Torchmark Corporation

1st QUARTER 2010 CONFERENCE CALL

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Corporation Participants

Mark McAndrew, Chairman and CEO

Gary L. Coleman, EVP and CFO

Larry Hutchison, EVP & General Counsel

Mike Majors, VP of Investor Relations

Mark McAndrew: Thank you. Good morning everyone. Joining me this morning is Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; and Mike Majors, Vice President of Investor Relations.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2009 10-K and any subsequent forms 10-Q on file with the SEC.

Net operating income for the first quarter was $127 million or $1.52 per share – a per share increase of 2% from a year ago. Net income was $122 million or $1.46 per share versus $.91 a year ago.

Excluding FAS 115, our return on equity was 13.6% and our book value per share was $45.37 – a 12% increase from a year ago. On a GAAP reported basis, with fixed maturity investments carried at market value, book value was $44.13 per share.

In our life insurance operations, premium revenue grew 4% to $430 million and life underwriting margins increased 5% to $116 million. Life net sales were $85 million, up 9% from a year ago.

At American Income, life premiums were up 10% to $135 million and life underwriting margin was up 9% to $44 million. Net life sales at American Income increased 25% to $34 million. Producing agents at American Income grew to 4,201, up 20% from a year ago.

It was another outstanding quarter at American Income. During the quarter, we began implementation of a needs-based sales presentation via a lap-top computer. The initial results have been very encouraging. We will continue to expand introduction of this new sales process over the next 3 quarters and we project sales growth at American Income to be in the 15% – 20% range for the full year.

In our Direct Response operation at Globe Life, life premiums were up 6% to $144 million and life underwriting margin grew 15% to $38 million. Net life sales were better than anticipated – up 8% to $37 million.

As a percentage of life premium, life underwriting margin was 26% for the quarter – up from 24% a year ago. We expect this favorable trend to continue for the balance of 2010. We also expect to see improved sales growth in the 10% – 15% range for the next three quarters as a result of successful tests conducted in the second half of last year.

Life premiums at Liberty National declined 1% to $74 million and life underwriting margin was down 17% to $14 million. Net life sales for the Liberty National offices declined 29% to $9 million and the producing agent count was down to 1,535 – 12% less than at year-end.

The agent count at Liberty has been basically flat since the end of January and net sales have also stabilized. Sales should improve over first quarter levels going forward although we now expect a small decline for the full year 2010.

On the health side, premium revenue, excluding Part D, declined 10% to $203 million and health underwriting margin was down 13% to $35.5 million. Health net sales increased 17% from a year ago to $17 million.

Health care reform legislation will have an impact on some of our product portfolio. The effected products contributed $1.8 million of net sales in the first quarter and represented $109 million of in-force premium at quarter-end. New sales of these products will be discontinued prior to September of this year, but we don't believe there will be an impact on our rapidly declining in-force block before 2014, which would make the impact immaterial.

Premium revenue from Medicare Part D was $52 million for the quarter – a 14% increase, while underwriting margin was flat at $5 million. Part D sales for the quarter grew 64% to $17 million.

Underwriting margin from our annuity business was $140,000 during the first quarter versus a $4.1 million loss a year ago.

Administrative expenses were $38 million, down 4% from a year ago. For the full year, we currently project administrative expenses to increase by 1%.

I will now turn the call over to Gary Coleman, our Chief Financial Officer, for his comments.

Gary Coleman: Thanks, Mark.

I want to spend a few minutes discussing our investment portfolio, and capital and liquidity.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of March 31, 2010.

As indicated on these schedules, invested assets are $11.4 billion, including $10.6 billion of fixed maturities at amortized cost. Combined, RMBS and mortgage loans are $36 million, and we have no CMBS exposure.

Of the fixed maturities, $9.7 billion are investment grade with an average rating of A-. Below investment grade bonds are $891 million, 8.4% of fixed maturities, compared to $824 million at 12/31/09 and $1.3 billion a year ago. The $67 million increase from the fourth quarter is due primarily to downgrades of certain trust preferred securities.

We expect that the percentage of below investment grade bonds at 8.4% is still high relative to our peers. However, due to our significantly lower portfolio leverage, the percentage of below investment grade bonds to equity, excluding FAS 115, is 24%, which is likely less than the peer average. Overall, the total portfolio is rated BBB+, the same as a year ago.

During the quarter, we recognized an Other Than Temporary Impairment of $1.7 million pre-tax, or $1.1 million after-tax. In addition, we recognized $6 million of after tax net gains on asset dispositions. Thus, for the quarter we had net realized capital gains of $5 million, after tax.

Net unrealized losses in the fixed maturity portfolio were $173 million compared to $456 million at year end '09 and $2.2 billion a year ago. The decrease in the first quarter is due primarily to credit spreads declining more than treasury rates increased.

Now, regarding asset types within our portfolio.

74% of the fixed maturity portfolio is in corporate bonds and another 13% is in redeemable preferred stocks. All of the $1.4 billion of redeemable preferreds have a stated maturity date and other characteristics that make them more like debt securities. And to date, all scheduled interest payments have been received. None of these securities are perpetual preferreds.

Municipal bonds comprise 11% of the portfolio compared to 3% a year ago. Since the second quarter of 2009, we have purchased $878 million of Build America Bonds. These are taxable debt securities issued by state and local governments who receive a Federal subsidy equal to 35% of their required interest payments. Our Build America Bonds are rated AA and have an average yield of 6.4%. Due to concentration considerations, we do not expect to make significant investments in Build America Bonds in the remainder of 2010.

The remaining 2% of the portfolio consists primarily of government related securities. Our CDO exposure is down to $54 million in two securities where the underlying collateral is bank and insurance company trust preferred securities.

Now, to conclude the discussion on investments, I will cover the investment yield.

We ended the fourth quarter of 2009 with excess cash due primarily to the portfolio repositioning undertaken late in the third quarter to reduce the amount of our below investment grade bonds. Entering the year, we had approximately $590 million in cash and short-term investments.

In the first quarter, we invested $676 million in investment grade fixed maturities, primarily in the industrial, municipal and utilities sectors. We invested at an average annual effective yield of 6%, an average rating of A- and an average life of 23 – 26 years. For the entire portfolio, the first quarter yield was 6.79% compared to the 6.86% yield earned in the previous quarter and the 6.97% earned in the first quarter of 2009. The decline in yield is due primarily to the previously mentioned portfolio repositioning and to the lower new money yield. As of March 31st, the yield on the portfolio is now 6.76%.

We ended the quarter with $372 million of cash and short term investments; $178 million in the insurance companies, and $194 million in the parent company.

Regarding our RBC.

In the past, we maintained our RBC ratio at the 300%+ level. This ratio is lower than some of our peer companies, but has been sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities, and the level of our ratings.

At year end 2009, the RBC ratio was 355%, as adjusted capital of $1.5 billion divided by the required capital of $416 million. Adjusted capital included approximately $70 million of additional deferred tax assets allowed under a 2009 change in regulatory accounting rules. As reported, adjusted capital was approximately $225 milllion in excess of that required for the targeted 300% ratio. Excluding the additional tax benefits, the excess capital was $155 million at 12/31/09.

In addition, assuming no impairments or downgrades in the next three quarters, we estimate that excess capital will increase by about $90 million during 2010 because statutory income will exceed dividends paid to the parent company. As such, excluding the $70 million of deferred tax benefits, excess capital at the insurance company level would grow to $245 million by the end of the year. Although we expect some level of impairments and downgrades over the next three quarters, $245 million of excess capital should be more than sufficient to absorb them.

Now, looking at our liquidity.

The available cash at the parent consists of cash on hand and the expected free cash flow from operations. Free cash flow results from the dividends received by the parent from the subsidiaries less the dividends paid to Torchmark shareholders and the interest paid on the debt.

The parent began the year with cash and short-term investments of $155 million. We expect that the parent's free cash flow from operations to be around $280 million for the full year of 2010. $84 million of that free cash was generated in the first quarter. Of that amount, we used $33 million to reduce commercial paper and $12 million to repurchase 220,000 Torchmark shares. The remaining $39 million was invested short term. Thus, at March 31st, the parent had $194 million of cash and short term investments. In addition, we expect free cash flow from operations will provide approximately $195 million of additional cash over the next three quarters.

So, in summary, regarding our liquidity and capital:

1. We expect to have more than enough excess capital at the insurance companies to handle the impact of downgrades and impairments. In fact, excess capital levels at the insurance companies in 2010 would be more than sufficient to absorb even the extraordinary level of impairments and downgrades we experienced in 2009. As such, we don't expect to have to contribute capital from the parent company down to the insurance companies as we did last year.

2. And second, we currently have $194 million in cash and invested assets at the parent company and currently expect to maintain liquid assets at the parent around that level for the remainder of 2010.

3. And finally, as mentioned, we expect the parent company to generate $195 million of additional free cash flow over the next three quarters. We will use this cash as efficiently as possible. If market conditions are favorable, we expect that share repurchases will be one of the uses of that excess cash.

Those are my comments. I will now turn it back to Mark.

<u>Mark McAndrew</u>: Thank you, Gary.

We currently estimate earnings per share for 2010 will be in the $6.10 to $6.20 range, assuming no additional share repurchases. We have not included repurchases in our guidance due to the uncertainty surrounding the timing and volume of shares acquired.

Those are my comments for this morning. I will now open it up for questions.

<u>Randy Binner, FBR Capital Markets:</u> Good morning. Thank you, everyone.

I apologize. I just had to hop off the call for a second. Was it 360% RBC, Gary? Is that correct?

<u>Gary Coleman:</u> Yes. We were slightly lower than that the first quarter due to some timing of our dividends and income, but we'll be at that in the second quarter.

<u>Randy Binner:</u> Okay. So it kind of rebounds back to 360 by the end of 2Q?

<u>Gary Coleman:</u> Right.

Randy Binner: With the timing of the subsidiary stuff. And then on the parent cash if I heard that right – 194 million, is that correct?

Gary Coleman: Yes, that's what we had on hand at March 31st.

Randy Binner: Okay. And that was targeted to what by the end of the year?

Mark McAndrew: Well, another $195 million.

Gary Coleman: Right. We'll have another $195 million of free cash that will be generated over the next three quarters.

Randy Binner: Okay. So those two numbers are similar.

Gary Coleman: Yes.

Randy Binner: Okay. Got it. And then this is probably for Mark. You know, back to Liberty National. Obviously sales were, you know, weaker there as you acknowledged in the opening comments, but you do have confidence that that can kind of net out to a small decline for the full year which means that it's kind of got to turn the corner pretty quick. So I just would like to kind get more color on how Liberty National turns the corner from what we saw in the last two quarters.

Mark McAndrew: Well again, if I look at the trends, the agent count decline that we saw in the first quarter occurred in January. Really since the end of January through today the agent count is down less than 1%. So it's basically stable. And if I look at the trends of business being submitted and issued at Liberty, it is trending upwards. It's still, you know, got a ways to go. We do have some changes that we intend to make here this summer which we think will add to it, but again we're not projecting huge increases there. Really, by the time we get to the fourth quarter we have a little easier comparison. So I'm saying that I expect sales -- I think the first quarter level of sales and agent count will be the low point for the year and we will see upward trends from there. But realistically it will probably be fourth quarter before we actually see growth in our sales versus a year ago just because of the easier comparison, but right now we're still expecting, you know, somewhere in the 1% to 3% decline in sales at Liberty for the year.

Randy Binner: Okay, great. Just one more clarification. In your opening comments the 10% to 15% sales growth outlook – that was at Globe, right, the direct channel?

Mark McAndrew: Yes.

Randy Binner: Okay, excellent. Thank you very much.

Jimmy Bhullar, J. P. Morgan: Thanks. I had a question on just your outlook for health insurance sales. You're down 17% in the first quarter. The agent count at United American seems like it's declining even more so, and then you mentioned the modest impact from healthcare reform as well. So would you as you go through 2010, would you expect your sales to get better through the year or should we expect a similar rate through the rest of the year?

Mark McAndrew: We expect our health sales to improve as the year goes on, although our guidance right now expects second quarter sales to be at roughly the first quarter level and starting to see some improvement in the third quarter. Again by first of June we expect to introduce a new Medicare supplement plan as well as have the repricing of our existing plan out there. Although we're expecting relatively modest growth in the third quarter with better growth in the fourth assuming some -- one, our group sales are always better in the fourth quarter as well as we expect to see some benefit from the disenrollees from Medicare Advantage plans.

Jimmy Bhullar: And then secondly on just your share buybacks. If I look from 2005 through 2008 you're buying anywhere from $300 million to close to $400 million worth of shares each year. From here on out given where your RBC is, how should we think about how much you can do in terms of buybacks later this year or into next year as well?

Mark McAndrew: You know, it's something that, again, there's some uncertainty there. Right now our current thinking is that $194 million of free cash as Gary said is probably about the level of liquid assets we're going to hold at the parent just to provide some cushion. We still expect to see another $195 million of excess cash come into the parent during the next three quarters based upon our current plan. We would expect to spend most of that probably on share repurchase, barring an acquisition or some other better use for the money, whereas next year I think we may still well hold that cushion, but I think --

Jimmy Bhullar: And incremental cash would be used for buyback?

Mark McAndrew: Well, again, barring a better use for it, Jimmy. That can change. That's just today that is --

Jimmy Bhullar: And the better use would just be buying a block of business or an acquisition opportunity if one arises. Right?

Mark McAndrew: I would prefer to make an acquisition versus just buy a closed block of business.

Jimmy Bhullar: Is the environment getting better now or have you identified anything, or is that something you've identified that you are looking at or are you just expecting things to improve?

Mark McAndrew: I can say we are always looking, Jimmy, but that's about all I can say on that.

Jimmy Bhullar: Okay. Thank you.

Jefff Schuman, Keefe Bruyette & Woods: Thanks. A couple of items. The annuity earnings, I think, were a bit lower than we normally would have expected in a decent equity market quarter. Is this kind of a new run rate or was that depressed a little bit this quarter?

Mark McAndrew: Gary, you want to answer that? We are at a little bit of a loss. Normally, as you noticed, we usually have Rosemary Montgomery, our Chief Actuary, but Rosemary has elected to take retirement. So I don't have those numbers in front of me. I don't know. Gary, do you?

Gary Coleman: Yes, Jeff, I don't know of anything that's really unusual in the quarter. If you compare sequentially, we had some unlocking in the fourth quarter last year that we benefited from, but other than that I don't know there's anything unusual in this quarter.

Mark McAndrew: Okay. I can say that, you know, when we look at our guidance for the balance of the year, we're expecting pretty small -- really actually under $100,000 a quarter of annuity margins.

Jeff Schuman: Less than $100,000. Okay.

Mark McAndrew: Yes.

Jeff Schuman: Okay. That's helpful.

Next, the American Income sales looking for 15% to 20% growth for the full year. To what extent is that -- do you expect that would be driven by higher agent count versus productivity? I know you did mention that there's some kind of new needs-based sales process that you sounded positive about. Is that part of the growth driver there or was it mostly just agent count?

Mark McAndrew: It's primarily growth in agents. Again, you know, I think you'll notice that our -- in fact, I think somebody brought up that our first year agent count at American Income declined slightly in the quarter. That I am not concerned with. In fact, in retrospect there was a big push put on in December at American Income to break the 4,000 agent mark. And as a result, we saw an increase in our terminations in January and February. But recruiting is still running at record levels and the terminations came back to normal levels in March. So we fully expect to see that type of continued growth in our agent count. We're not adding in much at this point for changes with the laptop sales presentation.

Jeff Schuman: Okay. I think that will do it. Thanks a lot.

Ed Spehar: Merrill Lynch: Thank you. Good morning. Gary, Mark, I have a question on capital. If we look at the numbers you gave us and we think about I guess how you used to look at funds available for share repurchase, would it be correct to add the $245 million of excess at the sub plus the $194 in cash at the end of March, plus the $195 of free cash over the next three quarters?

Mark McAndrew: Well, Ed, we never really use the -- again, the excess capital at the insurance companies is not going to be available for share repurchase. And as we said, just taking what we think is a cautious approach, what we believe that the insurance companies are all very well capitalized and have more than enough capital to cover most any contingency. We do intend to hold some liquid assets at the parent company for the time being.

Ed Spehar: Okay. So then sort of a related question would be -- if we are thinking about potential share buyback over the next two years, the $195 million of free cash over the next three quarters, it seems like that's something you would be willing to use to buy back stock this year. If we think about next year without touching the cash and short term at the parent and the expected capital margin at the sub level, would it be correct to think about another -- assuming a reasonably benign realized investment loss experience this year -- would it be reasonable to think about a $350 million or more type of number potentially next year?

Gary Coleman: Ed, that may be a little high. Our free cash flow for this year is going to be $280 and --

Ed Spehar: But, Gary, isn't that based on sort of what you would consider to be a depressed net statutory earnings number versus a --

Gary Coleman: Yes, you're right. That's true because we had realized losses of about $100 million last year that impact it. So yes, that $280 could go to $350. Again, it depends on how much we have in impairments. We had $1 million through the first quarter and we're expecting that we're not going to have that level that we had last year. So yes, you could get up in the $350 million level free cash flow.

Ed Spehar: Okay. Thank you.

Paul Sarran, Macquarie Research: Good morning. Thanks. A question on Direct Response. Sales growth of 8% in the quarter was better than what you had guided to of low single-digits in the first quarter. So I guess I have two questions related to that. One, is there any specific you can point to that kind of explains that better than expected performance? And two, do you still expect the same level of sales boost for the rest of the year when you roll out the new enhanced packaging in the second quarter?

Mark McAndrew: Well, primarily in the first quarter I guess the biggest surprise was in our insert media, where we insert one of our offers in other media. Those response rates made a nice comeback in the first quarter and higher than anticipated, and that contributed most of the gain improvement in our first quarter sales. We still do expect to see on the direct mail side the improvements that we talked about before really beginning for the balance of the year, we still expect to see somewhere in that 10 to 15% sales growth for the balance of the year.

Paul Sarran: Okay. Thanks. And on Liberty National you mentioned further changes going in place this summer. Can you just elaborate on that comment a little bit?

Mark McAndrew: Really at this point I can't because they haven't been finalized and they haven't been announced. So it's something we're still in the process of, but by the next call I should have more details on that.

Paul Sarran: Okay. And do you have an outlook for new agent recruiting at Liberty for the balance of this year? I mean should we expect first year agent counts to rebound quickly towards where they were the last couple years or with changes in comp and office closings, you know, and some better employment opportunities in the economy -- should we expect a slower rebuilding process from current levels than we've seen in the past?

Mark McAndrew: Again, I think it will be a slower rebuilding process mainly because we did have significant turnover in our management ranks. So that's our biggest challenge right now is rebuilding our management ranks really before we see major improvement in our recruiting efforts. So we're projecting modest growth there in the agent count for the balance of this year.

Paul Sarran: Okay. And then how long does it take to kind of rebuild the management ranks? Is that a one year project, two year, three year? Do you have any sense?

Mark McAndrew: Well, no. I would say it's a one or two year to get it to where we need it to be. We should see significant improvement in 2011, but yes, I would say it's fair to say it's a one to two year project.

Paul Sarran: Okay. Thanks. That's all I had.

Bob Glasspiegel, Langen McAlenney: Good morning. Medicare Part D, the premiums were up double-digit, you know, compared to sort of mid single-digit last year. Was there more price or was this a better oomph from sales versus lapses?

Mark McAndrew: Bob, it's really -- we saw an up-tick particularly in the fourth quarter in our group sales. We did pick up some significant group Part D sales which improved, not so much price, although you notice that our margins were flat. When we priced our Part D for 2010 back in May of 2009, basically the margin we're going to see this year is about one point less than what we desire, which we hope to make up next year. But the demand for it has been -- I think we're -- our price is still in the ballpark with most other people, but most of the up-tick has been on our group side.

Bob Glasspiegel: I thought when you went in this a couple years ago the thought process was great return on capital, but it's going to be sort of a slow gradual erosion sort of in the top line. Was that a misimpression or has this bill's business held together more than you expected?

Mark McAndrew: Well, prior to this year that has been the track that it's been on, although now I think our opinion's changed with healthcare reform legislation and actually the expected cut in funding for

Medicare Advantage plans. Most of the people have their Part D where they have their Medicare Advantage. So I would expect as we see an improvement in our Medicare supplement sales that we would also see similar improvement in our Part D sales. And again, we continue to see a good market there in the group side.

Bob Glasspiegel: If things break right -- I was focusing on the Part D, the bigger, your Med supp on the health side -- if things broke right with ObamaCare, when could we see sales, and then even being more optimistic, premiums start to improve? Is this a year or two out or three to five years out?

Mark McAndrew: I wish I had a crystal ball, Bob, but I think we're going to have a much better idea between now and the end of the year what to expect there. Again, around the 1st of June we expect to have a new product. We have some new pricing on existing products. We are seeing more interest particularly in the Independent agency world. We've got a lot more agents contacting us with renewed interest in Medicare supplement. At this point we really don't know how many disenrollments there are going to be at the end of this year. Although based upon CMS estimates, over the next seven years they expect roughly seven and a half million disenrollments, but we don't know what the timing of those are going to be. So theres still a lot of big question marks there and in our guidance we haven't assumed anything as far as any significant growth in Medicare this year. But I think we'll learn a lot during the course of this year; how much and how fast that growth will occur.

Bob Glasspiegel: Last question. Has there been any buyback in April and could you quantify that if there has been?

Gary Coleman: Yes. We've spent $8 million and bought back another 150,000 shares.

Bob Glasspiegel: Thank you.

Eric Berg, Barclays Capital: My first question relates to the health business. What are the specific products that you expect to be affected most profoundly by the healthcare legislation and why?

Mark McAndrew: We've been selling a product through United American, really since the Medicare supplement marketplace deteriorated, that's a broad benefit, hospital surgical type policy. It has internal limits, but, for example, it would pay -- if you go to the hospital it could pay up to $3,000 a day while you're in the hospital, more if you're in the emergency room. So it's a broad benefit product and I think our average premium on that was over $2,000 a year for that product. But it has a lower mandated loss ratio than what we're seeing in the healthcare legislation and the benefits do not meet the standards being set out. But that is the business that we have deemphasized and basically gotten out of over the last couple of years and that is what you are seeing run off the books. So it's only $1.8 million of sales in the first quarter. We still had roughly $100 million on the books, but by the end of 2013 we would expect that block of business to be down -- that another 70% of that business will have lapsed off by then. So it will not be a significant portion of our business.

Eric Berg: You're saying by 2013 what percentage of it will have gone away?

Mark McAndrew: About 109. We expect about, based on current rates, roughly 70% of that will have lapsed off.

Eric Berg: Over the next three years?

Mark McAndrew: Yes.

Eric Berg: My next question relates to agent recruiting. You have been busy in recent years restructuring your relationships with your agents not only at Liberty, but also at American Income. And it's just striking that the agent count -- to me at least it's striking -- that the agent count at American Income has been moving pretty steadily upward, whereas it has moved in the opposite direction at Liberty and at United American. Why is that? Help us understand the difference in the outcomes there.

Mark McAndrew: Well, an explanation would take a lot longer than I have on this call. I'd be happy to sit down with you sometime if you'd like to know more detail, but there are significant differences between the two.

Eric Berg: Okay.

Mark McAndrew: American Income has a unique niche. They have -- there are some things there. It was interesting. Our newest board member happens to be Chief Operating Officer of 7-Eleven and I was talking to him. It's almost like the difference between a company-owned store and a franchise. American Income is more of a franchise. These people, they're independent contractors, the SGAs. They manage all their own expenses. We pay them straight commission and they are much more entrepreneurs, I guess, versus Liberty National where we rent the offices and all these people are employees. There are significant differences in the way the two operate.

Eric Berg: Okay. And I can circle back to you to get more detail. I understand. We can do that offline.

Mark McAndrew: Okay.

Eric Berg: Last question, I'd like to re-ask the question I asked in a prior call which is -- understanding that there are important uncertainties here regarding healthcare and the future of your health business, I'd nonetheless like you to take a fresh crack at this question. What do you think three years from now the business is going to look like on the health side? And by that I mean specifically which distribution channels will most likely be selling your health products and what will the complexion of the business be -- well, the new business. Where will the focus be in terms of new business and who will be selling it when the dust settles, so to speak?

Mark McAndrew: As far as we're concerned, I think we'll continue to be in the markets we're in. If I look at Liberty National most of their health business is being written through payroll deduction on the work side. None of those supplemental health products are affected by the legislation. We expect that to continue to be a growing market. Obviously, Medicare supplement I fully expect that market to rebound. I think we'll see a rebound in the independent agent market faster than we will in our captive distribution. But three years from now, that's a long way to look. But I do expect the bulk of our health sales, I would expect we would be back at a high percentage of our health sales would again be Medicare supplement three years from now.

Eric Berg: So in summary, it sound like Liberty will remain an important distributor, United American, and you will be selling both Medicare supplement and specified disease product?

Mark McAndrew: Yes, we will. Those two product lines are unaffected or at least have no negative impact from healthcare legislation. And on the Medicare side we think it will have a significant positive impact.

Eric Berg: Thank you very much for giving me all this time.

Mark McAndrew: You bet, Eric.

Mike Grondahl, Northland Securities: Yes. Thanks for taking the call. Mark, can you just kind of give us a quick overview of the new sales presentation? I think it's the laptop version that you're using at American Income and just kind of how you expect that to roll out and kind of affect productivity and sort of sales levels going forward?

Mark McAndrew: Okay. I'll try to be again as brief as I can. But in the past Bernard Rappaport, founder of American Income -- I think the world of him -- he put the current sales presentation of American Income together roughly 40 years ago, and it was targeting a set premium for people to invest in their life insurance. He called it an hour of power. So they were trying to get people to take one hour's pay a week and buy life insurance with. What we're trying move to is more of selling people what they need. The first thing we do is take a survey of: "Do you own a home? Do you have children? What is your income? What are your expenses?" -- and gather financial information and look at what their current existing coverage is whether it be group or individual. And the laptop then analyzes this and identifies both the amount of coverage that we believe that they need and the type of product that best fits that need. So there are a number of advantages to it. One, we have consistency of sales presentation. It makes it far easier to train a new agent as far as sales presentation. We believe we will see a higher average face amount being sold as well as hopefully a higher average premium. But a side benefit of that, we hope that it will also improve our new agent retention because we think it will make it easier for an agent to become productive.

Mike Grondahl: That's good to hear. When do you think that starts to cycle in a little bit?

Mark McAndrew: Well, again we have started with just a handful of agents. We want to control the training of this. We want it to be done properly and so, you know, I think we'll see a trend then as the year goes along. But it's just impossible at this point to really project what that's going to add. It's just too early in the process. Again, we just started this quarter introducing our first agents on it. So it's just too early. By next quarter I should have much harder numbers on what we could expect that to add.

Mike Grondahl: Great. We'll look forward to hearing that, too. Thank you.

Mark McAndrew: Yes.

John Nadel, Sterne, Agee: Good morning, everybody. I joined a little bit late, so I might have missed this -- but the sequential improvement in excess investment income if I think about first quarter versus fourth quarter, is most of that driven by the reinvestment of the proceeds from some of your portfolio repositioning that happened late last year?

Gary Coleman: Excuse me, John, that's the main reason. If you'll remember, in the third quarter we sold almost $750 million of bonds and about half of those were below investment grade bonds.

John Nadel: Yes.

Gary Coleman: But we did that in the last week of the quarter and we ended the third quarter with $1.1 billion of cash and short term money. We got that invested; a large part in the fourth quarter, but some of it went over into the first quarter. We saw -- if you just look at invested assets in the fourth quarter to third quarter, you saw a good growth. But we got it invested so late in the fourth quarter we didn't get the full income from it, a quarter's worth of income, we finally got the first quarter's full worth of income in the first quarter this year. So that's just a delayed…

Mark McAndrew: I might add it comes down to at year-end we were holding $590 million of cash, and that was down to $372 million at the end of the first quarter, which we would expect that to come on down in the second quarter.

John Nadel: Yes. And what's the pace there that we should be thinking about and, you know, I saw the new money yield was around 6% in the first quarter. I suspect it's relatively stable at this point still.

Gary Coleman: Yes. We're still right around the 6% level and we are at $372 million of cash and short terms at the end of the first quarter. The $194 million we have at the parent, we're looking at different ways to invest that, but at this point that's in short term money. The $178 million of short terms at the insurance companies, we'll get that down a little bit, but we'll always just because of timing, we'll be near $100 million. We pretty much have got the money fully invested at this point.

John Nadel: Okay, okay. So the net investment income level in the first quarter that goes into your excess investment income is a reasonably good level to think about going forward?

Gary Coleman: Well, yes. In other words, it will grow -- I think it will probably grow about the same sequential levels it had prior. The first quarter was a little bit of an anomaly, but whereas last year investment income in total was only at 1% because of all the cash we held. In 2010 it's going to be closer to a 10% increase.

John Nadel: Okay. Thank you very much.

Steven Schwartz, Raymond James: Good morning, everybody. I'm going to admit I'm slightly confused here. It seems to me that you're suggesting that the $195 million of free cash flow that you're suggesting that you expect over the next three quarters is available and likely to be used for share repurchase. The guidance assumes no share repurchase. I just want to make sure that that is correct.

Mark McAndrew: The guidance does not include any additional share repurchase. The $195 million, currently we would expect to use most of that in the share repurchase.

Steven Schwartz: Okay.

Mark McAndrew: Assuming nothing else comes along that we feel like would be a better use for it.

Steven Schwartz: Okay, great. I just wanted to make sure that I understood that.

And then just to follow up on a couple more that were asked -- the block of business that will be affected by PPACA. Just for information's sake, what's the underwriting margin on that? Would you happen to know, Mark?

Mark McAndrew: Oh, it's less than 10%. Normally where I would call on Rosemary, but my recollection is it's right around 8%.

Steven Schwartz: Right around 8%, okay. And then could you remind us, I remember what happened with the agent count at Liberty National. There was poor first year and even sooner persistency. You made some changes to improve that. That hurt your agent count. Did you do something in January or has this thing just leveled out and the people are going to make it under the new commission structure are the people who are just going to make it?

Mark McAndrew: Again, I think most of the changes were made back in the middle of last year and I think it just kind of finally reached bottom in January.

Although on a plus side, our persistency is now back at the 2007 levels, which is a plus, although we hope to continue to improve on that. But no, I think it just took that long for the repercussions to flow completely through.

Steven Schwartz: Okay. Thank you very much.

Colin Devine, Citigroup: Good morning. If we look at the sales and I guess the growth in underwriting margin on the life side that you've been putting up in Direct Response and American Income, it's certainly substantially higher than probably what most of us have associated with Torchmark and also the markets you're in. What do you attribute to your success? Because clearly there's other companies we're looking at that are struggling. You know, where are you taking this share from and what is it that you're doing so right that others clearly are not?

Mark McAndrew: Well, Colin, I think one of our big advantages -- one of our biggest advantages -- is we for the most part control our distribution. I think that's one of the reasons we have higher margins than other people. We have higher underwriting margins at American Income and Globe. If I look at American Income, we've just got a model there that works. I don't know how to explain it any other way. We've had to make some changes over the years to get it to where it is, but now we believe all the pieces are in place where it can sustain that type of sales growth; at least double-digit sales growth indefinitely going forward. You know, Direct Response has grown every year since 1985. So it just has a long history of -- we have some extremely good people there who just keep finding ways to do things better and continue to achieve growth. So I don't know that there's any magic to it. We believe we have the best people with the knowledge and, obviously, our ability to control costs is a big plus for us there. One of the reasons we have very little competition there.

Colin Devine: I guess then that also leads into we think of Liberty, in a sense, do you need to have pure agents and does that need to be a core part of what Torchmark does? I mean how long do you give it to get turned around and back on track before you start asking maybe some more difficult questions given that you've got the success in the other two channels?

Mark McAndrew: Well, I still obviously believe we can and will grow Liberty National. Liberty National's growth, it hasn't seen growth rates similar to American Income in the 30 years I've been with the company. But we do have to change the model and we are changing the model at Liberty and we're moving it more towards what we have at American Income. I still believe in the next 12 to 24 months we will have the pieces in place at Liberty that we need. If I look from 2003 through 2007 we saw declines each year in sales at American Income. We identified the problems. We knew it was going to take time to get the changes in place that were needed to grow that company. But we did, and now we're seeing the benefit of that. I believe the same will happen at Liberty National.

Colin Devine: So still going with, the career agent force and that cost structure you think can be viable going forward versus going to a pure variable comp system?

Mark McAndrew: I think there's somewhere in between. No. That is something we have to at least shift that direction. We may not get all the way to where we are at American Income, but we've got to do something to -- even just for some of the accounting rule changes that we'll see, we will move to more of a variable cost structure at Liberty National.

Colin Devine: Okay, and then turning directions. On the sort of cash flow numbers that you put up, the $350, how dependent is that or how tied is it to the very strong growth that you're putting up at Direct and American Income? If the sales continue certainly at their pace are you able to generate enough excess cash flow by continuing to shrink the health business to kind of fund the growth on the life and keep that $350 number or is there some sensitivity to it we should be thinking of? If you're seeing the strong sales to sort of ratchet down the expectations on buybacks or dividend increases?

Mark McAndrew: You want to try that, Gary? Again, we haven't run our actual cash flow projections for next year. There's no doubt that the more we increase sales, it does have some impact on what your statutory earnings are. Although I will point out that at Globe we are continuing, for example, in our insert media, I said response rates were up, but we still spent less money in the first quarter than we did first quarter a year ago. So that's the nice thing about, particularly at Globe and Direct Response, we're seeing growth in sales without seeing growth in our expenses. But, Gary, do you have…

Gary Coleman: Well, what I would add to that, Colin, is we've seen the growth in statutory earnings in the past to be about 6% to 7%. With the new sales at American Income it's not going to drive it down that much. We're still -- I would think would still be around the 5% range.

Colin Devine: Okay. Just a final one -- we haven't talked about First Command in a long time. Has there really been any change to your outlook there or is it just going to slowly continue to shrink for a while?

Mark McAndrew: Well, we visited with them here this last quarter. They are optimistic that they will see a turnaround in the military marketplace. We haven't included any turnaround there. We are including in our guidance for sales to continue about the first quarter level for the balance of the year.

Colin Devine: Okay. Thank you very much.

Paul Sarran, Macquarie Research: …[poor audio] …two quick questions. A few years ago ran into some problems after floating too many agents management pulled too quickly resulting in some lower productivity and higher agent turnover. Is there anything that you learned from that experience that will help you when you go to rebuild Liberty National now? ….[poor audio] is there any specific difference?

Mark McAndrew: Okay, you're not coming across perfectly clear. But sure, did we learn lessons from that? Absolutely. That's why when I talk about will the turnaround there be dramatic? Will it be quick? No. It will take some time. That's why I think a year to two year time frame is more reasonable and -- because we did learn a lesson there. We have standards for promoting people into management which we're going to stick with. And as we turn that company around we want the growth that we achieve to be sustainable.

Paul Sarran: Okay. And then just I'll try and speak up. One unrelated follow-up question. Could you just run through the RBC numbers you gave earlier? Again, total adjusted capital and prior capital if you have it and the impacts of temporary changes?

Mark McAndrew: Want to take that, Gary?

Gary Coleman: Yes. What I mentioned earlier at year-end '09 our adjusted capital was $1.5 billion, was $1.476 billion, and the acquired capital was $416 million which gave us a 355% ratio. And that ratio would give us excess capital of $225 million over the 300% that we've managed to in the past. I also mentioned that of that $225, $70 million came from the increase in deferred tax benefits that were allowed this year. So excluding that, the growth in excess capital -- or the excess capital is $155 million and I said that could grow another $90 million this year, assuming no impairments and down grades over the last three quarters because our statutory income is going to exceed what we will dividend out of our insurance companies to the parent.

Paul Sarran: Okay. And you don't have an update of required capital at first quarter?

Gary Coleman: Well, I do and the ratio was more at the 340% level, but I mentioned also earlier the reason for that is that we had more in terms of dividends declared to be paid out of the companies than what we received as income in the first quarter. But that will reverse in the second quarter where the dividends will be lower than the income coming in. So I think we'll be right back at the 355% level.

Paul Sarran: Okay. Thank you.

Ed Spehar, BofA Merrill Lynch: Thank you. Mark, I was wondering back on the Medicare Advantage disenrollment possibility and the CMS numbers that you cited which would say that there's 7 million plus seniors that could be coming into traditional Medicare, can you help us a little bit with how to think about that number versus what happened at the beginning of the 2000, I guess, maybe 2000, 2001 period and how to think about maybe if I look at your Med supp sales now how many millions or how many seniors you are adding each year, something to give us some sense of how to think about that number.

Mark McAndrew: Well, it's something that actually we went back and looked at the last time there were significant numbers of Medicare disenrollees because I had the same question, Ed. And back in around 2000, in that era we were picking up -- looked like roughly 3% of the disenrollees, was basically the share that we were picking up. That's probably not an unreasonable number going forward. So I guess that's about as good as I can give you now. When those disenrollees will occur, it's still a guess, but that's the way I'm kind of looking at it. I don't see any reason why we shouldn't be able to pick up roughly the same percentage we picked up the last time we saw a significant number of disenrollees.

Ed Spehar: Okay. So I guess the follow-up would be if you look at your level of Medicare supplement sales now, how many seniors are you selling business to kind of today on an annual basis?

Mark McAndrew: Oh, Ed, I don't have those numbers right in front of me, but we can get those numbers for you. Right now we've seen a little up-tick in our individual Medicare sales but nothing significant. I think there's some numbers as far as premium out on the website as far as what our Medicare sales are. We can get you some insured counts if you'd like that.

Ed Spehar: Yes. I guess just to try to put in perspective if you were somehow able to pick up 210,000 people or something, what that would mean.

Mark McAndrew: Okay. Well, and again we can -- I don't know what our average premium is today, but the last I looked it was something in excess of $2,000 per sale, so the average premium on our -- so I mean it's not going to be far off from that number.

Ed Spehar: What were your Med supp sales kind of running at now?

Mark McAndrew: Well, let's see. I've got that here somewhere. Well, let's see. Well, I don't have it right in front of me, Ed. Again our Medicare supplement sales are split out on an exhibit on the website.

Ed Spehar: Okay. Thanks a lot.

Mark McAndrew: You bet.

Operator: At this time we have no questions in the queue. I will turn the conference over to our host for any closing or additional remarks.

Mark McAndrew: Well, that's all of our comments for today. Thanks everyone for joining us this morning and we'll see you next quarter. Have a good day. Thanks.