Torchmark Corporation

2nd QUARTER 2010 CONFERENCE CALL
July 29, 2010

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 day 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 second quarter was $131 million or $1.58 per share – a per share increase of 3% from a year ago. Net income was $126 million or $1.53 per share – an 11% increase.

Excluding FAS 115, our return on equity was 13.7% and our book value per share was $46.81 – a 12% increase from a year ago. On a GAAP reported basis, with fixed maturities carried at market value, book value was $48.16 per share.

In our life insurance operations, premium revenue grew 5% to $434 million and life underwriting margins increased 8% to $120 million. Life net sales were $89 million – up 4% from a year ago.

At American Income, life premiums were up 12% to $140 million and life underwriting margin was up 11% to $46 million. Net life sales increased 11% in the quarter to $37 million. The producing agent count was 4,200, which was unchanged during the quarter, but up 10% from a year ago.

By most standards, American Income had another great quarter, although the producing agent count has remained relatively flat for the first half of this year. While new agent recruiting has increased 17% during that period, we have seen our retention of new agents slip somewhat. After analyzing this situation, we have identified a couple of possible causes for this change in new agent retention and have taken appropriate action. We expect to see renewed growth in our producing agents during the second half of this year while continuing to project 15% – 20% sales growth for the full year 2010.

In our Direct Response operation at Globe Life, life premiums were up 6% to $143 million and life underwriting margin grew 12% to $37 million. Net life sales increased 9% at Globe to $37 million.

Life sales growth was less than expected for the quarter. The improvements we saw in the first quarter in our insert media response rates did not hold up and appear to be the result of a reversal in consumer confidence. If this trend continues, we expect to see sales growth decline to mid-single digits for the balance of the year.

Life premiums at Liberty National declined 2% to $74 million and life underwriting margin was down 4% to $14 million. While net life sales of the combined Liberty National/United American agency operations declined 21% to $12 million, first year collected life premiums were flat at $9 million, reflecting the improved persistency of new sales. Also, while life sales were down from a year ago, they increased 11% from the first quarter level. The producing agent count at Liberty National was 1,606 – down 51% from a year ago, but up 5% from the level in the first quarter.

We believe we have turned the corner at Liberty National as reflected in our growth in new agents and life sales over first quarter levels. We expect this trend to continue along with additional improvement in the persistency of the new business written.

On the health side, premium revenue, excluding Part D, declined 6% to $199 million and health underwriting margin was unchanged at $38 million. Health net sales decreased 23% from a year ago to $15 million while health first year collected premiums were flat at $20 million.

In our Medicare supplement business, premiums increased 1% to $116 million. Net sales were up 39% from a year ago to $7 million, while first year collected premiums grew 94% to $11 million.

We are pleased with the results in our health business. While the total sales and premiums continue to be impacted by the run-off of the limited-benefit plans at United American, this business is low margin, poor persistency business. The new health business we are writing today has significantly higher margins and much better persistency and we project our health underwriting margins to begin to grow by the end of this year.

Premium revenue from Medicare Part D was $53 million – a 16% increase, while underwriting margin was $5 million – up 7%. First year collected premiums for Part D grew 79% to $12 million.

We reported an underwriting loss of $1 million in our annuity business during the quarter versus a $5.2 million gain a year ago. This loss can be attributed to the decline in the equity markets during the second quarter.

Administrative expenses were $40 million for the quarter – the same as a year ago. Due to higher than expected employee health costs, we are now projecting administrative expenses to grow in the 2% – 3% range for the full year.

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, excess investment income, capital and share repurchases.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of June 30, 2010.

As indicated on these schedules, invested assets are $11.5 billion, including $10.7 billion of fixed maturities at amortized cost. Of the fixed maturities, $9.9 billion are investment grade with an average rating of A-. Below investment grade bonds are $832 million, 7.7% of fixed maturities; and that's compared to $891 at the end of the first quarter and $1.2 billion a year ago. The $59 million decline in the second quarter included $40 million of bonds upgraded to investment grade.

We expect that the percentage of below investment grade bonds at 7.7% is still relatively high to our peers. However, due to our significantly lower portfolio leverage, the percentage of below investment grade bonds to equity, excluding OCI, is 22%, which is likely less than the peer average. Overall, the total portfolio is rated BBB+, same as a year ago.

During the quarter, we recognized $3.6 million of after tax realized losses; $2.5 million on asset dispositions and $1.1 million from retirement of debt.

However, for the six months, we had net realized capital gains of $1.5 million, after tax.

We have net unrealized gains in the fixed maturity portfolio of $178 million compared to net unrealized losses of $173 million at March 31 and $1.4 billion a year ago. The increase in unrealized gains in the second quarter is due primarily to treasury yields declining more than credit spreads increased.

Now, looking at investment yield.

In the second quarter, we invested $377 million in investment grade fixed maturities, primarily in the industrial sector. We invested at an average annual effective yield of 6.3%, an average rating of BBB+, and an average life of 25 to 27 years. For the six months, we've invested $1.1 billion at an average yield of 6.1%.

For the entire portfolio, the first quarter yield was 6.75% compared to 6.79% earned in the previous quarter and the 6.97% earned in the second quarter of 2009. The decline in yield is due to investing a larger than normal amount of money at lower yields. In the last 12 months, we invested $2.9 billion at an average yield of 6.2%. The unusually high amount of money invested in that period was due to the third quarter 2009 portfolio restructuring to reduce below investment grade bonds and also investing money that had previously been held as cash for liquidity purposes. As of June 30, the yield on the portfolio is now 6.73%.

Now, turning to excess investment income.

Excess investment income is the net investment income less the interest cost of the net policy liabilities and the financing costs of our debt. In the second quarter, it was $80 million, up $4 million, or 5% from a year ago. The year over year comparison of each component is as follows:

- First, net investment income was up $14 million. This represents an 8.5% increase in income, slightly lower than the 10% increase in average invested assets due to the lower portfolio yield;

- Next, the interest costs on net policy liabilities increased $6 million, or 8%, in line with the 8% increase in the average liabilities; and

- Lastly, financing costs were up $4 million due to the interest expense resulting from the $300 million debt issue at the end of the second quarter of 2009.

Regarding RBC.

We plan to maintain our RBC ratio at the 325% level compared to the 300% target used in prior years. This ratio is lower than some peer companies, but is 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% – adjusted capital of $1.5 billion divided by the required capital of $416 million. Adjusted capital at that time was approximately $125 million in excess of that required for the targeted 325% ratio. We estimate that the ratio at June 30 is slightly less than 350% because of the timing of dividends declared by the subsidiaries. However, at year end, we expect that RBC will be at or higher than the 355% that we began the year with, resulting in excess capital of $125 – $150 million.

Finally, regarding share repurchases and parent company assets.

In the second quarter, we spent $63 million to buy 1.2 million Torchmark shares. So far in July, we have used $33 million to buy another 675,000 shares at $48.96 per share. For the full year through today, we have spent $108 million to acquire 2.1 million shares.

At June 30, the parent company had liquid assets of $300 million. With free cash flow expected to be approximately $65 million in the last six months, the parent ended the second quarter with a total of $365 million available for the last half of the year. As of today, after deducting the $33 million used for the July share repurchases, the parent will have approximately $332 million available between now and the end of the year.

We currently expect to maintain liquid assets of around $200 million for the remainder of the year. We will use the remaining $130 million plus as efficiently as possible. If market conditions are favorable, we expect that share repurchases will continue to be one of the uses of those funds.

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

Mark McAndrew: Thank you, Gary.

As a result of several favorable trends and the impact of our share repurchases, we are raising our guidance for 2010. We currently estimate operating earnings per share will be in the range of $6.25 to $6.30, assuming no additional share repurchases. If share repurchases continue at the anticipated level, we expect to see an additional $.03 to $.04 of operating earnings on a per share basis, which is not included in this guidance.

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

Bob Glasspiegel, Langen McAlenney: It seems like the increase in guidance was a little bit buyback and a little bit underlying business -- margins in the life company up year-over-year relative to where they've been. Is that something that's sustainable and what's driving that?

Mark McAndrew: Gary, you want to address that?

Gary Coleman: Well, as far as the increase in underwriting margins, we've benefited from two things. One is on the life side. We had improved claim costs in the Direct Response, but also in the Other segment. There, we expect our policy obligation percentages to hold the rest of the year. On the health side, especially in the independent health area, we had lower amortization, and we're benefiting there by two things. One is improved persistency. But also, Bob, we had a fair amount of group business in the fourth quarter of last year, which has a lower amortization percentage. And to answer your question, we think both of those trends will continue and that the amortization percentage seen for the second quarter will hold for the rest of the year.

Bob Glasspiegel: Okay. Thank you very much.

Randy Binner, Friedman, Billings, Ramsey: Thank you very much. On the -- so the $200 million buffer, the comments were very clear in helping us understand excess capital. But I guess the $200 million buffer, if I'm not mistaken, is higher than the buffer in the past. So how should we think about how long kind of an elevated buffer would need to be held in place and potentially what that would be held in place for?

Mark McAndrew: Well, Randy, you're right. And prior to September of 2008, we basically used all the free cash that we had available at the parent for share repurchase. With what has happened in the last two years, we think it's prudent to hold some liquid assets at the parent company. Right now, that's something we evaluate each quarter and something that's discussed at the Board meetings. But I can't really give you any guidance there because it's something we'll just continue to look at. Right now, we expect to hold that at least through the end of this year. But I think even going forward into next year we will continue to hold some liquid assets at the parent.

Randy Binner: All right. Fair enough. And then there's the FASB is having a meeting I think tomorrow on this issue, 09-G, which is kind of a stricter interpretation of a DAC-able expense, if you will. I am just wondering if you're tracking that -- if you have any commentary on that, or, you know, a sense of how that could affect Torchmark?

Mark McAndrew: We are definitely following that closely, but I'll let Gary address that.

Gary Coleman: Yes, Randy. As a matter of fact, they may be meeting today. It's either today or tomorrow, and hopefully they'll finalize the rules. There's an expectation too that they may delay the implementation date from 2011 to 2012, which we certainly hope they do because of the amount of effort that's going to be required to implement this.

But, you know, the basic change that they have, there's really two changes that impact us. First of all, on Direct Response, the deferral will now move under advertising rules that are in SOP93-7. And we have taken a look at that and we think that the costs that we're currently deferring will qualify under SOP93-7, and so we'll continue to defer those costs.

Then the other cost, the agency related cost, or agent produced business -- we expect that we'll continue to be able to defer the commissions and the other commission related type expenses. Where we may have an issue is we have about $90 million of agency and home office expenses that may not meet the criteria. We feel that we'll be able to convert some of those to commission type expenses, but some portion of those we may not be able to defer any more.

Now, what will happen is we will go through and we'll look through all the costs and make that determination and if any are non-deferrable, we are going to make a retroactive adoption of this. And so we'll have to go back in time and recreate the asset, and the result of that is that we'll have a one-time write-down of DAC, and these numbers I give you are very rough because we don't know exactly how it's going to be applied. But we think that that one-time write-down would be an after tax write-down of about $300 million to $400 million – or 8% to 10% of our book value.

Now, as far as what we see as the effect on earnings going forward is that, one, we'll recover that amount of the write-down over the future earnings. And also we look at not having a significant impact on reported earnings because the reduction in expenses that are being deferred on newly issued policies will be offset by the fact that we have reduced amortization on the total block of policies in force.

Mark McAndrew: Yes, and Randy, I'd like to mention, you know, that change is strictly an accounting change. It does not impact the profitability of our business. It does not affect the cash flows or our statutory earnings. It will not have an impact on the cash that we're able to dividend to the parent. It's strictly a matter of the timing of the profits. So there could be some write-down in the DAC, but we don't really expect it to have a significant impact on our earnings going forward.

Randy Binner: Okay. That's very helpful. I mean, I guess, you know, given the fact that that is kind of a large upfront cost to book value, do you have any sense of how likely it is that this moves forward?

Gary Coleman: Oh, I think it's likely that they'll move forward with it. I think the big question is the implementation date.

Randy Binner: Right, okay.

Gary Coleman: This is going to take -- I think it may take less effort on our part -- this will take a great deal of effort for companies to be able to adopt this. And so I think hopefully they will give us the extra time. But I do want to reemphasize what Mark said. This is just a matter of timing of GAAP earnings. It doesn't affect, as he said, the cash flows or statutory earnings. It's just merely changing the pattern in which GAAP earnings are recognized.

Randy Binner: All right. Very good. Thank you.

Paul Sarran, Macquarie Research Equities: Hi. Thanks. I'd like to follow up on the $200 million buffer, holding company buffer. I'd like to get your comments on whether you consider the loans to the subs towards that holding company target -- if you consider them dollar for dollar as good as holding cash at the holding Company? And then on a related question, at the subsidiary level -- do the loans from the holding company down to the subs benefit RBC?

Mark McAndrew: Gary, I'll let you address that one.

Gary Coleman: They have -- to answer to the second one first -- they have relatively little impact on RBC. As far as the first question, do we consider loans down to the subsidiary as good as cash -- we consider it as liquid as cash. Those notes can be payable on demand at any time, and the only reason that we put that money down into the holding company is that we've invested some of that money into bonds, so we get higher interest rates. But you've got to remember that each year, just from operations, not including the investment maturities, but just from our operations we're generating almost $1 billion of cash each year. And that money's coming in throughout the year. The insurance companies always will have money to be able to pay those loans back at any time. So we consider those to be very liquid.

Paul Sarran: Okay. And then on American Income and the agent count. On the last earnings call, I think you noted that agent terminations had started to decline back to normal levels in March. It seems like that trend has reversed and they've started to pick up somewhat. Can you maybe elaborate on the trend you are seeing throughout the second quarter and through the third quarter so far? And also maybe give a little bit of color on the causes for the increased terminations that you referred to?

Mark McAndrew: Okay. Without getting into excess detail, we did take a hard look at our agent turnover -- particularly our new agent turnover. And we did see an increase in our new agent turnover in the quarter. A couple of things. One, the thing that came to light was as we converted over to electronic applications and the laptop sales presentation, we inadvertently made it more difficult for an agent to qualify for a bonus. We have corrected that problem now. But when an agent thinks he's going to make a bonus and turns out he doesn't achieve a bonus, that's -- even though we can't quantify it exactly, we know that had some impact.

The other thing -- looking back, we put out an incentive at the beginning of the year to try to stimulate our new agent recruiting, which it did. Our recruiting is up 17%. But our first year agent count really hasn't grown. And we didn't place enough emphasis on retention. We've now made some modifications and put out an additional incentive that rewards retention, and we fully expect our new agent retention to get back more to the levels of what it was last year.

Paul Sarran: Okay. Thanks.

Jimmy Bhullar, JPMorgan Chase & Co.: Hi, thanks. I had a question on just your outlook for the agent count growth at Liberty National. It grew sequentially for the first time, so is this a turnaround or was this just an aberration?

And then secondly, just on capital deployment. You bought back more stock than we've been assuming so far this year, so I wanted to see if that implies that from an M&A standpoint, maybe things are not looking that good. But if you could just address the M&A environment also?

Mark McAndrew: Okay. At Liberty National, I think it's a trend. I think last quarter I mentioned that we really believe that it bottomed out in the first quarter, and we expected to see continued growth in our new agents. And sequentially, we expect to continue to see growth in our life sales at Liberty National. I think it will be slow, steady growth. But again, by the fourth quarter of this year, it should actually be contributing to growth in our life sales where it's been a significant drag the last few quarters. So I think that's a true turnaround, Jimmy.

As far as M&A activity – we continue to keep our eyes open and we look at things, but we haven't seen anything. A couple of companies that we looked at, we've just had no interest in. So there's nothing on the horizon at this point as far as acquisition.

Jimmy Bhullar: And what about your outlook for like health sales? I'm assuming that Med sup demand probably picks up a little bit because of all the disenrollees from Med Advantage plan? Do you have a better idea now on how that looks?

Mark McAndrew: Well, it's a little early to say. We introduced a new product June 1st. We repriced some of our existing products. We started to see some upturn, particularly in the independent agency marketplace. But we don't know yet how many disenrollees we'll see. I think last year it was mid-October before that information became public. So it's kind of early to say how many disenrollees we will see this year. We should hopefully know by the next conference call how many disenrollees we'll see.

Jimmy Bhullar: Okay. Thanks.

Ed Spehar, Bank of America, Merrill Lynch: Thank you. Good afternoon. I came on the call a little late. We were on another call. And I guess I missed, Gary, did you give us what the new money yield was in the second quarter?

Gary Coleman: Ed, it was just under 6.3%.

Ed Spehar: And today where would it be?

Gary Coleman: Today it would be at 6% – maybe just a little under 6%.

Ed Spehar: And the guidance for the balance of the year contemplates remaining here?

Gary Coleman: 6%.

Ed Spehar: Okay. And then I guess on the earnings this quarter -- I mean, your numbers were I think 4% above the consensus expectation. I can't remember the last time you guys beat earnings by that much. And it doesn't sound like there was anything unusual. You went through the margins on both the life and the health side. What is the -- you know, what's happened, I guess? I mean its good news obviously. But typically your numbers are within a penny or two of what everybody thinks they're going to be.

Mark McAndrew: Well, Ed, there's actually a number of different things. Part of it obviously was the level of share repurchase, which we hadn't included in our guidance. And I think the share repurchase was a little more than what most people had modeled. But we did have -- in our life claims we did have a good quarter -- in the Military, United Investors. But, also some of the things as Gary talked about earlier, are sustainable. One of the things in the Medicare side, our health premiums were stronger than anticipated because we failed to model our group business separately from the individual, and we put on about $20 million of group Medicare business in the fourth quarter and first quarter, which has significantly better persistency and also has better morbidity than our individual business. So part of that was we should have anticipated and we didn't. But really there are a number of different things that contributed to it. Gary, do you have anything to add to that?

Gary Coleman: No, I think that those are the major items -- claims and the persistency.

Ed Spehar: I'm sorry; did you say it was group Medicare business?

Mark McAndrew: Yes.

Ed Spehar: Okay. Thanks a lot.

Jeff Schuman, Keefe, Bruyette & Woods: Good morning. I just wanted to confirm something that I guess it's fairly obvious -- when you were talking about the impact of the changes in DAC, and writing DAC down by $300 million or $400 million but with earnings the same, I guess the obvious implication then would you would have lower book value, but higher ROE, right? So not only does the business not change on an economic basis, it isn't really less attractive on a GAAP basis it's just that you are going to have lower book value, higher ROE, right?

Gary Coleman: Yes, Jeff, I think that's right. We're talking about $4 to $5 of book value out of almost a $50 book value. I don't think it will be that significant of a change.

Jeff Schuman: And just conceptually for you, maybe it's a little easier for the earnings impact to wash because you have a fairly large mature block of in force business. Would it be a correct basic understanding here that if you were growing more rapidly that you probably would have more near term earnings dilution. Is that the correct way to think about it?

Gary Coleman: Yes, I think it's having the stable block of business because of primarily the protection type insurance that we sell. I think that helps and it has a longer tail too. It is a more stable cash flow, so that all goes into making the DAC more stable. So I think you're right.

Mark McAndrew: And most of our acquisition costs are commission related or Direct Response which will still be deferrable. Again, our underwriting expenses, because of the nature of our business, are very low. So as a percentage of our total deferrable cost, what will be impacted will be a relatively low percentage.

Jeff Schuman: Okay. And then I apologize if you spoke to this earlier, Mark. I did hear you talk to some extent about some of the tactical issues at American Income, but I don't know -- in your earlier comments did you give kind of a big picture outlook in terms of where the agent count is growing? It has kind of flattened out here after growing a lot. Is there an expectation that you can reignite that overall growth there?

Mark McAndrew: Yes, we fully expect to see renewed growth the second half of this year. And I mentioned in my comments that we still expect for the full year to see life sales grow in the 15% to 20% range at American Income.

Jeff Schuman: Okay. Great. Thank you.

Steven Schwartz, Raymond James & Associates: Hey, guys. I've got a few here. One more time on the DAC thing here, because I think you may have misstated. Should we see a change -- I mean the overall earnings will obviously be the same – the cash flows will be the same – but are we going to see a change in the pattern on a GAAP basis of earnings?

Gary Coleman: Well, Steven, I don't think we'll see a significant change in the pattern. It may be in the components of that change. We'll have more non-deferred expenses, but we're going to have less amortization. And so I think there's several things that -- there's that fact, but also we're going to be -- that write-down that we'll take will come back over time.

Mark McAndrew: But, Steven, the other thing is, that does have -- they will be impacted depending on the rate at which we grow. The faster we grow, the more impact there would be. But on the other hand, until we know the final rules, I mean, we are definitely going to be looking at the expenses that are no longer deferrable and looking for ways to change our expense structure. So it's hard to really pinpoint just what impact that will have at this point. We should know better by next time.

Steven Schwartz: Just wanted to make sure I understood that cash is cash. Speaking of cash, I do want to confirm the $132 million that you think is going to be available for share repurchase over the remainder of the year is over and above the, I think it was $32 million, that you already spent for the quarter.

Gary Coleman: Yes.

Steven Schwartz: Okay. And then I had a discussion with Mike but I'd like to hear it from you. Thoughts on the post office and what's going on there and the effect of.…

Mark McAndrew: Oh, you know, that's something -- we've battled that for my whole career. And looking at it, we expect the postage increase to cost us about $2.8 million in the Direct Response, and about $0.5 million in our administrative expenses. The $2.8 million is out of a total budget, if you would, of $140 million that we're going to spend this year. Do we like to see it? No. But we've had to deal with postage increases for 30 years and we don't expect it to have a material impact. It's a little over $3 million in total, and the $2.8 million in Direct Response will continue to be deferred.

Steven Schwartz: That was going to be my next question. Thank you, Mark.

Eric Berg, Barclays Capital: Thanks very much. Good afternoon. Actually, it's morning in Texas still. Gary, can you just help me sharpen my understanding of what exact elements of acquisition costs will no longer qualify under the new FASB proposal for deferral? I mean, commissions will still be deferrable. Medical underwriting costs, I presume, will still be deferrable. What specifically are the cost elements of the current DAC that's going to lead to this $4 hit to book value?

Gary Coleman: Eric, what we'll have to do now is -- the standard is we have to make sure that the cost that we're deferring we can demonstrate that we successfully issued a policy. And to give you an example, it's not a big number in our Company, but some companies the cost of underwriting policies -- in the past you could just -- or under current rules you could defer all the salaries and whatever costs of your underwriting department. Under the new rules, the way we see them, you can only take the portion of those salaries that are related to the policies that are actually issued. In other words, the amount of salary toward policies that were declined you wouldn't be able to defer. So that's one change. For us, I mentioned that we've got some non-commission expenses. For example, agency support staff….

Mark McAndrew: Conventions.

Gary Coleman: conventions, leads -- that kind of thing that you can't tie directly to the issuance of a new policy. And so, therefore, under the definition in the new rules, as we read it, we would not be able to defer those costs. Those costs are included in that $90 million I mentioned earlier. Out of the $520 million that we'll defer this year, there's $90 million that would fall into that category of non-commission expenses. And what I mentioned, some of those we will now be able to re-characterize so they will be as part of the commissions and therefore deferrable. We don't know how much of that $90 million we can re-characterize like that.

Mark McAndrew: The biggest impact for us, Eric, will be at Liberty National where we pay the rent, utilities and all of the expenses for our sales offices there. That is the biggest component of the expense that's questionable whether they will be deferrable.

Eric Berg: But as far as declining customers for coverage, isn't that kind of unusual in the life insurance business in the sense, that it is my sense, that it is rare for a customer to be declined for coverage? As a matter of fact, increasingly less rare, and that pretty much everyone can get insurance at a price. In other words, you just rate the customer.

Mark McAndrew: Well, that's true. Most companies have a fairly low decline rate. That's not going to be a major component.

Eric Berg: Okay. Moving on to Liberty. Mark, I want to understand better your assessment that this is a turnaround situation. And the reason I ask is when I look at premiums, there doesn't seem to be much -- you know, the time series data -- the trend over several quarters that you show in your supplement. When I look at sales, when I look on the life side, when I look at premiums both on the life and the health side at liberty, I don't see much of an increase going on. Everything seems pretty stable, steady, flat. What numbers give you encouragement? And then I have one final question.

Mark McAndrew: I guess the two that primarily give me encouragement is the producing agent count grew 5% during the quarter from where it was at the end of the first quarter; and just our life sales between the Liberty National and United American operations grew about 11% sequentially. They are still down significantly from where they were a year ago, but the growth in agents and the sequential growth in life sales give me encouragement. And also, the first year collected premiums being flat -- even though we're not seeing growth in total premiums we should start seeing in the next couple of quarters growth in our first year collected premiums.

Eric Berg: Final question relates to the Company's exposure to interest rates. The way I think about it -- and I'm looking to know whether this is the right way to think about it or not right -- because Torchmark does not market much in the way of interest sensitive products. You don't sell much in variable annuities, universal life insurance -- you sell products booked under the FASB statement 60 in which the crediting rate, while not necessarily explicit, is sort of fixed. Aren't you, therefore, more exposed to the decline in interest rates than other companies that have the ability to maintain net interest margin by resetting downward crediting rates? Or am I not thinking about this just right?

Mark McAndrew: Gary, you want to address that?

Gary Coleman: Yes. Well, Eric, I think one thing that limits exposure for us is the long nature of the liabilities that we have. The interest rate is not a crediting rate. It's the GAAP discount rate that we're using.

Eric Berg: Yes.

Gary Coleman: And right now, the policies that we're issuing are between 6.5% and 7% is the assumed GAAP rate. And as I mentioned earlier, this year we're earning just a little over 6%. But what's important is not necessarily what we're earning in one or two years, it's what we earn over the long haul. And to frame that a little bit, in the last 20 years, we've averaged more than 7% on new money. And if you go back just five years, we've averaged over 6.5%. So I think if we saw interest rates stay low for a long period of time, then that might make a difference and we might have to adjust to that. But I think it's going to take a period of time. And actually I think there's a greater chance that interest rates will increase in the next few years as opposed to stay at this level or decline. So I don't think it's going to have that much impact on us.

Mark McAndrew: I'd also add, Eric, in our markets -- we're not in highly competitive marketplaces. If we reach a point where we believe we need to put through an increase in order to account for the lower interest rate yields, I don't think that would have a material impact on our sales.

Eric Berg: Thank you.

John Nadel, Sterne, Agee: Hey, good morning. Two quick questions, if I might. Following up on the risk based capital expectations for the end of the year, does your 355% or greater, does that contemplate potentially losing the DTA benefit that a lot of companies got, I guess late 2008?

Gary Coleman: No, it doesn't. And that benefit for us was about $70 million.

John Nadel: Okay.

Gary Coleman: I was just thinking -- I don't think that pushes us below the 325%. As a matter of fact, it would still be around 340% through 350%.

John Nadel: Okay. You guys have a sense whether you think the states are going to leave that in place for the foreseeable future, or just too close to tell?

Gary Coleman: I think it's too close to tell at the moment.

John Nadel: Okay. And then just following up on 09-G and thinking about the Direct Response piece. I looked through 93-7 and I guess it's sufficiently vague enough to think that the Direct Response costs can continue to be deferred. But I guess to the extent, if there was some reason that that changed and Direct Response had to be treated like the rest of the items under 09-G, what would be the incremental impact if that occurred?

Mark McAndrew: Gary, I don't know, do you have that? I don't think it's something we anticipated.

Gary Coleman: We haven't looked at that because what we have seen, it's very clear that Direct Response would fall under SOP93-7. We looked at that pretty closely, and as I mentioned earlier, I don't think we're going to change because I think we meet all the requirements for that.

John Nadel: Okay. So you think the likelihood of that is very low.

Gary Coleman: Right.

John Nadel: Okay. Thank you.

Tom Gallagher, Credit Suisse: Couple of questions. One is -- I think you had mentioned in response to Eric's question, you used 6.5% to 7% discount rate for the traditional life policies. Is that accurate?

Gary Coleman: That's correct.

Tom Gallagher: Okay.

Gary Coleman: That's our GAAP crediting rate.

Tom Gallagher: Got it.

Mark McAndrew: That's new business written.

Gary Coleman: Yes, new business written. Overall, the whole block, we've got business going back so many years it's closer to 5.6%. But for new business being written, it's 6.5% to 7%.

Tom Gallagher: So for new business 6.5% to 7%, should I be thinking about your new money yield -- if you're investing at 6%, you're getting negative spread, but making up for it on underwriting margin. Or how should we be thinking about that?

Mark McAndrew: Gary, you want to address that?

Gary Coleman: Well, I was just thinking. What we're writing now is such a small portion of the total policy liabilities. If you look at it -- again, we look at it overall -- the investment yield on our portfolio is 6.73% right now. And again, we would have to -- even if we invested 6% for the next four quarters, we'll still be just under 6.7% as a yield on the entire portfolio. I think we look at it that way as opposed to picking each year of issue because we may have a minor negative spread on this year's issues, but we've got large spreads on prior year's issues.

Mark McAndrew: Tom, what you have to look at is we're not getting that cash up front. We're getting that cash over the next 30 years. It's not like the new sales. We're getting all that cash and investing it at a negative excess investment income. That cash is going to come in. The cash we're investing today is not on new sales. It's on business that was written 5, 10, 20 to 30 years ago. So you really do have to look at it as what do we expect the interest rates to be over the life of that business, which is a very long life.

Tom Gallagher: Got it. All right. That's clear. So the way to think about this is you may be pricing or crediting on new policies issued 6.5% to 7% today, but you're going to be getting those cash flows annual premium over 20 years. So embedded within your pricing is the assumption that rates over 20 years will go up and you'll make positive spread over the life of the policy.

Mark McAndrew: That's correct. And even the reserves, it generates very little reserves in the early years. Those reserves build up over the premium paying life of the policy. So yes, you really do have to look at it as what do you think interest rates are going to be for the next 25 years.

Gary Coleman: And, Tom, that's why I mentioned over the last 20 years we averaged more than 7%. So I mean, you do have to look at it over a longer period of time.

Tom Gallagher: Just a quick follow-up. I guess the question I would ask is why wouldn't you lower crediting rates to 5% on new policies today? I think, you know, my sense of Torchmark's business model is it's not particularly competitive, and I would think you're not really pressured on competitive pricing dynamics at all. It just seems a bit odd to me that you would be accepting negative spread today, assuming if the rate environment remains as is for let's call it 5 more years, that you would be , you know, pressured on margin when it doesn't seem like the business model dictates that you really need to do that. I guess I'm a little confused on that.

Mark McAndrew: Well, again, it's something we're looking at and it's not to say that we won't. But, again, when we were earning 8% on our new investments, we didn't raise everybody up to 8%. Again, that money is coming in over long term, so we're not really accepting negative spread today. What is a reasonable estimate of -- what do we really believe interest rates will be long term. But it is something we'll take a look at, Tom. We could do it today. We could lower our interest crediting and take it out of underwriting margin and move it over to excess investment income, but it's a wash. But it's something we'll continue to evaluate and it's not out of the realm of possibility that we may put through some increases at some point.

Gary Coleman: Tom, I think your example is good. I think if it is over a 5 year period of time that rates remain low, I think we may act or we may have to do something. It's just we haven't been in that long yet, and really indications are that over the next 5 years, rates will be higher. So I think now would not be the time to do it.

Tom Gallagher: Understood. Thanks.

Paul Sarran, Macquarie Research: Thanks for taking a follow-up. I just wanted to go back to American Income, because it sounds like the issues around recruiting and retention, especially with the laptop sales presentations, are pretty similar -- maybe not identical -- but similar to what you went through with Liberty National over the last year or so. It was also my impression that at least with the laptop presentations you were kind of paying careful attention and looking out specifically for these types of issues. So with that in mind, could you maybe help us understand how we got to the point where overall agent growth at American Income, which had been pretty steady and pretty high, has kind of flattened out and been impacted before these issues got caught?

Mark McAndrew: Sure. Well, it's two completely different things. What we saw at Liberty National was a deterioration in our policy persistency. The new business being written had significantly higher lapse rates as a result of not collecting the initial premium. So actually part of what we did at American Income, because of we absolutely did not want that to reoccur, and we have not seen any deterioration -- in fact, we've seen improvement in our persistency there -- we are no longer paying agents or allowing agents to earn a bonus until that initial premium clears the bank. Well, in effect that made it much more difficult for an agent to predict whether he was going to qualify for a bonus. We are taking our time in introducing that. It's not like we put all of our new agents on it all at once. It is something that we're doing that over a 12 month period introducing that. So we did catch it relatively quickly. And that's not the only thing that has contributed to the -- not decline, but the…

Paul Sarran: The flattening.

Mark McAndrew: …the terminations being higher of new agents, yes. So it's really not the same situation that we saw at Liberty National.

Paul Sarran: How different is the timing for the bonus payments with the laptop sales presentations versus what kind of had been in place at American Income?

Mark McAndrew: Well, okay. On paper -- for an agent submitting paper applications -- if they submit $1,500 of new premiums in a week, they know they're going to qualify for a bonus because we base the qualifications on what they submitted, because they were collecting the initial premium with the application. Now, if he submits $1,500, and he has an insufficient funds draft or bad account number that came in, he not only doesn't get paid, he doesn't qualify for a bonus, or at least that's the way it had been set up. Well, that's very demotivating for a new agent who expects to earn a bonus and turns out he didn't earn one. We've changed that. Now he is still qualifying for a bonus based on what is submitted, because the vast majority of those drafts do clear. So it was just something that we kind of overlooked and we actually made it more tight than what our process was on paper applications.

Paul Sarran: So then do we risk going back to the issue at Liberty where they could submit a lot of business and get paid a bonus?

Mark McAndrew: We still won't pay bonus on anything that doesn't pay. So no, it's a different situation. That is not a concern at all.

Paul Sarran: Is there a reason you can't collect the cash upfront the same way you were doing with paper applications when you're using the laptop presentations?

Mark McAndrew: Well again, they're doing electronic application and transmitting that business overnight. It's not something that's easy to do. I'm not saying that it couldn't be done. We don't feel like there's a need to do that. We feel like we've got the controls in place now.

Paul Sarran: Okay. I think I've hammered that one enough.

Mark McAndrew: Okay.

Paul Sarran: Maybe one follow-up kind of loosely related to interest rate questions. It looks like you dipped down a little bit on investment quality in the quarter. Average rating on purchases was BBB+. , I think it's the first time in a while at least since '06 by my count, that it's been below A-. Was this more for an attempt to get more yield, or does it kind of more reflect the supply of bonds in the quarter? Or is it something else all together?

Gary Coleman: It really is due to the supply of bonds that we had available to us. We didn't invest near as much this quarter as we did in the first quarter because we were struggling to find suitable investments. The BBB+, just slightly under A -- but you're right, it's been since the third quarter of 2006 since we had a BBB+. We haven't changed our procedures any. We're not out there reaching for yield. It's just that, again, it's an availability issue this time but we're satisfied with the ones we bought because we are investing long, because, as we said before, our liability's long. But investing long, we recognize the fact that we need to do a good amount of credit research. We did that. We feel like these were good credits. I don't think this is a trend that you'll see going forward.

Paul Sarran: Okay. Thanks very much for the answers.

Colin Devine, Citigroup: Good morning. I'm certainly very comfortable you guys can manage through any spread issues. The one I would like to touch on -- I mean, we heard from AFLAC who continues to struggle in the U.S. in a market segment similar to yours. Lincoln was talking this morning about having higher lapses from their accounts because they need the money. Why is it that you're having so much success growing sales when so many of your competitors continue to be struggling mightily?

Mark McAndrew: Well, Colin, I think someone asked me that last quarter. I can't say that I have a particularly good answer other than the niches that we're in are not highly competitive. We have seen some impact on our response rates at the Direct Response, but in our agency produced business so much of our business is automatic withdrawal from people's bank accounts each month, and the persistency on that business is very stable. But even at American Income, most of the business we write also has cash values. If we do have a month where we get an insufficient funds draft back, we can take out a policy loan and pay one month's premium and continue to draft going forward. Again, we've not seen our policy loans increase. So I don't know that we have a particularly good answer other than the niches that we're in just don't seem to be impacted. I think I said last quarter, you know, the way we look at it is we've gone from 95% of people being employed to 90% of the people being employed. And it just hasn't had a material impact on us.

Colin Devine: And it really hasn't changed your lapse rates?

Mark McAndrew: We have not seen any material change in our lapse rates-- any noticeable change, no. In fact, actually in Direct Response, American Income, and Liberty now, we're seeing improvement in our first year lapse rates.

Colin Devine: Well, I tip the cap to you. I speak for a lot of other companies who would like to have your formula.

Mark McAndrew: Well, thanks.

Colin Devine: All right. Thank you.

John Nadel, Sterne, Agee: No more follow-ups. My question was asked and answered. Thanks.

Mark McAndrew: Thank you.

Ed Spehar, Bank of America, Merrill Lynch: Hi. Thanks. I wanted to go back to the GAAP interest rate because I want to maybe cut more to the economics of what would happen to product pricing if you decided to change the assumed rate from 6.5% – 7%, to 5%. How much is the profitability? Because I know we -- this is a GAAP assumption so I'm wondering how much of a price increase would you really need if you were going to assume that your new money yields would be 100 basis points lower than what you had previously assumed?

Mark McAndrew: Ed, I haven't specifically looked at that. It's something that we can and we probably should look at. Gary, do you know by any chance?

Gary Coleman: No, I don't. It's the same thing. I hadn't looked at that either.

Mark McAndrew: Ed, that's something we can do between now and the next call. We can take a look and see just what the impact would be if we lowered our interest assumptions to 5%.

Ed Spehar: Yes, I guess the issue is how much would the cash -- the internal rate of return change versus this question about whatever the GAAP assumption might be? I mean, you haven't changed that for a while, right? And I don't know that we've had -- new money rates have been sort of very little spread relative to 6% to 7%, right, for a while, haven't they?

Gary Coleman: Yes, that's right. Well, for the last 3 or 4 years.

Ed Spehar: Yes. Okay. Yes, I would be interested if it's possible to get some more on that. Thanks.

Gary Coleman: Okay.

Eric Berg, Barclays Capital: Yes, just one follow-up on the discussion about the difference between the issues at Liberty versus American Income. I'm still not clear on this, the following. If at American Income, there's a risk that an agent could submit an application with either a check that bounces or a check that has a bad check number on it, why would you withdraw your policy that says that a bonus will not be paid unless the check clears? Why would you pull back from that restriction?

Mark McAndrew: Well, first off, if it's just a bad account number, we get good account numbers. And actually, even on the insufficient fund drafts we collect over 70% of those the second time that we run them through. But also, Eric, you need to understand, we've been penalizing people who write good business. We're still not going to pay commission or advance commission or pay a bonus on any piece of business that the payment isn't received. It was more -- you have to understand the way the bonus is set up at American Income. The first week an agent achieves that bonus threshold, he gets a 5% bonus. The second consecutive week, he gets 10%. Third and beyond, he gets 15%. So what was happening was by not allowing him to qualify for a particular week because we had a bad account number, he moved back to the 5% level where he had been getting 15%. And that's just very demotivating. We just want to keep the rules the same as it is under the current paper applications. But the motivation for him to submit a bad piece of business is not there because he's still not going to be paid his commission.

Eric Berg: And why is this different, Mark? That's very helpful, but why is this different from the Liberty situation?

Mark McAndrew: At Liberty National they were being paid on submitted business and being paid a bonus and that was -- there was significant incentive, much more incentive there for an agent with a piece of business that would not persist.

Eric Berg: Thank you.

Mark McAndrew: All right. Well, we thank everyone for joining us this morning and we'll talk again next quarter. Have a great day.