TORCHMARK CORPORATION
2nd QUARTER 2006 CONFERENCE CALL
July 20, 2006

Corporation Participants

Mark McAndrew, *Chairman and CEO*
Gary L. Coleman, *EVP and CFO*
Larry Hutchison, *EVP & General Counsel*
Rosemary Montgomery, *EVP and Chief Actuary*
Joyce Lane, *VP Investor Relations*

Mark McAndrew: Thank you. Good morning everyone. Joining me this morning are Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; Rosemary Montgomery, our Chief Actuary; and Joyce Lane, our Vice President of Investor Relations.

For those of you who have not seen our supplemental financial reports and would like to follow along, you can view them on our website at torchmarkcorp.com at the Investor Relations page. 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 2005 10-K, which is on file with the SEC.

Operating income, before stock option expense, for the second quarter was $125 million, or $1.23 per share, an 8% increase compared to the $1.14 for the year-ago quarter. Our return on equity was 15.8% for the quarter, and our book value was $31.20 per share.

In our life insurance operations, premium revenue grew 3% to $381 million and underwriting margins grew 5% to $99 million. Life insurance net sales declined 7% for the quarter to $71 million and life first year premiums were also down 7% to $53 million.

In our Direct Response operation, life premiums grew 4% to $113 million and life underwriting margins grew 2% to $28 million. Life first year premiums declined 4% to $19 million and life net sales declined 2% to $31 million.

For the first six months of 2006, Direct Response life premiums are up 7%, in line with our expectations. We believe the fluctuation in our growth rates between the first and second quarters is a timing issue caused primarily by an additional working day in the first quarter and one less working day in the second quarter versus last year.

The net sales in Direct Response for the second quarter were less than expected. During the quarter, we experienced an unexpected broad decline in our response rates. We suspect that these declines may be a result of higher energy prices which have impacted the discretionary income of our target market. If these lower response rates continue during the second half of the year, they could offset the growth in new sales we previously projected. If sales do not improve, we continue to expect to see 6% to 7% growth in premiums for the balance of the year.

At American Income, life premiums grew 7% to $102 million and life underwriting margins were up 13% to $32 million. First year life premiums declined 4% to $18 million. Net life sales were down 1% from a year ago to $22 million, but were up 8% from the first quarter level.

The producing agent count at the end of the quarter was 2,312, up 14% year-to-date and up 8% from a year ago. New agent recruiting continued strong for the quarter and was up 21% from a year ago. We are on track at American Income to see renewed growth in sales during the second half of this year and should see double-digit growth by the fourth quarter.

At Liberty National, life premiums were $76 million for the quarter – the same as a year ago. Life underwriting margins increased 4% to $19 million. Life first year premiums were flat at $9 million for the quarter and net sales declined 10% from a year ago to $11 million, but were unchanged from the first quarter level.

The major changes in compensation structure and minimum production requirements were implemented May 1st with no big surprises. Our producing agent count declined 5% for the quarter to 1,606 and is down 18% from a year ago. We have also seen 30% turnover in our

district managers at Liberty National since the beginning of the year.

This decline in agents and management turnover were expected and consisted primarily of low-producing and unprofitable agents and managers. New agent recruiting was up 18% over the first quarter level with May and June being the highest recruiting months year-to-date even though we discontinued service salaries for new hires effective May 1st. We continue to believe we are positioned to see improved long-term growth at Liberty National beginning in 2007.

We also expect to see improving margins in the second half of 2006 as a result of the changes we made. Our current estimates are that we would add about $1.4 million in the third quarter, and $2.3 million in the fourth quarter of this year as a result of the compensation changes that were implemented.

In our Military operation, life premiums and underwriting margins both grew 2% to $51 million and $12 million respectively. First year premiums were down 36% to $4 million and net sales declined 32% to $3 million, which followed the 34% drop in our producing agents.

On the health side, premium revenue, excluding Part D, grew 1% to $255 million. Health underwriting margins also increased 1% to $45 million.

First year health premiums grew 26% to $45 million and net sales were up 47% to $64 million. The growth in net sales was driven by a 91% growth in our United American Branch Office operation. This distribution system now represents almost 2/3 of our total health sales. The Branch Office producing agent count ended the quarter at 2,765, up 16% for the quarter and 44% from a year ago.

Our health sales have now reached a level which will grow our total health premiums and margins. At the current level of sales, we would expect total health premium growth to accelerate to approximately 5% over the next year. Continued growth in new health sales (which we fully expect to see) should increase our total health premium above that 5% level.

Part D revenue for the quarter was $53 million. We saw a significant upturn in our new enrollees toward the end of the open enrollment period and ended up with just over 200,000 confirmed enrollees.

Our total in force premium for Part D stood at $246 million at the end of the quarter and we expect 2006 revenues to be in the range of $205 to $215 million. We continue to report an 80% expected loss ratio for the quarter although our actual claim experience to date has been significantly better than expected. If this favorable trend continues, we could see full year underwriting margins of 15% versus the 9% reported in the first half of 2006.

We would like to stress that there are still considerable uncertainties regarding our 2006 full year loss ratio. The third quarter will provide us with much greater insight and should allow for some adjustment in our reported loss ratio for the next quarter.

Administrative expenses were $39.5 million for the quarter, up 7.5% from a year ago. Excluding expenses attributable to Part D, our administrative expenses would have been $38.1 million, a 3.5% increase. We expect the administrative expenses attributable to Part D to decline roughly $1 million during the second half of 2006.

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

Gary Coleman: Good morning.

I want to spend a few minutes discussing investments and excess investment income, and to comment on share repurchases.

First, the investments.

Torchmark has $8.9 billion of bonds at amortized cost, which comprise 95% of invested assets. Investment grade bonds total $8.2 billion with an average rating of A-, and below investment grade bonds are $694 million, with an average rating of BB-. Overall, the total portfolio is rated A-, compared to a BBB+ a year ago.

Regarding new investments.

In the previous four quarters, we invested in a combination of long and short maturity bonds; investing

long when we could find quality bonds yielding in excess of 6 5%. Due to the increase in the long-term interest rates, our second quarter bond acquisitions were all long term. In the quarter, we invested $443 million with an annual effective yield of 6.98%, an average life of 24 years and an average rating of A+. This compares to the yields of new investments of 5.9% in the second quarter of 2005 and 6.1% in the first quarter of this year.

As noted in our previous earnings calls, the low investment yields in the last three years have had a negative impact on the portfolio. The average yield on the entire portfolio in the second quarter was 6.98%, 24 basis points lower than last year. However, by investing new money at the same yield earned on the portfolio during the quarter, we finally ended the string of 12 consecutive quarters of investing at rates below the portfolio yield.

Now, I'll make a few comments about excess investment income, which was $79 million in the second quarter, $3 million less than a year ago. On a per share basis, excess investment income increased 1%, which reflected the effect of our stock repurchase program. Looking at the components, net investment income was up $4 million, or 3%, lower than the 6% increase in average invested assets due to the decline in the portfolio yield. Offsetting the $4 million increase in investment income was the $7 million increase in the costs of the interest bearing liabilities. Interest on the net policy liabilities was up $3 million, or 4%, which was in line with a similar increase in the average liabilities. The remaining $4 million increase in the costs of the interest bearing liabilities was due to higher financing costs. Of that, $2 million was due to the reduced benefits from the interest rate swaps; $1 million resulted from higher rates paid on short-term debt; and $800 thousand was due to the senior notes and trust preferred securities issued late in the quarter.

Regarding the swaps.

Due to rising short-term interest rates, the income from the swaps has declined steadily in the last few years. As late as the second quarter of 2005, we had 4 swaps with a combined notional amount, or face amount, of $530 million. In the third quarter of 2005, we terminated 2 of them totaling $200 million of face amount, and in the second quarter of this year we terminated the remaining two swaps that had a combined face amount of $330 million. Since their inception in late 2001, these 4 swaps provided $46 million of income; however, due to rising short-term interest rates, the income has declined dramatically in the last two years. We went ahead and terminated the swaps due to the likelihood that their semi-annual cash payments would become negative in the future. Now that we no longer have the swaps, our only exposure to floating rate debt is the short-term commercial paper that totaled $115 million at June 30.

Now, regarding the issuance of the securities mentioned above. Late in the second quarter, we borrowed $370 million; $250 million of 6 3/8% senior notes due in 2016 and $120 million of 7.1% trust preferred securities due in 2046. After issue expenses, the net proceeds were $362 million. $330 million will be used to retire the $180 million of 6 ¼% senior notes that mature in December, and for the likely call of the $150 million of 7 ¾% trust preferred's in November. The other $32 million of proceeds will remain in investments, or possibly be used to reduce short-term debt.

We went ahead and issued the new securities because of the concern over rising interest rates later in the year. From June 30 until the proceeds of the new securities are needed for the fourth quarter payoffs, we will incur a net pre-tax cost of approximately $300 thousand, which is comprised of the interest expense on the new issues offset by the investment income on the related proceeds. Going forward, beginning in 2007, this refinancing will benefit excess investment income by about $900 thousand a year, pre-tax. For more information on Torchmark's debt, please see the related schedule in the financial reports section of our website.

In summary, the lower long-term interest rates and higher short-term rates have restricted excess investment income in the last two years. However, we are seeing improvement. We are investing money at higher rates and we've reduced the exposure to short-term floating rate debt. We are encouraged most by the up tick in the long rates. With the strong and growing

cash flow from our insurance operations, higher long-term rates will provide the quickest way to reverse the trend of declining excess investment income.

Finally, I would like to make just a few comments regarding our share repurchase program. So far this year, we've spent $267 million to buy 4.7 million Torchmark shares, and this is comparable to the $237 million used to buy 4.4 million shares in the first half of 2005.

We use our free cash flow at the holding company to fund our stock repurchases. Free cash flow is the previous year's statutory earnings of our subsidiaries dividended up to the holding company less the dividends paid to the shareholders and less the financing costs. In 2005, free cash flow was $300 million, and we purchased 5.6 million shares. In 2006, we expect the free cash flow to be at least $320 million. With our debt at an appropriate level, and as long as the stock is valued such that repurchases provide a superior return over other alternatives, we expect that the stock repurchases will once again be the best use of our free cash flow.

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

Mark McAndrew: Thank you, Gary. As we stated in our earnings release, we are raising our earnings guidance for the balance of 2006. Our previous guidance was $4.90 to $5.00 per share which excluded a projected stock option expense of $.04 per share. Due to the better than expected experience on Medicare Part D, higher yields on our new investments, higher than projected net health sales, and improving margins at Liberty National, we are raising our guidance to $5.00 to $5.06 per share, before stock option expense, which represents a 9% to 10% increase over our 2006 earnings per share.

Those are my comments. I will now open the call up for questions.

Jimmy Bhullar, J. P. Morgan: Hi. Thank you. I just have a couple of questions. First, on Part D. I think, Mark, you mentioned your actual underwriting margins have been closer to 15%. You had assumed about 9% in the first half results. What are you assuming for the revised guidance? Are you assuming that underwriting margins will be at the levels you have seen them in the first half, or is the assumption a little bit conservative so that there might be some room for upside?

Mark McAndrew: Well, again, Jimmy, we have given a range, and there is still some uncertainty where our loss ratio will end up on Part D. Right now our best estimate is that our actual loss ratio will end up somewhere in the low 70's. But the thing you have to keep in mind – that anything down to 74% loss ratio, we basically get to keep that additional margin. Anything less than 74%, we have to refund most of that back to CMS or Medicare. So the difference between a 70% and a 74% actual loss ratio really is going to affect our margin very little. It would actually affect it less than a point. So we are expecting – right now our best estimate is we are going to come in somewhere around that 74% loss ratio.

Jimmy Bhullar: Okay. And then on – just on Liberty National, your agent count was down I think about 88 agents. What's in those numbers? How many people left and what was the actual growth? What was the actually hiring activity? Could you give us a better breakdown of that?

Mark McAndrew: Well, I can give you a little better breakdown. We were losing agents basically throughout the first five months, four months of the year because we made the announcement of the changes back in January. So we didn't see – we lost – I think we terminated roughly 100 agents right around May 1st for low production. We reached our low point really about the first week of June. We got down as low as, it looks like 1,546 agents. So we started to see that turnaround already, and we expect to see growth going forward. The new agent recruiting in May and June I was very encouraged with.

Jimmy Bhullar: Okay. And finally, you had spoken in the past about restructuring American Income. Are you

adding agents to existing territories? Where do you stand in terms of that? Are you doing more of that or is that on hold? If you could just speak a little bit about it?

Mark McAndrew: No, we are continuing that. Again, I think it's going to take some time to get that done nationally. But we are continuing to expand that.

Jimmy Bhullar: Are you halfway through the territories?

Mark McAndrew: No, we are not anywhere close to that, Jimmy. Right now, we've really just done it in three major metropolitan areas; which we expect to do three or four more here the balance of the year. But we are seeing some benefit from it because we're doing it in places where we are not seeing the growth that we feel like we need.

Jimmy Bhullar: Okay, thank you.

David Lewis, SunTrust Robinson Humphrey: Good morning. Thank you. Mark, a couple of questions also on the Part D. You did $5 million of underwriting profit. If you end up with a 74% loss ratio, will you make the full adjustment in the third quarter or spread it out between the third and fourth? And with the administrative cost reduction, where do you think the underwriting margin would ultimately come in for the second half?

Mark McAndrew: Well, again, the underwriting margin – if we end up at a 74% loss ratio, we will have a full year underwriting margin of about 15%. We wouldn't – there are still some significant uncertainties there. If you look at the information we put out on our website, our actual loss ratio the first quarter was 103%, and then that declined to 88% in the second quarter, but we're projecting in our estimates that's going to decline to 66% in the third quarter and 44% in the fourth quarter. That's still a big uncertainty whether they will decline that far. We don't believe they're going to get quite that low at this point, but we still expect to see for the full year really somewhere between 85% and 90% would be my best estimate of where we think our actual expected loss ratio will end up, which gets us to about that 74% loss ratio.

David Lewis: Okay.

Mark McAndrew: So, I would expect for the full year – right now, our best estimate for the full year, we will end up with a 15% underwriting margin, but it will be spread – most of it, you'll probably see in the fourth quarter. You'll see more in the fourth than you would in the third.

David Lewis: Okay, and with some of the changes Medicare is going to make on the program as you go into 2007, would you kind of revert to your original assumptions or would you keep something closer to the 74% loss ratio if everything held as the trend you see now?

Mark McAndrew: Well, for next year we've already done our pricing. We had to file that with CMS, and we have assumed better experience for next year. So we are still – we price this product at an estimated 76% loss ratio at the beginning of the year, and that's basically where we are pricing for next year. We'll use the same target loss ratio.

David Lewis: And that target loss ratio would give you an underwriting margin of what, 13%?

Mark McAndrew: That would be correct. If we end up with a 76% loss ratio next year, it should give us about a 13% underwriting margin.

David Lewis: Okay, great. Thanks very much.

Yaron Shashoua, Fox-Pitt Kelton: Good morning. Thank you. Just a couple of quick questions. The first one is on Part D. You just kind of went over a couple of the loss ratio numbers going into the first, second, third

and fourth quarter. Can you please explain the pattern of these loss ratios in Part D, please?

Mark McAndrew: Well, again, a lot of it has to do with the benefit design that – basically, people have first dollar coverage up to $2,250 of claims. And then, basically, until they hit $3,600 of out-of-pocket they have no coverage. That's what referred to as a doughnut hole. So we fully expected – in fact, in the first quarter, we expected to see 137% loss ratio and we only saw 103%. So what's happening is people are not – the claims experience was better, but they are not hitting that doughnut hole as fast. So while, the loss ratio is coming down, it's not coming down as quickly as what our initial projections were. So if you look – again, our actual to expected claims were 75% in the first quarter. They were 89% in the second quarter.

We continue to expect those claims to – the loss ratio to come down the balance of the year. And we have looked at the detail of our claims and tried to make some projections of when people are going to hit that doughnut hole. So our best estimate right now, again, is that our total loss ratio for the year will be somewhere in the low 70's.

Yaron Shashoua: Okay. The second question is on the health side for the UA Branch. Over the past four quarters, this distribution channel has shown strong year-over-year sales growth. Just wondering what is the primary drive for this growth, and also do you expect it to continue into the second half of '06 and '07? And can you please actually describe the particular product that's driving this growth? I believe it's the limited benefit product. I just want to know if you can just kind of go over it in detail?

Mark McAndrew: Well, we'd be happy to. If you'd like we can send you product brochures which give you the specifics of the product. It is a limited benefit product. But it's a combination of things that are driving the Branch Office sales growth. One, we are opening up new offices. We expect to open roughly 20% additional offices this year versus last year.

Our new agent recruiting is very strong, but a lot of it is driven by the product that we introduced the early part of last year that has – it is a limited benefit product but it has pretty broad benefits. I believe you can get up to $4,000 a day while you are hospital confined. And it has a number of benefits within there. They all have internal limits, and we are comfortable with the product. But there is a strong demand for it right now. But we'd be happy to send you a product brochure, if you'd like.

Yaron Shashoua: And you expect that demand to continue into '06 and '07 – end of '06 and '07?

Mark McAndrew: It's going to be difficult to continue 91% growth, but we do fully expect to see strong growth for the foreseeable future in that distribution system.

Yaron Shashoua: Great. Thank you very much.

Bob Glasspiegel, Langen McAlenney: Good morning. Just one question on Med D and one question on sales. You haven't changed your 9% margin assumption year-to-date, but implicit in your share of earnings guidance was a little bump, or sort of – I assume better second half margins starting to bleed in. But it sounds like you're not assuming all the way up to 15, so we're somewhere between 9 and 15 for the year. Is that a fair characterization of what you're trying to tell us?

Mark McAndrew: We're pretty confident it's going to be something above the 9. Yes, it could be as high as 15. And again, that's why we have given a range in our guidance. The big question mark we have is the Part D ultimate loss ratio, so that is why we've given a $0.06 range. It could still fluctuate considerably. We're pretty confident we are going to have more than 9% margin for the full year. And again, right now, our best estimate is that it's going to be somewhere right around that 15%.

Bob Glasspiegel: So at 15%, it would be adding like $0.15 to $0.20 a share incrementally this year. Correct, on that premium number that you gave us?

Mark McAndrew: Well…

Bob Glasspiegel: Just taking the most optimistic read of – if everything goes….?

Mark McAndrew: Well, if we end up – we should end up with somewhere around $210 million of revenue. If we have a 15% underwriting margin, gee, that is $31.5 million. So that, again, that's before administrative expenses.

Bob Glasspiegel: Before administrative expense.

Mark McAndrew: So that would be roughly $20 million after tax. So, yes, that's a significant contribution to earnings per share. And most of that we will see in the second half of the year.

Bob Glasspiegel: Okay. And just trying to read body language, we've gone from hoping that fixes at Liberty National and American Income on the sales activity that would work to actually giving a shot clock for when you think they are going to work. Is that a fair statement that you are a little bit more confident that these fixes are going to pay off a quarter ago?

Mark McAndrew: I think that's true. At American Income in particular – the last eight months of last year we saw a decline in our agent count at American Income. So unfortunately, the first quarter, really the first four months of this year, we were just catching up to where we were a year ago. I think at the end of April, our agent count was up 3%. At the end of May it was 5%, and by the end of June it was up 8% from year-ago numbers. And if I look at the new business just coming in the door at American Income, June numbers were very – they were a 10% increase over June of last year. So I feel good about where American Income is at.

Liberty National – I think there was some concern that major changes we made, that we might see it implode, which didn't happen. We did see some turnover, which we fully expected. But I'm very encouraged by the recruiting numbers there. That they are actually very strong right now, and we are starting to see that agent count – it hit its low the first of June and we're starting to see some growth there. So, yes, I feel much better about where Liberty National is at than I did a quarter ago.

Bob Glasspiegel: So mission accomplished at American Income, but not quite there at Liberty?

Mark McAndrew: I think it's going to take a little more time at Liberty just because we did turn over so many of our managers, although most of those people have now been replaced. It takes some time to get those people up to speed. So, I'm still not going to project any significant growth at Liberty National in sales for the balance of this year. I think that's hopefully a little on the conservative side, but I think we're in good shape for '07.

Bob Glasspiegel: Thank you very much.

Joan Zief, Goldman Sachs: Thank you. Good morning.

Mark McAndrew: Good morning.

Joan Zief: You mentioned for your Direct Response that you thought the response rate was under pressure because of discretionary income being pressured by higher energy prices, higher gas prices. And I guess my question is, considering you actually target the middle-to-lower middle income economic strata for many of your products, would you expect that if gas prices and oil prices and inflation continue to be an issue that your

sales across more than just one distribution channel could be affected?

Mark McAndrew: I don't really look for it to affect our agent sales. We're going to a little higher demographic there than what we probably are in the Direct Response. And I don't want to be overly negative on the Direct Response. We do have some good things going there. Our direct mail juvenile sales are up 19% year-to-date. Although, we – based upon assumptions we made early in the year and some of the models we did, we expected closer to 30% growth in the quarter. So that number is very good, although it's not as good as what we actually expected. Our sales to parents are down 5% year-to-date which isn't too surprising because our juvenile sales last year we're down, and the sales to parents will follow what happens to your juvenile sales. So we know that number will improve over the next 12 months. So it's not doom and gloom – it's just – we had a disappointing response rate in the second quarter so we're just being a little less optimistic than we were three months ago.

Joan Zief: All right. My next question is, on the premium for Medicare Part D, given all of the issues that you talked about, changing pricing going forward, but then the potential for your new policies being sold next year, what type of sales and premium growth are you thinking about for 2007?

Mark McAndrew: Well, that's a big question, and there is only a six week open enrollment period at the end of this year from November 15th through January 1st, versus we had a six months open enrollment last year. Again, I think roughly the number I saw was 39 million of the 44 million people have enrolled in the plan. We don't know how many of those people will switch either to us or away from us during that six week open enrollment period.

I don't believe we're going to see – that we are going to lose a significant number of people, but we really don't know how many people we are going to enroll during that open enrollment. The other thing that's a big question mark is, although we only had 14,000 roughly – or maybe I think it was down to 12 – of the auto assigns (the low income people), we don't have any idea how many of those we will be assigned next year.

We did file a second product at a lower premium rate with lesser benefits to hopefully pick up a few more of those people, but we just have no idea at this point how many of those we might receive. So I can't really give you much guidance for 2007 yet. The thing about this year, we'll know on January 1st versus May 15th how many enrollees we will have for next year.

Rosemary Montgomery: This is Rosemary Montgomery. I would also like to add that we should have some better information on the auto assigns in September since that's when we will find out. I think CMS will release the average nationwide prices then for all the other plans. So I think we'll have better information then on the auto assigns.

Mark McAndrew: Okay.

Joan Zief: But then, my other question does relate to your guidance. You talked about a lot of things that were working better than your previous guidance had assumed. You talked about the Medicare Part D, which could be as much as (whatever it is) as much as $0.08 incrementally. You also gave us the cost saves at Liberty National that I suspect part of those cost saves must have been better than you thought.

You talked about investment income – you talked about health sales – and I guess I am just trying to understand what is the critical driver of all of these variables? What provides really the biggest swing which could provide potentially even more upside than your guidance implies, and what could be disappointing to bring you down to the low end of the guidance?

Mark McAndrew: Okay, again, I think the single biggest variable there is the ultimate loss ratio on the Part D. So we don't have a lot of upside there. I mean, if it's anything below 74 we have to give most of that back. So

I mean if it ended up at 69, we still figure instead of the 74% loss ratio we'd have a 73.1% loss ratio.

Joan Zief: So you're basically saying that a lot of the better earnings, assuming that you don't end up with an 80% loss ratio; what you are basically saying is a lot of the positives of the upside to the guidance are technically baked into results and there isn't a lot of risks.

Mark McAndrew: Again, the biggest – there is not a lot of risks. We think that the improvements in margins at Liberty National are roughly 2.5%, and we don't see a lot of risks there. The only real question mark; the reason why we have that big of a range is the Part D ultimate loss ratio. And that is still a significant question mark. Could it be 76? It could. I mean there was a possibility that it could end up at 76 and not 74.

Joan Zief: Okay.

Rosemary Montgomery: I think the big unknown with that loss ratio also is the fact that the people that enrolled so close to May 15th were very, very healthy people, at least that's what we are seeing so far. So instead of seeing the latter enrollees increase our cost, which was what we actually expected, it's actually going the other way. But that experience is, you know, there is not much there. We have got one to two months that we are dealing with, so I think that's really one of the biggest unknowns that we have.

Joan Zief: Thanks. Thank you so much.

Steven Schwartz, Raymond James & Associates: Hi. Just a follow-up – a lot of questions were asked – but a question actually for Rosemary. Rosemary, it's my understanding, see if I've got this right, that what's going on is a lot of the people in May who came in before the end of the enrollment period were healthier. So in effect, it's a timing type of deal going on here to some extent, that they are not using the benefits as fast as you thought. They may still get to the doughnut hole; the ultimate benefit ratio on those people might be the same, but the timing of the type of accounting that you're using really creates this phenomenon. Is that fair?

Rosemary Montgomery: I don't think it's really the timing of the accounting. We would have normally expected that somebody coming in in April or May would have for the year had a very, very high loss ratio which would have driven our overall number up. And as I said, the experience is very preliminary at this point, but we're actually seeing it go the other way. And these people are so healthy that they are just not having very many claims; yet, of course, they do have a premium. So that's really what's been helping us.

Mark McAndrew: You take the June 1st effective dates, for our expected loss ratio on those people for the year was actually a 109% because we did not think they would hit the doughnut hole soon enough to get our loss ratio below 100%. But our actual loss ratio in June for those June 1st enrollees was only 73%. So they are far, far better than what we expected.

Rosemary Montgomery: Again, that number could change a little bit because the experience is preliminary. But you know, I still think it's going to come in very favorable.

Steven Schwartz: Okay, so you are thinking less of these people are going over the 12 month period are going to be hitting the doughnut hole?

Rosemary Montgomery: Well, really over the remainder of the year will be hitting the doughnut hole.

Steven Schwartz: All right. And then, just kind of a little technical question. With the end of the enrollment period in Medicare Advantage, have you seen any changes in lapse rates in your Med supp block of business?

Rosemary Montgomery: No, the Med supp block of business is really held in quite well with the lapse experience. We really have not seen anything different there. No.

Steven Schwartz: Okay, great. Thanks.

Ed Spehar, Merrill Lynch: Good morning everyone.

Mark McAndrew: Good morning, Ed.

Ed Spehar: A couple of questions. Mark, back to Direct Response. I know you were pretty optimistic about some things that you were doing there, and it sounds like you still are. But I'm wondering what was it that changed in sort of – it seems late in the quarter in some ways that you think caused the sales to come in a little less than you would have expected?

Mark McAndrew: Well, Ed, it's not so much that sales this quarter were that much less than expected. But, okay, again, giving a few numbers, the juvenile sales or the direct mail portion of our juvenile sales, they are up 19% year-to-date. We really thought we would be closer to 30%, particularly in the second quarter. The parent sales are pretty much in line with our expectations. But the thing that – our biggest challenge right now is a little over half of our sales come from outside our traditional direct mail solicitations. They are coming – we get a little from TV, a little from the Internet. But roughly half our sales are coming from what we call other insert media, which are coupon packs, newspaper inserts; we were in like Chase Bank statements and AT&T billings. We do a lot of these other insert pieces. In fact, it was roughly a billion pieces a year. It's a two-step process, where we put the insert in – the people send us a response card, and then we send them a fulfillment package with an application. Then that's where we're seeing the biggest impact. One, we can't be as selective there about who we are going out to. But the number of response cards we've gotten in year-to-date are down 15% from a year ago. Now, the sales off of those response cards are only down 1%. We've made some significant improvements and getting more premium and more sales per response card. But we were expecting those response cards to be roughly the same as they were last year and they have declined by 15%. We hope, and we are sure going to give priority to doing whatever we can to get those numbers up the second half of the year. But that's the biggest single thing that's brought our expectations down.

Ed Spehar: Okay. That's helpful. And then I want to clarify something that you had said on Direct Response premium growth. Did you say without sales improvement that you'd have 6% to 7% premium growth in '06?

Mark McAndrew: Yes.

Ed Spehar: And, I mean, in terms of thinking about '07, maybe a little bit less but not that much so.

Mark McAndrew: I think that's a fair assessment. If we continue to have flat sales we will see a slow decline in that growth rate. But it will better than that – the 4% we had this quarter really is a timing issue. So it would be a very show decline. That 5% to 6% growth next year or even with flat sales would still be a reasonable estimate.

Ed Spehar: Okay, that's good. And then the final question was in terms of the Med Part D. When you talk about – it sounds like the prices that the premium rates in the product you filed is sort of suggesting a 13% underwriting margin. How should we think about what the administrative expense percentage would be?

Mark McAndrew: Well, our….

Ed Spehar: Will it be less from this year or….?

Mark McAndrew: Well, let us see. Our administrative expense for the second quarter was roughly $1.4 million. But we were still during the open enrollment period for part of that time. We expect our ongoing level of

administrative expense to only be about $1 million a quarter.

Ed Spehar: Okay.

Mark McAndrew: And they are directly attributable to Part D.

Ed Spehar: And maybe a little bit higher in the first quarter of '07, because of the ….?

Mark McAndrew: Probably more so the fourth quarter of this year, just because the open enrollment runs November 15th through January 1st. So, we'll have to have additional people on the telephones during that open enrollment period.

Ed Spehar: Okay very good. Thank you very much.

Eric Berg, Lehman Brothers: Good morning to everyone.

Mark McAndrew: Good morning, Eric.

Eric Berg: So I have a few questions. First, with respect to the Direct Response. I want to revisit this whole issue of fuel costs. Inasmuch as the price of gas at the pump admittedly has had its ups-and-downs, but has been significantly more expensive than it has been for a year now, why do you think just – are you suggesting that just now your customers are being affected by $3 a gallon gas? I mean wasn't this the case a year ago as well?

Mark McAndrew: Well, again, Eric, I hate to give subjective reasons there. We have nothing concrete. We really don't have anything concrete to know why those response rates were down in the second quarter. We like to think that our target market, that's roughly the same target that Walmart is trying to reach. Other people in the direct response industry are talking about that affecting their sales. We don't have anything concrete there to really know. We do know that we saw a decline in our response rates during the quarter, and at this point we are not sure when they will come back up. So I can't – it's really a very subjective thing as to why they are down.

Eric Berg: Okay. Let me move on. I want to revisit your comments about American Income. I'm certainly aware from your news release and your comments that the agent count is up both sequentially and year-over-year. I think the percentage year-over-year gain is quite healthy 8, 10%, whatever the precise number was. But in the end, the sales are not really going anywhere. They are flat. Can you revisit for us or elaborate on, if you have many more agents than you used to, but they are producing – but the numbers are just not coming in the way I think we'd all like to see in terms of sales growth. What's the basis for your positiveness?

Mark McAndrew: Well again, they're flat with a year ago. But again, the last 8 months of last year we saw an agent decline. In fact, we saw an 8% decline in our agent count the last 8 months of last year. So the second quarter last year was our peak sales quarter because it was our peak agent count. And what happened the first quarter of this year, the growth that we had was just getting us back to even with last year.

Again, at the end of April, our agent count at American Income was only up 3% from a year ago. Now we're up 8% from a year ago. And again, if I look at just the June sales, the business coming in the door, it's not the net issued number that we've reported, but the new sales are coming up. We did see 10% growth in our June sales at American Income.

So I'm optimistic that – and the sales, if you look at our second quarter sales versus our first quarter sales, they were up. We saw a decline in the third and fourth quarters last year. I expect to see those sales continue to move upward the second half of this year where they declined in the second half of last year.

Eric Berg: Essentially you're saying it's a comparison issue with sales last year?

Mark McAndrew: And again, we saw a decline in our agent count the second half of last year. And we saw a decline in our sales in the second half of last year, which we think we've reversed. And I do not expect – I expect to see continued growth in the agent count the second half of this year and continued growth in sales.

Eric Berg: If I can move on to Liberty. You talked – one of the reasons I think you said that you're increasing your guidance for your EPS is – relates to margins at Liberty. But it looks to me from the fiscal supplement, from your supplementary material, that margins in the June quarter both on the life and health side were flat. They were clearly up year-over-year – pardon me, year-to-date, year-over-year, but they were flat in the quarter. What is happening with margins if they were – are margins really improving if they were flat in the quarter?

Mark McAndrew: Well, again, the changes were not implemented until May 1st and they had very little impact on the second quarter numbers. For example, we're eliminating all management salaries, the middle managers, as well as the district manager salaries at Liberty National. But they are coming down over time. The sales manager, the middle manager's salaries, are going down to $20 a week until they are gone. The district manager's salaries are going down $25 a week until they are gone. That's going to take six or eight months for all of those savings to be recognized. That's why we expect right now about $1.4 million of benefit in the third quarter and $2.3 million of benefit in the fourth quarter. And actually, that number will increase a little more for '07 from those numbers. But we saw very little impact in the second quarter.

Eric Berg: Last question relates to Part D. Am I right when I conclude that the cost you have been surprised by claims experience to date, but as well because you plan to book at least preliminary for '07, a loss ratio consistent with what you're now expecting for the full year calls for 74% to 75%, that you think this surprise was not an anomaly but is going to be sort of the way things work prospectively? I hope the question was clear.

Mark McAndrew: Oh, I think it is. Yes, it definitely was a surprise this year. We now have at least some experience to make better projections for next year, and as Rosemary said, the biggest surprise we had was how healthy the later enrollees were.

The May 1st and June 1st enrollees appeared to be substantially better risks than the January 1st enrollees. Next year we'll have the benefit of those people for the full year instead of just 7 months or 8 months. So we do expect to see better experience for the full year of 2007. And we've used, we think, reasonable assumption on our pricing for next year.

Rosemary Montgomery: Yes. I don't think it's an anomaly at all. I think it's really just been a learning process. And when we had to price for 2007, we did take into account that favorable experience that we were seeing. We didn't have a lot of months of experience at that time but we did take that into account. So it's really hard to say at this point what 2007 will show. We'll have to look at what the full results are for 2006 and compare them to our pricing. But I definitely don't see that as an anomaly at all.

Eric Berg: Thank you.

Mark Finkelstein, Cochran Caronia Waller: Hi, good morning. A couple of questions here. Just going back to Part D, the second product that you're introducing for 2007, just to clarify – is that directed specifically at the duals and are you filing that in all regions?

Mark McAndrew: We are filing it in all regions, and it is intended to try to pick up more of the dual eligibles. We basically did not load any acquisition expense into it, and

it has the basic package of benefits. And it has a narrower formulary than what our current product has. So it is – we have filed it specifically to try to pick up more of those. But we really have no idea whether we will or not at this point.

Mark Finkelstein: And did you file it with a lower margin assumption on it or is it consistent with the other products?

Mark McAndrew: You want to answer that Rosemary?

Rosemary Montgomery: I believe it's consistent.

Mark Finkelstein: Okay. Just moving on, a fundamental question on the health side. Explosive growth in the limited benefit plan at the Branch, yet considerably lower growth, almost flattish in the independent channel on that product. Can you just talk a little bit about, I guess, and obviously they are very different distributions, but just why is the growth at the independent channel on that product not picking up, and are you doing anything to try and kind of grow that product in that channel given the success at the Branch?

Mark McAndrew: Well, sure we are trying to grow that channel. It is different in that independent agencies we don't control; we can't. They are free to write for however many companies they choose to write for. And actually up until this quarter, we were seeing significant declines in the independent agency because, again, if I go back two years ago, in that distribution system 60% of our sales were coming out of one large general agency. New sales had declined rapidly over the last two years. Their sales were basically flat the second quarter versus the first quarter. So it looks like they have kind of hit a bottom level there. So the growth we're seeing is coming from other sources, which we've been seeing that growth for some time. It's just been offset by the decline in this one large general agency. But the big question is why we're not seeing as big a growth there is that we just don't control the general agency force. There is not that many independent agents out there that are in that market. If they are, they're selling primarily a major medical product that we are not willing to offer. So it's really just a difference in the basics of the distribution. We control our branch office people; those are exclusive agents. So we have more control over them.

Mark Finkelstein: Okay. And then just a – I mean it has came down a lot lately. But First Command, the sequential decline in the agent count – I know you're trying to work with First Command on trying to kind of restructure some comp. I know there was an issue with annuity compensation.

Mark McAndrew: Right.

Mark Finkelstein: ….in effect, but I guess how should we think about that distribution? I think you lost around 50 agents in a quarter. And is there hope there?

Mark McAndrew: Well, again, it's a mutual fund compensation that declined, but there are really no new developments there. I will see the head of that distribution next week and I'm going to revisit with him. But right now, flat premiums is about the best we can hope for for the balance of this year. And really right now, I don't see any reason to be optimistic for '07 any better than flat.

Mark Finkelstein: Okay, thank you.

Tom Gallagher, Credit Suisse: Hi. First question is just on total life insurance premium growth. If you have commented on that, I apologize. I missed it. It was 3% this quarter, I believe? Where do you see that going in light of your sales outlet?

Mark McAndrew: Well, that's still a big question; that's our biggest challenge. The growth this quarter was a little

light because of the Direct Response premiums. And again, I think that was a timing issue. But obviously, the growth for next year is going to be impacted by what happens to our sales.

I feel good about where American Income is at. But realistically, for next year, right now 3% to 5% growth in life premiums next year is probably where we're probably going to end up. But we'll give more guidance down the road. We really haven't done a projection yet for next year. So when we put those numbers together we'll be able to give you a better idea.

Tom Gallagher: Okay. And then let's see on Part D. I know you – there was some commentary about your – I guess reflecting your better-than-expected experience in pricing this out for '07. Can you comment on what you actually did on pricing? I presume that means you lowered prices, and I also would presume competitors are doing the same, but can you give some commentary there?

Mark McAndrew: Well, that I am going to let Rosemary address, but actually Medicare is reducing their reimbursement rates for next year so actually our prices that we are charging to the consumer will actually be up a little bit. But, Rosemary, do you want to comment?

Rosemary Montgomery: Yes. I think that in terms of what we did for '07, as you say, Mark, we did increase the rates a little bit. But then, of course, CMS is going to be reimbursing less for next year. But I think that we really have fairly reflectived the experience that we've been seeing to date in the pricing for next year.

Tom Gallagher: And so if you combined the reduced reimbursement rates from CMS, plus your rate increase, is there a way for us to think about, I guess, kind of the net revenues that you'd be getting? Should they be going down per member or flat or….?

Rosemary Montgomery: No, they will be going up a little bit per member.

Tom Gallagher: Got it. Okay. And then just in terms of – I don't know if there is a way to give a little better color on what's really going to drive the revenue growth here, because I presume that given that you now have a pretty sizeable base of customers, the key is probably just on retaining them? But can you talk a little bit about really what might drive growth here? Obviously, retention is a big issue. But are there any programs or strategies you have in place, other than that one other product that you mentioned, to grow sales?

Mark McAndrew: Well, it will be interesting to see again. Again, we don't have a very big window this year; six weeks. We do intend to vigorously try to enroll people during that six week period. The thing about it we've only signed up our Medicare supplement customers. We still have less than half of those people that have signed up for Part D with us. So that will be a big area of emphasis. And also we've learned a lot during our marketing efforts this year and actually our efforts towards the end of the open enrollment period were very successful. And we've been able to model that and we will be doing some direct mail marketing efforts during that open enrollment. We just – it's impossible to say how many people will enroll at this point. We obviously won't enroll nearly as many as we did this past year. But could we see a 10% increase or more than that? We could. We just don't have a very good feel at this point. And then the other thing is the big question mark is the low income auto enrollees. We just don't – we'll know there, as Rosemary said, in September whether we'll see more of those for next year.

Rosemary Montgomery: Yes, and I think that will be very interesting to see what happens with all of that. I think that we've got a good product out there to compete with. As I said earlier, I think the profit margins are consistent, but of course we don't expect to have the acquisitions expense in that product that we would have

had in the others. I think we've got a very competitive rate with that product.

Tom Gallagher: Got it. Thanks.

Mark McAndrew: Well, thank you for joining us this morning. Those are our comments and we will see you again. Talk to you again next quarter. Thank you.