

TORCHMARK CORPORATION
1st QUARTER 2007 CONFERENCE CALL
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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 is Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; Rosemary Montgomery, our Chief Actuary; and Joyce Lane, Vice President of Investor Relations. Some of my comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2006 10-K which is on file with the SEC.

Overall, I'm pleased with our first quarter. Net operating income for the quarter was \$131 million, or \$1.32 per share, a per share increase of 10% from the \$1.20 from the year-ago quarter. Our return on equity was up slightly from last quarter at 15.9% and our per share book value increased 10% from a year ago to \$34.93.

In our life insurance operations, premium revenue grew 3% to \$391.5 million and life underwriting margin also grew 3% to \$102 million. Life insurance net sales were \$62 million, up slightly from the fourth quarter, but down 8% from the year-ago quarter. Life first-year collected premiums were \$50 million, unchanged from last quarter and down 7% from a year ago.

In our Direct Response operation, life premiums grew 5% to \$123 million, and underwriting

margin increased 2% to \$30 million. Life net sales for the quarter declined 6% from a year ago to \$28 million and life first-year collected premiums declined 4%.

The decline in first quarter net sales was expected and resulted from a 29% decline in our adult product sales to the general public. As we discussed on the last call, these sales (until January of this year) were controlled by an outside vendor, Direct Marketing Advertising Distributors, or DMAD. The decline in first Quarter sales is a direct result of DMAD's 30% reduction in insert circulation which occurred during the fourth quarter of 2006.

As a result of our January acquisition of DMAD's assets, first quarter insert circulation was reduced by only 10% from a year ago and we are now more confident that this circulation will be at or above 2006 levels for the balance of this year.

By reversing this decline and with continued growth in our direct mail operations, we have raised our expectations for net sales growth in Direct Response. We now expect to see 5% to 10% growth in net sales during the second quarter with robust growth of at least 20% during the second half of 2007.

At American Income, life premiums grew 7% to \$106 million and life underwriting margin increased 4% to \$132 million. Net sales were up 1% for the quarter to \$21 million and life first-year collected premiums increased 2% to \$18 million.

We are not satisfied with the 1% and 2% growth in sales in first-year premiums and expect these numbers to improve as the year progresses. Our producing agent count at American Income grew by 52 for the quarter to 2,405.

At Liberty National, life premiums declined 2% to \$74 million with underwriting margin unchanged

from a year ago at \$19 million. Net life sales were down 22% from a year ago to \$9 million, a result of the 22% decline in producing agents we experienced in 2006.

During the first quarter, the producing agent count at Liberty National grew 4% to 1,436. While this growth is respectable, the actual turnaround has been significantly better. Our producing agent count at Liberty National hit its low point of 1,302 the week of January 22. Over the last 12 weeks, the producing agents have increased 14%, and this week it stands at 1,485. New sales at Liberty National are tracking the growth in agents.

We are much more confident than we were on the last call that the turnaround at Liberty National has begun. We will see improvement in net sales during the second quarter, although they will still be lower than a year ago, and we expect strong double-digit growth in new sales during the second half of 2007.

On the health side, premium revenue, excluding Part D, grew 3% to \$265 million and underwriting margin also grew 3% to \$47.6 million. Health net sales increased 7% to \$59 million and first-year collected premiums were up 20% to \$48.5 million.

For the Independent Agency operation at United American, health premiums declined 6% to \$104 million and underwriting margin declined 11% to \$18 million. Net health sales for the quarter fell 23% to \$10 million and were a disappointment. On a brighter note, we have added some significant new marketing organizations during the first quarter and they are showing consistent and significant growth in new sales. We expect second quarter sales to be approximately \$14 million in the Independent Agency operation with additional growth in the second half of the year.

On the Branch Office side, health premiums were up 13% to \$97 million and health underwriting margin increased 11% to \$14 million. Net health sales were up 24% over a year ago to \$42 million and first-year premiums grew 45% to \$32 million.

Premium revenue for the Medicare Part D prescription drugs was \$55 million for the quarter with underwriting margins of \$5 million. Both were in line with our expectations.

Administrative expenses were \$38.7 million for the quarter, down 4% from a year ago. Administrative expenses were 5.4% of premium revenues for the quarter, down from 5.9% a year ago. Part of this decline can be attributed to a reduction in non-deferred Liberty National Agency salaries and related employee costs of \$1.4 million for the quarter. For the year, we have lowered our projection for administrative expenses by roughly \$4 million and now expect less than 1% growth in administrative expenses for the year.

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

Gary Coleman: Thanks, Mark.

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

First, investments. Torchmark has \$9 billion of bonds at amortized cost, which comprise 94% of invested assets.

Investment grade bonds total \$8.3 billion and have an average rating of A-. Below investment grade bonds are \$632 million and comprise 6.7% of invested assets, the lowest that this percentage has been since 2000.

Overall, the total portfolio is rated A-, compared to BBB+ a year ago.

Regarding new investments. We continued our practice of investing long when finding quality bonds yielding in excess of 6.5%. In the quarter, we invested \$546 million at an average annual effective yield of 6.6%, an average life of 27 years and an average rating of A. This compares to the 6.1% yield, 15-year average life and A rating of bonds acquired in the first quarter of last year.

The yield on new investments was still lower than the portfolio yield. The average yield on the portfolio was 7.01%, 5 basis points lower than the first quarter of 2006.

Now, turning to excess investment income. It was \$83 million, up \$3 million, or 4%. On a per share basis, excess investment income increased 9%, which reflects the effect of our stock repurchase program.

Excess investment income is net investment income less the interest cost of the net policy liabilities and the financing cost of our debt. The year-over-year comparison of each component is as follows:

First, net investment income was up \$9 million, or 6.0%, slightly lower than the 6.3% increase in average invested assets.

Next, the interest costs on net policy liabilities increased \$4 million, or 8%, due primarily to a 7% increase in the average liabilities.

And, lastly, financing costs were up \$2 million due to the higher short-term borrowing costs and also the loss of income from interest rate swaps that were terminated in the second quarter of 2006.

Finally, I'd like to comment on our share repurchase program. In the quarter, we spent \$167 million to buy 2.6 million Torchmark shares. This is comparable to the \$168 million used to buy 3 million shares in the first quarter of 2006.

We use our free cash flow at the holding company to fund stock repurchases. In 2007, we expect free cash flow to be at least \$350 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 investments, we expect that stock repurchases will continue to 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.

We are raising our estimates for 2007 earnings per share projections by \$.06 to \$5.38 plus or minus \$0.04 per share. The main causes of the upward revision were:

First, better than expected first quarter results; also, the \$4 million reduction in our estimated administrative expenses for the year; and to a lesser extent, increasing our sales estimates in our Direct Response operation.

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

David Lewis, Suntrust Robinson Humphrey: Good morning. Thank you. On the sales front, Mark, are you starting to see a pick-up in the Direct Response business as the insert media is improving on the circulation side?

Mark McAndrew: Well, again, now we report net sales which, again, most of what we do we have the

dollar introductory offer. So the sales that we report are after that introductory offer, and we report the sales that pay the full premium. So there is some lag between the time we actually see an increase in our issued policies to the time that we report the net sale. So, yes, as far as our new policies being issued, we have already seen an upswing there and that's why we feel confident in the numbers that I mentioned earlier.

David Lewis: Okay. Can you give us some guidance on what your thoughts are at AIH?

Mark McAndrew: American Income?

David Lewis: Yes, American Income.

Mark McAndrew: Well, again, sales for the first quarter were up only 1%. I would have expected a little more than that, but the agent count has started to grow again. If I look at the areas where we have added new SGAs, new field management, in those areas we are doing very well. In New York City, for example, a year ago where we had one SGA we now have three and our sales in New York City are up 76% for the quarter. In Los Angeles, where we've added three new SGAs, the sales were up 51% for the quarter. And really, for the first six metropolitan areas that we have taken over responsibility of the lead generation and added multiple SGAs, their total sales are up 41% as a group. We are continuing that process. It is a fairly slow process and it's going to take some time to do it, but I'm encouraged by the results we are seeing. But right now, in our guidance we are only estimating about 7% growth in sales at American Income for the year.

David Lewis: Okay. And finally, for Gary, if I kind of project out your debt as you continue to grow the equity side, debt to equity is going to continue to shrink. Do you think you would accelerate the debt side to utilize for an accelerated repurchase program

or do you think you are going to pretty much stick with the free cash flow?

Gary Coleman: David, I think we will probably stick pretty much with the free cash flow. I think we are satisfied with where the debt level is now. I don't know that it's going to decline that much but, again, I think we prefer using the free cash flow.

David Lewis: So you think your debt to capitalization holds somewhere in the 21% range?

Gary Coleman: Well, I agree with you – I think it might decline a little bit but I don't know how dramatically it would decline.

David Lewis: Okay. Thanks very much.

Jimmy Bhullar, J. P. Morgan: All right, thank you. I just have a few questions. First, Mark, on your life sales. Is it fair to assume that you can turn positive by the second half on the overall life sales given the improvement in Direct Response and an expected improvement at American Income and Liberty? And then I have a couple of follow-ups.

Mark McAndrew: If I look at the numbers that we have used in our guidance, we are actually expecting to see a small increase in life sales in the second quarter followed by -- really in the third and fourth quarters we expect to see double-digit increases in life sales. But right now we are expecting somewhere roughly a 4% increase in the second quarter with that accelerating to double-digit in the second half of the year.

Jimmy Bhullar: And then in Part D, your enrollment numbers are down and I think you've lost a few customers to companies offering lower-priced products. Do you have any plans to issue lower prices -- like a low end policy any time soon?

Mark McAndrew: Obviously, we don't have a new open enrollment until the end of the year. We really haven't even started planning that yet, Jimmy. We did, this past year, introduce a second plan that did have a lower rate than the plan that we offered last year, but we sold very little of it. And really our hope there was to pick up more of the low income auto enrollees, which we picked up a few but not very many.

Jimmy Bhullar: Okay, and then lastly, a question for Gary. On the duration of your purchase investments have been going up a lot – I think it was 27 in the first quarter, 14.8 or something last year – can you discuss the rationale for this given that the yield curves are pretty flat? Are you finding value by going long?

Gary Coleman: We are finding value, when the yield curve began to flatten in early 2005 we made the decision that our policy would be to invest in long bonds when we could get 6.5% or better, otherwise we would invest short. And during that period our average maturities for our quarterly investments have varied from 14 years to the current 27 years. If we can find quality bonds we are going to buy them if they yield over 6.5%. And we don't mind going long because, as we discussed before, with the long-term nature of our liabilities and the strong cash flow we have, we can buy and hold our bonds until maturity. We don't need to sell them to cover cash flow needs. Obviously, we are concerned with the credit risk when we do that, going long, but we are very careful in our selection process and we invest a large percentage of our funds in banks, insurance companies and utilities that are highly required and are not subject to LBO risk so that we can help manage that credit risk. I think, again, if the spreads and the yields will determine to a great extent how far we go out, but we are not afraid to go out to 25 years.

Jimmy Bhullar: Okay. That's all. Thank you.

Nigel Dally, Morgan Stanley: Great. Thank you. First, health insurance sales from UA Branch. While they are up significantly from prior years they were down sequentially despite continued growth in the number of agents. Just wondering, were there any reasons for that, perhaps seasonality or other factors that we should be aware of? And then second, on your net investment income. On a sequential basis it seemed to grow at a faster pace than your average invested assets. Given you've been investing at lower yields in the year-to-year portfolio yield, I would have expected the reverse to be true. Was there any strange or abnormal investment income such as prepayment income that provided a boost this quarter?

Mark McAndrew: I will take the first one, Gary, and then I'll let you have the second. Nigel, on the health sales, our accounting months we cut off the 24th. So the first quarter we always see very poor first two weeks of the year because of the Christmas and New Year's holidays. So that's why it's important -- I always look at versus a year ago, and they were up 24%, which was in line with what we had expected them to be. But there is some seasonality there. It's really just in that first couple of weeks of the quarter. We continue to expect to see 20% growth in that market going forward.

Nigel Dally: Okay. Great.

Gary Coleman: Nigel, as far as the investment income there were two things. When you compare the first quarter to the fourth quarter of last year, one is, our dividends were up around \$500,000 due to a special dividend that we received on one of our equity investments. In addition to that, we have some investments that are backed by low income housing tax credits where those credits are starting to pick up and that was about \$900,000 additional income there over what we received in the fourth quarter.

Nigel Dally: And how do those two items – I guess a special dividend would be a kind of abnormal or one time. Do the low income tax credits continue on a continuous basis?

Gary Coleman: Yes, they continue on at the pace that they were in the first quarter.

Nigel Dally: Okay, excellent. Thanks a lot.

Bob Glasspiegel, Langen McAlleney: Gary, I know we've gone through this before on investments, but I want to make sure that I follow this completely. When you are buying 27 year average life, you're obviously getting to your sort of yield goal. But can we infer any bullishness at all about bonds from how you invest or do you just not take investment views when you do go long?

Gary Coleman: Well, we really don't take investment views. Again, we are looking for that 6.5% yield. That's our target. As I mentioned, we will go out various points on the scale to get those. It's 27 years this quarter, but like I mentioned, the last nine quarters is varied and I think we've averaged 20 years, and we are quite comfortable with that. But we don't have a long range outlook on what interest rates are going to do. It's been three years now that they've been low. When we can get the opportunity to get our target, we take advantage of it.

Mark McAndrew: We expect to hold those bonds until maturity.

Gary Coleman: Yes.

Bob Glasspiegel: I know you have a large shareholder, Mr. Buffet, that obviously has had over this period some cautious views on interest rates. But you don't take a view at all on whether you think bonds are attractive or unattractive when you go long.

It's just a cash management decision? Just making sure I'm clear on that.

Gary Coleman: Yes, it is. That's exactly what it is; a cash management decision. We are trying to get the best yield that we can, but we are not going to do anything foolish. I know three or four years ago when rates really declined there were quite a few people that suggested we go short and then take advantage of rates when they started going up again. Well, you know, four years later they still haven't gone up, so we are, again, managing to maximize our yield, but we are being very careful on the credit side.

Bob Glasspiegel: Just two other small points. Med supp margins were 9 – I think a guidance of 8 was given, and military margins widened. Maybe it was a funny compare, but was there anything on the margin worth commenting that moved in those two lines?

Mark McAndrew: Rosemary, you want to feel those?

Rosemary Montgomery: Yes, I assume you're talking about the Part D margin?

Bob Glasspiegel: Yes.

Rosemary Montgomery: Yes, that did come in a little bit better than what our last estimate given was. And there really are two reasons for that. One, we did take over an administrative function from our PBM and were able to do that a little cheaper than what we were paying them to do. So there was a slight improvement there; I think about .4%. And also, we made an adjustment in our amortization percentage and also had about a half a percent improvement there. And that was really based on comparing the actual lapse rates that we were seeing relative to what we had in our model and making an adjustment for that.

Bob Glasspiegel: Is that a one time or is that something that stays?

Rosemary Montgomery: No, that's going to stay.

Bob Glasspiegel: And the Military margin widening?

Rosemary Montgomery: The Military margin, we just had low claims this quarter. And we really expect that to go back to the different profit percentage for the remainder of the year. But that was really just based on unusually low claims for this quarter.

Bob Glasspiegel: A good mortality in the quarter.

Rosemary Montgomery: Right.

Bob Glasspiegel: Okay. Thank you.

Eric Berg, Lehman Brothers: Thanks very much. Mark, you mentioned a few items that explained your decision to raise your guidance. I think the first one you said that things were better than expected. Could you review with us, specifically – I know you went through it but it was a little too fast for me – could you review what exactly happened that was better than expected?

Mark McAndrew: Well, I think some of those were just covered, Eric. One, the Military claims were better than what our model was. That's two straight quarters they've been better, but that was a pleasant surprise. We did have a little more margin in the Part D for the quarter, which was higher than what we had modeled. But the biggest single thing was our administrative expenses were down more than what we had planned. And part of that really goes back to -remember on the last call I talked about the Liberty National agent turnover was running higher than what we had anticipated? And it did not have a negative impact on our sales, but it had a positive impact on our expenses. And the part of those expenses in the

service salaries, and the health benefits, and the payroll taxes went into administration. So our administrative expenses as a result of the Liberty agent turnover were down \$1.4 million for the quarter. That was more than what we had anticipated. So we did have pleasant surprises in the first quarter in that regard. And really going forward, the biggest single thing is still the expense reduction. We've lowered our model for the year. We've reduced those expenses by about \$4 million from what we thought on the last call.

Eric Berg: Okay. My second question – that's a very helpful recap – my second question is for Gary. Gary, when talking about share repurchase, I think you said in your prepared remarks that you buy back stock when the return on share repurchase is better than (I don't remember what the comparison was) better than other investment opportunities. Is that what you said?

Gary Coleman: Right.

Eric Berg: How do you measure the return mechanically? I really truly don't know the answer to this question even though it would seem so basic, but I'll just ask it anyway. How do you measure the return on buying back your stock? How do you calculate that mechanically?

Gary Coleman: Well, one thing, look at the current earnings per share projection and divide that by the share price. For us right now that's about an 8% return. That's an after tax return. So pretax, it would be about a 13% return. And we compare that to buying 6.5% bonds, paying down debt that's actually a little bit less than 6.5%. And it's definitely superior to those alternatives.

Eric Berg: So you look at the earnings per share divided by the price?

Gary Coleman: Right

Eric Berg: Thank you. I'm all set.

Thomas Gallagher, Credit Suisse: Hi, quick question on ALM here. You talked about 6.5% being kind of your target yield on new money. I seem to recall this might have been as long as a year ago, the target yield was as high as seven. I just want to make sure there's been a bit of a change there, but then also just want to understand the embedded guarantees within your life products that are supporting most of that investment. Are you still in kind of the 5.3 to 5.4% range on the cost of funds side of the equation as we think about this? Thanks.

Gary Coleman: Okay, the 7% was our objective but we had to lower that to 6.5% because we just can't get the 7% and be happy with them buying investment grade bonds and doing that. You have to remember, Tom that the bulk of our reserves, over 70% of our reserves, are in traditional life insurance and health insurance. We are not crediting policyholder funds.

Tomas Gallagher: But there's an embedded guarantee within your traditional life product, I believe, at least based on previous 10-K disclosure, it used to say 5.3%?

Gary Coleman: Well, it's not a guarantee; that's what we are crediting to fund the reserves.

Thomas Gallagher: Exactly, right.

Gary Coleman: And that's a weighted average and it is still around 5.3%. The policies that we are putting on the books, or are being put on the books, with a crediting rate to fund the reserves of between 6% and 7% and that is one reason we are targeting 6.5% on our new investments.

Thomas Gallagher: So the products you are putting on the books today has an embedded crediting rate of higher than what is on the books?

Gary Coleman: Yes, higher than the 5.3%. It's around 6%. Some are a little bit higher but it's primarily around 6%.

Thomas Gallagher: So what does that do? If you are selling a policy today, what kind of implications for the ROE? I assume it's lower, but maybe you could just try to quantify that a little bit. My point is, it's previously the embedded guarantee was 5.3% and you were investing at 6.5%. That was a larger spread, but that spread seems to be narrower today.

Gary Coleman: Well, you have got to remember that -- it is a little bit narrower today, but you have got to remember that 5.3% is based on the fact that we've got policies on the books that have a credit rating of 4% and they go back many, many years. And so each year the rate that we attach to new policies we are issuing is supposed to be similar to what our investment rate is -- generally a little bit lower. And so over time we've invested higher than 4%, but we also raised the crediting rate, too. I would say our spread is a little bit less today than it was five, six years ago but there is still a spread there.

Thomas Gallagher: Okay. Thanks a lot.

Ed Spehar, Merrill Lynch: Good morning. I have a few questions. First, Gary, the tax rate was a little lower this quarter, I think, than what it had been running. Is that a sustainable level or can it go lower from there?

Gary Coleman: Yes, Ed, the rate was 34% versus last year when we were at 34.4%. And the reason for the reduction is really split evenly between tax-exempt interests. We bought more municipal bonds in the quarter than we had before, and then the other part of

it is through tax credits that had picked up this year. Now, the tax exempts interest, there was an offset there with lower investment income. The yields were lower on the tax-exempt investment so there was a little bit of offset there, but the other part of it, the tax credits, will be there the remainder of the year. But to sum it up, the tax rate will stay at 34%.

Ed Spehar: Okay. And I think there was some higher DAC amortization at Liberty National this quarter which maybe masked some of the potential margin improvement you should see in that line from some of the actions you've taken there. Is that correct and does that continue?

Rosemary Montgomery: This is Rosemary Montgomery. I can answer that question. We did have an adjustment just based on our regular review of our amortization at Liberty National. And on the life side we did have an adjustment that was upward for the amortization. We also had an adjustment, however, on our health side where we actually lowered the amortization. I think the net of those two adjustments did result in a slightly higher amortization rate for the quarter.

Ed Spehar: The health side, was that at Liberty National as well?

Rosemary Montgomery: Yes, it was. Both of those comments are related to Liberty National.

Ed Spehar: And so on balance, I mean, does it round out to a small negative in the quarter and its one time, or is it something that was meaningful from an earnings standpoint?

Rosemary Montgomery: I would say it is a small negative but it is something that we would expect to see continue going forward.

Ed Spehar: Okay. And then finally, Mark, I think I probably asked this question last quarter. It seems like you have a little more clarity on sort of how you are thinking about sales for the balance of the year. I was wondering if you could help us sort of quantify or think about when we start to see the first-year collected premiums growing at a rate that you'd be satisfied with -- I don't know, mid single-digit or something -- from the sales outlook that you have for the next three quarters. I mean, is it next year that we see 5% to 10% first-year collected growth or is it sooner? How do we think about that?

Mark McAndrew: Okay, again, when I look at first-year collected premiums, Ed, that's really a reflection of what's happened to our sales the prior four quarters. So it will take some time for any increase in sales to flow through the first-year collected premiums. If I look at the total on the life side, again, right now I think we are projecting for the year something in the neighborhood of 6% to 7% growth in total life sales for the year. But it will really be towards the end of the year before you start to see that flow through the first-year collected premiums. Again, with our sales being down this quarter, you can't really -- even if sales are up 4% next quarter -- you will still see, I think, a small decline in our first-year life collected premiums. And you'll see it improve quarter-over-quarter but it will probably be the fourth quarter. You might see a little growth in the third quarter. But by the fourth quarter we should see it back at least in the mid-digit, single-digit growth.

Ed Spehar: Now, Mark, in terms of sort of the four quarter lag, is it more like six quarters when you think about -- I guess with Direct Response it's sort of a six quarter lag from the point that there is a turn in policy issuance, right, because you've got this three to six-month --

Mark McAndrew: From the time that we issue the policy. But again, the sales we are now reporting are

after they've paid the first full premium. If you are looking at our net sales numbers and comparing that to the first-year collected premiums, it's still only about the last four quarters should be a good estimate of what your first-year collected premiums should do.

Ed Spehar: Okay, so you actually think you could get to mid -- single-digit growth in first-year collected by the fourth quarter of this year?

Mark McAndrew: I think that's possible, yes. Just one moment here -- right now -- Ed, in our model for life first-year collected premiums, for the fourth quarter we are expecting between 6% and 7% growth in first-year collected premium for the fourth quarter.

Ed Spehar: Okay. Thank you very much.

Mark Finkelstein, Cochran Caronia: I'm curious about your lapse experience at UA Independent. I guess mainly the Med supp business was in the first quarter with the MA open enrollment?

Mark McAndrew: Do you have some numbers on that, Rosemary?

Rosemary Montgomery: We did look at our lapse experience for the Independent Agency operation. Actually, for the Med supp business it was actually slightly down comparing to the year-ago quarter. So it wasn't much of a difference. I would really say at this point we really aren't seeing much of a difference in our lapse rate in that business.

Mark Finkelstein: Okay, and just an extension on that, CMS came out with its '08 rate increases for the Medicare Advantage. I'm just curious if you have a take on what the low single-digit rate increase is; if that improves prospects for Med supp sales going forward, or what are your thoughts on that?

Mark McAndrew: That's a very interesting question because there was a very small increase for 2007 and now the 2008 increase will not keep pace with inflation. The Medicare Advantage plans will see their margins continue to be squeezed. I don't know whether that's enough to see any significant disenrollment's at the end of this year. I would expect by the end of 2008 that you will see significant disenrollments and I think it will continue on for several years. But it will be interesting to see when all these companies announce where they intend to participate in the Medicare Advantage for 2008. I think they have to file that by June, don't they Rosemary?

Rosemary Montgomery: I think that's right.

Mark McAndrew: So we will have a better idea on the next conference call whether there will be any disenrollment's this year and roughly how many that will be.

Mark Finkelstein: Okay, and I guess just going back to the LNL sales. I guess, I think I understand the Direct Response pretty well in terms of the bullishness going forward, and I understand the comp changes in the expected agent growth at LNL. But I was a little surprised at how bullish your comments were regarding the second half of the year. I guess maybe if you could elaborate on what specifically you are seeing, if anything, at this stage that gives you the degree of confidence on that.

Mark McAndrew: Okay, well, first off we made these changes in May of 2006, so we started seeing the agent turnover. Part of the bullishness is we have much better quarters to compare to in the third and fourth quarter because sales did drop last year in the third and fourth quarter. But if I look at this year -- again, we bottomed out in our agent count the third week of January. Since then our agent count has grown by 14%. If I take out the Christmas and New

Years holidays, if I look at the first four weeks of this year, really from mid-January to mid-February, and compare the sales to what we've run the last six weeks, the new life sales at Liberty are up also about 14%, 15% from where they were just two and a half months ago. So I am encouraged that in 12 weeks we've grown the agent count by 14% and we are seeing week-by-week those sales tracking upward. Obviously, if we can continue to grow our agents by 14% every 12 weeks we are going to be in very good shape a year from now, but I don't know if we can continue that much growth. But we've grown, I believe, 11 out of the last 12 weeks our agent count has grown and it's a very solid trend.

Mark Finkelstein: Okay. Thank you very much.

Jeff Schuman, Keefe, Bruyette, Woods: Thank you. Good morning. I would like to follow up a little bit more on the agent dynamics at Liberty. You did increase the agent count sequentially; however, that was driven by the new recruits. The renewal year producers continued to decline. What are you seeing in recent weeks? Is the renewal producer count starting to stabilize? And going forward, what should we expect in terms of agent retention compared to maybe what we have seen historically?

Mark McAndrew: Well, I don't have any more numbers than what we put out on our website. You're right; the renewal year agent count at Liberty did drop by 40 during the quarter. We believe that it will stabilize but I don't know if it's changed since the end of the quarter. What was the other part of your question?

Jeff Schuman: Well, I guess what I'm wondering is how much you've really been able to kind of test the new compensation model here? In other words, should we have concerns that maybe you can recruit agents but that the new model won't work as well and that there can be retention issues going forward?

Mark McAndrew: Well, it's something we do track but it's still a little early to really say. I believe we are recruiting a different type of person. But again, in our other distribution systems, at American Income and also United American, we've always had people on a straight commission compensation and our retention of agents is pretty consistent. So I wouldn't expect anything different at Liberty.

Jeff Schuman: A couple other questions. Going back to Rosemary on the Military business. We have seen better claims for a couple of quarters. That book of business has changed, I would think, over the last couple of years as new sales have slowed -- it's a more seasoned book. Is there any possibility that the mortality experience is just better because of sort of a different more seasoned book of business?

Rosemary Montgomery: I don't think we've really seen any differences in the mortality experience, so I don't think so. I think the difference that we have seen in the business is that our lapse rate has come up slightly. But, of course, that business has always had a very good lapse rate anyway, so it's still very, very low. But no, I don't think that we are seeing any differences in the mortality in that business.

Jeff Schuman: And then lastly, now that you have succeeded in taking fixed costs out of Liberty, is there sort of another project now on the horizon where you can think about taking out some additional cost somewhere else in the organization?

Mark McAndrew: Well, it's something we are working on. Actually, here in McKinney we are adding a 150,000 square feet addition to our building here which will be done sometime in September, which we intend to consolidate some of our customer service function. I think we've estimated several million dollars a year savings there, as well as do some consolidation of our IT which will take a little longer, but we expect to see some significant savings

there. But this addition will allow us to consolidate some additional functions within the companies and continue to bring our expense ratio down.

Operator: Is there anything further, Mr. Schuman?

Jeff Schuman: No, that's it. Thank you very much.

Joan Zief, Goldman Sachs: Thank you. My main question does also relate to the agency force. Since it is important to keep growing your agents if you are going to grow your sales. So I was wondering if you can just review again the strategies that have been working most successfully in your recruiting. Is this a story of growth from geography, new branch offices, or just adding more people to where you are right now? And then do you have any special programs -- if you could explain that to us, that does deal specifically with retention? And I was just curious -- how long does it take for a new agent to get up to speed to see the products? And does it really make much difference with retention because the business stays with you whether the agent stays or not?

Mark McAndrew: Okay. I will try to cover all of those.

Most of our growth in agents has come from just adding more agents where we are at. American Income already operates in 50 states plus Canada. United American really operates nationwide. At United American we have been very successful. We expect to open 20% more branch offices this year; hence, we expect to be able to continue our 20% growth in agents as well as sales by opening new offices. Most of those offices are additional offices in the same areas that we already have offices. At American Income, as I've talked about in the past, we are having a program where we've only had one SGA in a given metropolitan area and we are moving toward adding multiple SGA's in areas which will help us grow our sales long-term. Liberty National still

operates primarily just in the Southeast. We had started an expansion program geographically. We have kind of put that on hold as a result of the changes we made last year because our big challenge is to get enough middle management that we can promote and open new offices with. We think we will be to that point sometime later in this year and we can get back to our geographic expansion at Liberty National.

As far as how long does it take an agent to become productive? In all of our markets our products are very basic, simple protection products, whether it's on the health side or the life side. On the life side, they are basic whole life, term life products so it really takes very little time. Once an agent gets licensed and is able to sell he becomes productive very quickly. Now, there is a lag from the time we hire someone until the time they can get their license, and that typically can be four to six weeks. But it's a very short training period; typically just one to two weeks of field training.

As far as agent retention, we are going to try some new things this year, particularly at American Income where our agent compensation, it's commission and bonus driven. For a new agent that's producing \$2,000 a week of new sales, he is making in his first year roughly \$50,000. Unfortunately, that agent who only is producing \$1,000 a week of new sales, his first year income is only in the \$16,000 to \$17,000 range, which he can make that at McDonald's. So we are trying to move some dollars around to try to retain more of those middle-of-the-road agents because it would be well worth our while to retain more of those \$50,000 a year producing agents. So that is something we are going to make some changes on in the second half of this year to see if we can significantly improve our agent retention.

Joan Zief: For your agent recruitment, are you weighing in on some method more than another? Is the Internet now becoming your major recruiting? Is it newsprint? Is it referrals? I know that things have been successful and then a little bit sporadic on different ways of recruiting. And I was just curious, where is the success this time around?

Mark McAndrew: The Internet is our primary recruiting means. We do get referrals. We do a little print advertising. We also get a few from actually our Direct Response. We put on the outside of all of our envelopes, "If you are interested in a career --" but the bulk of them are coming from the Internet. We did have some problems. We not only place ads on these various Internet sites, we have access to their resume database and we select certain resumes within these data bases to send e-mails to. And that was the problem we really have had is that the e-mails that we were sending out to these resumes were starting to be filtered out as spam. We do feel like we have solved that problem and our Internet recruiting efforts are coming back to where we would like them to be.

Joan Zief: And my last question is what percentage of your agents actually produced \$2,000 worth of sales a week?

Mark McAndrew: Well, it varies by distribution because at United American we are talking health policies that have a much higher average premium so we have a higher percentage there. But even at American Income, right now its, unfortunately, not a very high percentage because of the new agents we hire right now we are only retaining about 9% of those people through the end of the first year. And those people really are producing at least \$1,500 a week for them to make enough money to live on. We are trying to lower expectations there a little bit because, again, with the margins we have in that business we

can afford to spend a little more on a new agent to try to retain them.

Joan Zief: Thank you very much.

Mark McAndrew: Well, thanks for joining us this morning and we will talk to you again on the next quarter conference call.