings was equally offset by a return of capital to Citi.

Tax Separation Agreement

During the first quarter of 2010, our federal income tax return was included as part of Citi's consolidated federal income tax return. In March 2010, in anticipation of our corporate reorganization, we entered into a tax separation agreement with Citi. In accordance with the tax separation agreement, Citi is responsible for and shall indemnify and hold the Company harmless from and against any consolidated, combined, affiliated, unitary or similar federal, state or local income tax liability with respect to the Company for any taxable period ending on or before April 2010. After the closing date of the Offering, the Company was no longer part of Citi's consolidated federal income tax return.

(3) Segment Information

We have two primary operating segments — Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment. Information regarding assets by segment follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Assets:		
Term life insurance segment	$5,975,952	$5,738,219
Investment and savings products segment	2,740,455	2,615,916
Corporate and other distributed products segment	1,453,959	1,530,171
Total assets	$10,170,366	$9,884,306

The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, Investment and Savings Product segment assets were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Investment and savings products segment assets, excluding separate accounts	$197,219	$170,326

Although we do not view our business in terms of geographic segmentation, details on our Canadian businesses' percentage of total assets were as follows:

	June 30, 2011	December 31, 2010
Canadian assets as a percent of total assets	32%	31%
Canadian assets as a percent of total assets, excluding separate accounts	9%	9%

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Information regarding operations by segment follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Revenues:				
Term life insurance	$131,641	$108,389	$268,603	$555,567
Investment and savings products	104,586	88,218	205,432	174,911
Corporate and other distributed products	38,868	37,692	77,412	110,761
Total revenues	$275,095	$234,299	$551,447	$841,239
Income (loss) before income taxes:				
Term life insurance	$45,781	$44,095	$103,429	$204,462
Investment and savings products	30,470	26,735	61,509	52,182
Corporate and other distributed products	(8,090)	(34,492)	(15,632)	96
Total income before income taxes	$68,161	$36,338	$149,306	$256,740

The increase in total revenues for the three months ended June 30, 2011 largely reflects the growth in our Term Life Insurance segment following the Citi reinsurance transactions and strong performance in our Investment and Savings product segment. The decline in total revenues and total income before income taxes for the six months ended June 30, 2011 primarily reflects the effects of the reinsurance and reorganization transactions on the Term Life Insurance and Corporate and Other Distributed Products segments as discussed in Note 2.

Information regarding operations by country follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Revenues by country:				
United States	$222,909	$192,048	$445,312	$704,046
Canada	52,186	42,251	106,135	137,193
Total revenues	$275,095	$234,299	$551,447	$841,239
Income before income taxes by country:				
United States	$51,377	$23,482	$115,477	$203,851
Canada	16,784	12,856	33,829	52,889
Total income before income taxes	$68,161	$36,338	$149,306	$256,740

Details on the contribution to results of operations by our Canadian businesses were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Canadian revenues as a percent of total revenues	19%	18%	19%	16%
Canadian income before income taxes as a percent of total income before income taxes	25%	35%	23%	21%

For the six months ended June 30, 2010, total revenues reflected three months of operations prior to the Citi reinsurance and reorganization transactions, a substantial portion of which were recognized by our U.S. operations. As a result, Canadian revenues accounted for a smaller percentage of total revenues in the first half of 2010 than in periods following the Citi reinsurance and reorganization transactions. Canadian income before income taxes as a percent of total income before income taxes for the three months ended June 30, 2010 was driven higher, largely as a result of the IPO-related equity award expenses recognized by our U.S. operations.

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(4) Investments

The period-end cost or amortized cost, gross unrealized gains and losses, and fair value of fixed-maturity and equity securities follow:

	June 30, 2011			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available for sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$16,549	$741	$—	$17,290
Foreign government	84,839	15,908	—	100,747
States and political subdivisions	27,273	1,484	(43)	28,714
Corporates (1)	1,316,504	119,747	(2,293)	1,433,958
Mortgage- and asset-backed securities	489,147	31,875	(2,495)	518,527
Total fixed-maturity securities	1,934,312	169,755	(4,831)	2,099,236
Equity securities	16,605	6,354	(173)	22,786
Total fixed-maturity and equity securities	$1,950,917	$176,109	$(5,004)	$2,122,022

(1) Includes $3.5 million of other-than-temporary impairment losses recognized in AOCI.

	December 31, 2010			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available for sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$21,596	$667	$(61)	$22,202
Foreign government	81,367	13,182	(8)	94,541
States and political subdivisions	26,758	754	(293)	27,219
Corporates (1)	1,276,906	112,821	(3,806)	1,385,921
Mortgage- and asset-backed securities	523,130	31,366	(3,018)	551,478
Total fixed-maturity securities	1,929,757	158,790	(7,186)	2,081,361
Equity securities	17,394	5,826	(7)	23,213
Total fixed-maturity and equity securities	$1,947,151	$164,616	$(7,193)	$2,104,574

(1) Includes $3.5 million of other-than-temporary impairment losses recognized in AOCI.

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

As required by law, the Company has investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Fair value of investments on deposit with governmental authorities	$19,069	$18,984

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We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our balance sheet. We also accept collateral in the form of cash, all of which we reinvest. We primarily invest the cash collateral in short-term, highly rated securities. The cash collateral received is reflected as a payable under securities lending on our balance sheet with an offsetting asset in other assets on our balance sheet. Cash collateral received and reinvested was as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Securities lending collateral	$163,342	$181,726

We also maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying value of these securities was as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Fixed-maturity securities classified as trading, carried at fair value	$35,877	$22,767

Investments in fixed-maturity and equity securities with a cost basis in excess of their fair values were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Fixed-maturity and equity security investments with cost basis in excess of fair value	$172,899	$258,947

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

	June 30, 2011					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$—	$—	—	$—	$—	—
Foreign government	—	—	—	—	—	—
States and political subdivisions	2,697	(43)	9	—	—	—
Corporates	101,536	(2,009)	71	3,022	(284)	4
Mortgage- and asset-backed securities	26,017	(270)	24	32,131	(2,225)	19
Total fixed-maturity securities	130,250	(2,322)		35,153	(2,509)	
Equity securities	2,459	(169)	9	33	(4)	2
Total fixed-maturity and equity securities	$132,709	$(2,491)		$35,186	$(2,513)	

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	December 31, 2010					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$6,350	$(61)	2	$—	$—	—
Foreign government	2,478	(8)	1	—	—	—
States and political subdivisions	11,015	(293)	29	—	—	—
Corporates	151,291	(2,961)	104	12,690	(845)	14
Mortgage- and asset-backed securities	30,685	(365)	25	37,215	(2,653)	20
Total fixed-maturity securities	201,819	(3,688)		49,905	(3,498)	
Equity securities	—	—	—	30	(7)	2
Total fixed-maturity and equity securities	$201,819	$(3,688)		$49,935	$(3,505)	

The scheduled maturity distribution of the available-for-sale fixed-maturity portfolio at June 30, 2011 follows.

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$145,907	$150,219
Due after one year through five years	669,225	728,661
Due after five years through 10 years	578,110	643,034
Due after 10 years	51,923	58,795
	1,445,165	1,580,709
Mortgage- and asset-backed securities	489,147	518,527
Total fixed-maturity securities	$1,934,312	$2,099,236

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

The net effect on stockholders' equity of unrealized gains and losses from investment securities was as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Net unrealized investment gains including foreign currency translation adjustment and other-than-temporary impairments	$171,105	$157,423
Less foreign currency translation adjustment	(12,073)	(8,541)
Other-than-temporary impairments	3,500	3,500
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	162,532	152,382
Less deferred income taxes	56,885	54,060
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax	$105,647	$98,322

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Investment Income

The components of net investment income were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Fixed-maturity securities	$27,462	$27,796	$56,474	$111,610
Equity securities	165	164	353	1,403
Policy loans and other invested assets	320	396	648	714
Cash and cash equivalents	65	85	135	386
Market return on deposit asset underlying 10% reinsurance agreement	650	1,551	1,159	1,551
Gross investment income	28,662	29,992	58,769	115,664
Investment expenses	1,433	2,001	2,914	5,096
Net investment income	$27,229	$27,991	$55,855	$110,568

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Gross realized investment gains (losses):				
Gains from sales	$2,145	$2,079	$2,957	$44,826
Losses from sales	(6)	(37)	(331)	(1,913)
Other-than-temporary impairments	(66)	(1,255)	(333)	(11,816)
Gains from derivatives	(38)	(413)	69	332
Net realized investment gains	$2,035	$374	$2,362	$31,429
Gross realized investment gains reclassified from accumulated other comprehensive income	$2,073	$787	$2,293	$31,097
Proceeds from sales or other redemptions	$106,848	$152,887	$270,608	$1,279,016

Other-Than-Temporary Impairment

We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment (OTTI). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity.

Our review for other-than-temporary impairment generally entails:

- Analysis of individual investments that have fair values less than a pre-defined percentage of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position;
- Analysis of corporate fixed-maturity securities by reviewing the issuer’s most recent performance to date, including analyst reviews, analyst outlooks and rating agency information;
- Analysis of commercial mortgage-backed securities based on the risk assessment of each security including performance to date, credit enhancement, risk analytics and outlook, underlying collateral, loss projections, rating agency information and available third-party reviews and analytics;
- Analysis of residential mortgage-backed securities based on loss projections provided by models compared to current credit enhancement levels;
- Analysis of our other fixed-maturity and equity security investments, as required based on the type of

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