TORCHMARK CORPORATION
1st QUARTER 2009 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
Mike Majors, VP of Investor Relations

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

Some of my comments or answers to your questions this morning may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2008 10-K, which is on file with the SEC.

Net operating income for the first quarter was $125 million, or $1.49 per share – a per share increase of 4% from a year ago. Net income was $77 million, or $.91 per share.

Excluding FAS 115, our return on equity was 15% for the quarter and our book value per share was $40.36. On a GAAP reported basis, with fixed maturity investments carried at market value, the book value was $23.88 per share.

In our life insurance operations, premium revenue grew 2% to $413 million and life underwriting margin increased 3% to $110.5 million. Life insurance net sales were $78.5 million for the quarter – up 11% from a year ago.

Life insurance now contributes 73% of the Company's total underwriting margin.

At American Income, life premiums grew 7% to $123 million and life underwriting margin was up 8% to $41 million. Net life sales increased 13% to $28 million. Producing agents at American Income grew to 3,506 – up 34% from a year ago and up 14% during the first quarter.

For the first quarter, American Income contributed over 31% of our total underwriting margin and is Torchmark's most profitable distribution system. The relative weakness of the Canadian dollar versus the American dollar continues to negatively impact the sales results at American Income. Assuming the same exchange rates as a year ago, our net sales at American Income would have grown 17% for the quarter.

I am excited about the progress we are making at American Income. Recruiting and agent growth are both accelerating. In the third quarter of this year, we will introduce a new laptop sales presentation and expanded product portfolio which, I believe, will add additional momentum to our new sales growth.

In our Direct Response operation, life premiums were up 5% to $135 million and life underwriting margin grew 8% to $33 million. Net life sales increased 12% to $34 million.

Sales results in Direct Response are being positively impacted by a pricing change in our adult product sold through insert media. The rate reduction has significantly improved both our response rates and persistency. The result is a lower acquisition cost per policy which more than offsets the increase in our claim costs.

For the balance of 2009, the sales growth in Direct Response will be tempered somewhat due to planned cutbacks in some of our marginal distribution. We currently expect sales growth for the balance of the year in the low to mid-single digits. These planned cutbacks will result in reduced acquisition costs of $15 – $20 million which will directly improve our 2009 statutory earnings.

Beginning this quarter, we have combined the financial results for Liberty National and the United American Branch Office distribution systems to reflect their ongoing consolidation. We will continue to report net sales and producing agents separately for the balance of 2009.

Life premiums at Liberty National declined 2% to $75 million and life underwriting margin was down 8% to $17 million. Net life sales for the Liberty National offices grew 27% to $13 million, and the producing agent count also increased 27% to 3,563.

The life underwriting results at Liberty National have been impacted by a deterioration in our first-year persistency occurring over the last nine months. The higher lapse rates coincided with our switch to an electronic application and corrective steps are being taken to reverse this trend.

Towards the end of the first quarter and continuing into the second, we have seen a major increase in our payroll deduction business at Liberty National for both life and supplemental health. We expect this will add to our sales growth for the balance of 2009.

On the health side, premium revenue, excluding Part D, declined 11% to $224 million and health underwriting margin was down 10% to $41 million. Health net sales declined 51% from a year ago to $21 million.

The United American Branch Office experienced a 23% decline in health premiums to $73 million, while health underwriting margin decreased 36% to $8 million. The underwriting margin was less than anticipated due to higher than expected lapse rates beyond the first year on our underage 65 health insurance business.

We continue to believe that the transition of this distribution system to life and payroll deduction supplemental health products is in the best long-term interests for both the Company and our agency force.

Premium revenue from Medicare Part D was down 2% to $46 million while underwriting margin remained flat at $5 million. Net Part D sales increased 10% for the quarter to $10 million.

The underwriting loss for annuities in the first quarter was $4.1 million compared to a $1.1 million gain for the year-ago quarter. This loss is due primarily to the effect of declining equity markets on variable annuity account values.

If our account values remain at first quarter levels with anticipated lapses, we expect an additional underwriting loss of roughly $5 million for the balance of 2009. If these account values decline 10%, the estimated loss would be $11 million. If account values increase by 12%, there would be no additional losses expected for the balance of the year.

Administrative expenses were $39 million for the quarter, down 1% from a year ago. As a result of the ongoing transition of the United American Captive Agency to Liberty National, we conducted in the first quarter a company-wide review of expense categorizations between administrative and acquisition expenses. This review revealed several inconsistencies between our subsidiary companies. The net result of the expense reclassifications was a $2.6 million reduction in our administrative expenses for the quarter, with a corresponding increase in our deferred acquisition expense classification.

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

Gary Coleman: I want to spend a few minutes discussing our investment portfolio and liquidity and capital.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of March 31, 2009. They are included under the "Supplemental Financial Information" in the "Financial Reports and Other Financial Information" section of the Investor Relations page.

As indicated on these schedules, invested assets are $10.3 billion, including $9.6 billion of fixed maturities at amortized cost. Combined, equities, mortgage loans and real estate are $36 million, less than 1% of invested assets. We have no counterparty risk as we hold no credit default swaps or other derivatives. In addition, we do not operate a securities lending program.

Of the $9.6 billion of fixed maturities, $8.3 billion are investment grade with an average rating of A-. Below investment grade bonds are $1.3 billion with an average rating of BB-, and are 13.2% of fixed maturities compared to 7.4% at the end of 2008.

Overall, the total portfolio is rated BBB+, same as it was at the end of 2008, but lower than the A- of a year ago.

During the quarter, we recorded Other-Than-Temporary Impairment Charges on seven bonds. In determining the amount of the impairments, we elected to early adopt the guidance issued by the FASB earlier this month. We recorded impairment losses of $52 million pre tax, or $45 million after tax. Of the $45 million of losses:

- $41 million were related to credit losses and were charged to net income;
- The remaining $4 million of losses were charged to Other Comprehensive Income.

Had we not adopted the new guidance, the after tax charge to earnings would have been $5 million higher, and the market value of the portfolio recorded on the balance sheet would have been lower by $27 million.

During the quarter, bonds totaling $2 billion of amortized cost, or 24% of the fixed maturity portfolio were downgraded by the rating agencies. This compares to $2 billion of downgrades for the full year of 2008. As a result of downgrades of formerly investment grade securities, our below investment grade bonds are $1.3 billion, an increase of $553 million during the quarter. $400 million of this increase occurred in the financial sectors, including $210 million in banks and $115 million in insurance companies. The average rating of the below investment grade bonds is BB-, with two-thirds of these bonds rated above B+.

Net unrealized losses in the fixed maturity portfolio are $2.2 billion, up from the $1.8 billion at the end of 2008. By sector, the largest losses are in the financials which comprise 40% of the portfolio at amortized cost, but 65% of total net unrealized losses. In addition, of the $439 million increase in unrealized losses during the quarter, almost $400 million occurred in the bank and insurance sectors. As we've noted before, this is not a market for us to sell bonds. However, due to the strong and stable positive cash flow generated by our insurance products, we not only have the intent to hold the bonds to maturity, but more important, we have the ability to do so.

Now, I would like to discuss the asset types and sectors within our fixed maturity portfolio.

As to asset type, 78% of the portfolio is in corporate bonds and another 15% is in redeemable preferred stocks. All of the $1.5 billion of redeemable preferreds are considered hybrid securities because they contain characteristics of both debt and equity securities. However, all of our hybrids have a stated maturity date and other characteristics that make them more like debt securities. None of them are perpetual preferreds.

The remaining 7% of the portfolio consists primarily of municipals and government related securities. Our CDO exposure is $109 million in six securities where the underlying collateral is primarily bank and insurance company trust preferred securities. There is no direct exposure to sub prime or Alt-A, and we have only $38 million in mortgage-backed securities, all rated AAA.

Regarding sectors, as I mentioned, the financial sector comprises $3.9 billion, or 40%, of the portfolio. Within the financials, the life/health/property casualty insurance sector is $1.8 billion and banks are $1.6 billion. Financial guarantors and mortgage insurers total $181 million, less than 2% of the portfolio. The next largest sector is utilities which account for $1.2 billion, or 13%, of the portfolio. The remaining $4.5 billion of fixed maturities is spread among 233 issuers in a broad range of sectors.

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

In the first quarter, we invested $230 million in investment grade fixed maturities, primarily in the utility and industrial sectors. We invested at an average yield of 7.7%, an average rating of A-, and an average life of 25 years. This compares to the 7.2% yield, A- rating and 22 to 35 year average life of bonds acquired in the first quarter of last year.

This is the sixth consecutive quarter that the new money yield was 7% or higher. The average yield on the portfolio in the first quarter was 6.97%, the same as a year ago.

Next, I would like to discuss liquidity and capital.

Our insurance companies primarily sell basic protection life and supplemental health insurance policies which generate strong and stable cash flows. In the first quarter, only $2 million, or .4%, of premium revenue came from asset accumulation products where revenue and underwriting margins are subject to changes in the equity markets.

At the holding company level, free cash flow remains strong. For the full year, free cash flow will be around $320 million, the fifth consecutive year that it has been $300 million or higher. In the first quarter, we used $47 million for share repurchases and $31 million to reduce commercial paper. This leaves $242 million of free cash flow available for the remainder of the year.

Due to the uncertainty in the general economy, and the likelihood of additional OTTI impairments and rating agency downgrades of our bonds, we have decided to suspend our share repurchase program. The remaining $242 million of free cash flow will be available to offset any asset impairments and downgrades and possibly to reduce the amount of outstanding commercial paper.

Regarding the commercial paper, we are currently issuing in both the Federal program and the open market. We issue new paper to cover maturities, and as I mentioned, we reduced the amount of commercial paper by $31 million to a total of $273 million outstanding at March 31st. If, due to a ratings downgrade or some other reason, we are unable to issue new paper in either the Federal or non-Federal markets, we have multiple sources of liquidity available to retire the entire $273 million. We could use a portion of our free cash flow along with borrowings from our subsidiaries. We have the capacity to borrow up to $390 million from our companies without having to obtain regulatory approval. At March 31st, our insurance companies had $261 million of cash on hand to provide such financing if needed. We have multiple other sources of liquidity, including our bank line, but don't expect to need them to retire debt.

In August, we have a $99 million debt issue that matures. Our preference all along has been to refinance, providing that we can do so under favorable terms. We have explored issuing debt in the public market, but are advised that executing a debt offering at a reasonable interest rate would be difficult at this time. However, we have an alternative. We have negotiated a commitment letter with two of the banks in our credit line to syndicate a new term loan credit facility for $100 – $150 million. This proposed facility gives us the right to draw down a two year term loan at a variable interest rate based on LIBOR and use the proceeds for general corporate purposes. The two lead banks have committed $60 million in aggregate to the facility, and we expect to have the facility fully committed by the end of May. If the public debt market does not improve by August, we will draw down this term loan and use the proceeds to retire the August maturity. This financing gives us a lower cost means of refinancing the August maturity, and provides time for the market to improve before we issue a long-term debt in a public offering.

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

Mark McAndrew: Thank you, Gary.

We are lowering our operating earnings per share guidance to a range of $6.00 to $6.15 per share. This guidance assumes no share repurchase for the balance of 2009 as the result of the suspension of our share repurchase program.

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

Jimmy Bhullar, J. P. Morgan: Hi. Thank you. Good morning. I have a couple of questions. The first one is on your RBC. I think you ended the year at 329%. Could you comment on where you expect to be either at the end of this quarter with the realized losses and also with ratings migration? With the below investment grade bonds increasing and where you believe you have to be to maintain your ratings?

Then, the second question that I have is just your view on your sales. Your life sales obviously have been pretty strong. Do you expect an impact if the economy remains weak in terms of either lower response rates in the direct response channel or just higher cancellations? Doesn't seem like you've seen a material deterioration of the life business despite the weak economy. What your view is on that.

Mark McAndrew: Gary, I'll let you take the first part.

Gary Coleman: Okay. As far as our RBC, you're right, Jimmy, we were at 329% at year end. With the impairments and the downgrades, we were still over 300% – probably in the 305% area. And as far as what we need to maintain, to retain our current ratings, we need to be at or around the 300%.

Mark McAndrew: Okay. As far as the life sales, Jimmy, you're right – the economy, we've seen no negative impact on our life sales. Actually, in the Direct Response, we had 12% growth in sales this quarter with improving persistency, and improving response rates as a result of some of the rate testing we did. American Income, if we take away the exchange rate, actually had 17% growth in life sales this quarter. The agent recruiting and the agent growth is strong both there and at Liberty National. I actually expect Liberty National sales growth to pick up as well as American Income.

We are cutting back a little bit in the Direct Response – strictly, we're cutting out some of our marginal distribution and it is just not a time to be overly aggressive. And any money that we don't spend there goes straight to statutory earnings. So, we're cutting back a little bit in the Direct Response but we still expect growth in sales there going forward. So, we haven't seen any impact from the economy and really don't expect to. Actually, the pool of available recruits in our agency distribution is better because of the economy.

Jimmy Bhullar: Okay. Thank you. And just to follow up for Gary on the ratings, I'm assuming that you have already shared your results with the rating agencies, and so a couple of them have negative outlooks on you. I haven't seen anything from anybody this morning. But the 300%, or remaining around 300%, is that the level that the rating agencies feel comfortable with also, or that's just a internal guidance that you are giving?

Gary Coleman: Well, recently Moody's put out their report when they affirmed the ratings. They put us on a negative outlook. The factors that they listed that could cause downgrade would be the RBC ratio below 300%, and also included impairment losses in greater than $200 million. You know, we have done some stress testing and we had a record level of downgrades in the first quarter. If we assume the downgrades go back to the levels they were last year (which they were high last year), they go back to that level, we estimate that we could withstand $225 million of losses, of impairment losses, this year. And that would require us putting our free cash flow back into the companies to shore up the capital.

Now, as far as Moody's is concerned, we exceed the $200 million of impairment losses but we would have the RBC ratio back at 300%. So, I don't know whether that would cause a further downgrade. Now, I might add, in addition to -- the liquidity we have is not just the $242 million of free cash available for the year. We have multiple sources of liquidity. As I mentioned, we can borrow $390 million from our subsidiaries without regulatory approval. We can issue preferred stock of over $335 million down into the companies without regulatory approval. And, in addition to that, the bank, the loan facility I mentioned, there is probably an extra $50 million there that we can tap. All of that, that's $775 million before we even tap our bank loan. So, if the losses are higher than the $225, we've got other sources of liquidity that we can draw on to put down in the companies if need be to keep that capital at or around 300%. Now, that was Moody's -- Standard & Poor's and Fitch, we will continue to talk to them. But we don't have the definitive list of factors that could cause a downgrade that we got from Moody's.

Mark McAndrew: I might also point out we certainly don't want a downgrade, or we don't expect a downgrade. But should a downgrade occur, one, it would not have any impact on our distribution -- on our sales. And two, we have ample cash, if we needed to, to pay off that commercial paper as well as to pay off the debt coming due in August. So, it is not something we expect or definitely would not want, but we are prepared in case that should happen.

Jimmy Bhullar: Okay. Thank you.

Randy Binner, FBR Capital Markets: Hi. Thank you. I just wanted to maybe explore this a little bit more on the potential RBC scenario. So, if that stress test that Gary outlined came through, there was $225 million of impairments and that was largely offset by available cash flow, I guess the first question is -- one, it seems like the first option would be to borrow debt from the subs. And on the second option would be to do a preferred down to the subs. But in either scenario, one or two, what would the net RBC effect be of that scenario going through?

Gary Coleman: Well, first of all, as I mentioned, the $225, we could suffer that using our pre-cash flow. So it would be losses above $225.

Mark McAndrew: That's also assuming another $1.7 billion of downgrade in our portfolio.

Randy Binner: Understood. And that's what I meant to try to explore just to see -- I guess I'm curious more directly what the RBC impact of the borrowing piece is as it stands alone.

Gary Coleman: Randy, on the intercompany borrowings, there's no charge. And when you get to the preferreds, and obviously that would be what we would do first. That's the easiest to do. Now the preferreds -- I think it is about a 30% charge, but then you have to run it through the whole formula. It may not end up being a full 30% charge. But I think the fact is we can borrow where there's no charge up to $390 million. That's where we would go first.

Mark McAndrew: Well, there's two different things there. What we're talking about is if we had $1.7 billion of downgrades in the bond portfolio in the subsidiaries and we had impairment losses, I think of $225, we would have to put the free cash we have already got back down in the subsidiaries. What we're talking about as far as borrowing the $390 is if we needed additional cash at the parent to pay off the commercial paper, we would use that. But barring a downgrade, we could cover that level of downgrade and impairments and still maintain the 300% RBC without doing any intercompany borrowings.

Randy Binner: Understood. But I guess, I mean, the worst-case scenario would be a bigger stress test and paying back the CP. Obviously, that would be it. So it sounds like there is kind of a RBC charge free capacity to deal with all of the potential contingencies.

Mark McAndrew: Right.

Gary Coleman: Yes, Randy, as I mentioned, the CP is $273. You could borrow $273 to pay that off, and then we could have another $117 million of impairments on top of the $225 and, you know, borrow to cover those. The sum of those two items would be at $390 million.

Mark McAndrew: Also, Randy, we would only need to pay off the commercial paper if we were downgraded. If we were downgraded, the need to maintain the 300% RBC would go away. So, we wouldn't be as concerned about maintaining the 300% RBC if we did indeed have a downgrade.

Randy Binner: Okay. Real quick and then I'll drop back in the queue. If the CP needed to be paid back, what would the timing of that be? I understand it is about a 90 day rolling paper. Do you have a sense of how that would phase out?

Gary Coleman: Yes. We would have in late April, there are several days the sum of that would be about $200 million. And then the other $73 million is in the first part of May; and then there's $34 million at the end of June. So, the bulk of it will be toward the end of April.

Mark McAndrew: That's why we are making sure we are holding adequate cash at the insurance company level should we need to pay that back.

Randy Binner: Understood. Thank you very much.

Colin Devine, Smith Barney: Good morning. Just to make sure I'm clear on the capital -- the RBC now is about 305. You're not anticipating a downgrade, but clearly you're planning for it by building the capital in the expectation you'd lose the CP access. And with respect to the investment portfolio, clearly, a very disappointing performance. Looking at the junk bond holding, did I hear that you are seriously prepared to continue to run with 13% of the portfolio in high yield? Aren't you going to have to start trimming that back? You're not going to get both -- the ratings or that kind of junk bond holding.

Gary Coleman: Well, as far as trimming the holdings back, I don't think we have a plan to do that. As I mentioned, $400 million of the $550 million increases were companies like AIG, Hartford, Phoenix, Bank of America, Citi -- those are still rated -- well, we still think some of those are good credits. But I guess the feeling is if we sell them we immediately realize the loss. And if we hold them the ones we do take losses on will be less than that. But also, too, we are the first to report, so I'm wondering what the below investment grade portfolios are doing with the other companies. And I think we do have an advantage in that our bond leverage is lower. Although we are 13% of the invested assets, I'm not so sure when you compare it to equity it will be that much different than any other companies. Of course, it may face downgrades, too. But as Mark mentioned, if we do face a downgrade, it doesn't hurt us in marketing our products and we've got the cash to cover the CP in case we don't qualify for the Federal program anymore. So, I think that's the way we'll continue and we'll just see how these bonds work out.

Colin Devine: Okay. Just to clarify a minor point for me. In running your RBC calculation, okay, were the downgrades from the rating agencies, have they fully flowed through to what you're using from the SVO?

Gary Coleman: Yes.

Colin Devine: Okay. So that's all in, there's no delay here.

Gary Coleman: No, we got their numbers and that's what we use.

Colin Devine: Okay, thank you.

Steven Schwartz, Raymond James: Good morning, everybody. Just to quickly follow-up on Colin's last point before I get on my own. Split rated bonds and holdings -- where do you have those vis-à-vis. You're using SVO ratings which may or may not have taken that yet into account. Is that not true?

Gary Coleman : Yes, we are using the NAIC ratings which are with the SVO. I'm not sure whether they have the split ratings taken care of or not.

Steven Schwartz: Okay. And then if I can here, on the CP -- is it -- how much of that is in the Federal program? Is that the $200 million?

Gary Coleman: Well, no. At March 31, I believe all of those are still in the Federal program. Since that time, some of that has matured and we have moved into the open market. And it is not a sizable number at this point but still the bulk of it is in the Federal program.

Steven Schwartz: All right.

Gary Coleman: But I will add this. Steven, we've issued in the open market, we've been issuing shorter maturities because the federal market is not like 90 days. So we have issued several times in the open market, and again, shorter maturities, but we haven't had any trouble doing that.

Steven Schwartz: Okay, and then presumably, a downgrade that might kick you out of the CPP may not affect what you can do in the open market.

Gary Coleman: Well, that remains to be seen. You know, a lot of people say we wouldn't be able to tap the open market but we've had some banks say they think we could. But to be careful, as Mark indicated, we've gone ahead and accumulated the cash at the insurance companies and if we need to take that CP out, we'll be able to do it.

Steven Schwartz: Okay. Then just a couple more stat numbers if you happen to have it. Would you happen to know for the quarter your statutory operating income and the statutory net income?

Gary Coleman: No. We haven't run our statutory numbers yet.

Steven Schwartz: Okay, all right. Thanks.

John Nadel, Stern Agee: [Operator: Please go ahead. Mr. Nadel, your line is open. If you could please check your mute button or pick up your handset. Mr. Nadel, are you there? Hearing no response, we'll move to the next question in the queue.]

Eric Berg, Barclays Capital: Thanks very much and good morning to everyone at Torchmark. Gary, can you remind us why the Company has the exposure -- the size of the exposure that it has to financials in general and to banks and insurers in particular? It is a little counterintuitive in the sense that just as people working in the banking business wouldn't want to own a lot of banking stock so as to not double-up their positions, you know, have their livelihood tied up with the bank and banking stocks and so forth -- it is just a little curious that so many insurers, including Torchmark, have the exposure that they do to financial bonds. What's going on here -- broadly speaking?

Gary Coleman: Well, Eric, as you know, these bonds weren't acquired yesterday. They were acquired over a period of time. The reason we concentrated on banks and insurance companies, and also utilities which, as I mentioned earlier, I think is 13% of our portfolio -- first of all, they are regulated industries. It is difficult for cash to be taken out of those companies, and also being regulated, not as subject to LBO risk, which seems kind of funny now but two or three years ago that was a real risk to people holding bonds.

Also, banks, insurance companies and utilities have financial statements that, you know, are pretty easy to evaluate -- pretty easy to determine the tangible equity, the cash flows -- things that we look for in looking at our credit. We didn't foresee the current economy although I don't know many that did. The banks like Banc of America, Citigroup, and insurance companies like AIG wouldn't have the problems they have today. We felt very strong about those credits when we bought them and we still feel that overall the financial sectors will be okay.

Eric Berg: That's helpful. My second and final question relates back to the conversation that we were having about future impairments and downgrades. And I think you said that you could handle, in terms of your staying within your minimum risk base capital, $1.7 billion of further downgrades and $225 million of impairments. If I have that right, my question is this: Your BBB and A portfolio is homing in on $7.5 billion. So, $1.5 billion divided by $7.5 billion is roughly 20%. What would happen if they were more broadly based? I mean I know one can imagine anything and my question is not meant to sort of get at extraordinary circumstances, but let's say 25% or 30% of your single A and BBB bonds were downgraded from here because of the rating agency's broad-based concern about the U. S. economy and prospective defaults. If you had more than the $1.7 billion, what happens then to Torchmark?

Gary Coleman: If we have more than $1.7 billion in downgrades?

Eric Berg: In downgrades. Yes, of downgrades.

Mark McAndrew: Eric, again, that was in order to maintain the 300% RBC ratio at year end with our current cash flow available at the parent. What happens if we had more impairments or more downgrades than that number? We would have a more difficult time maintaining 300%. Which means what would happen is there is a better likelihood we would see a downgrade which possibly means we would have to pay back commercial paper. I don't think it would have any impact on our sales. It would add some cost to our credit. But we don't think it would be a material cost. Gary?

Gary Coleman: Eric, I was going to add, I would have to go back and do the calculation for your scenario. I'm not sure how much impact that would have. But again, I go back to the fact that was assuming it would be okay with impairments at $1.7 billion, and it would be okay by putting a free cash flow, the $243 million, back in. I also outlined the other sources of liquidity. When you throw our bank line in there, when you throw that in, we've got $1.4 billion of liquidity available that we could tap and we could put into the Company. So, I think the question would be, as Mark said, if we get to that point, first, how much cash -- how much liquidity we have to tap and whether we think it would be necessary to take that cash to maintain the ratings or go down a notch in ratings. So, I think that we just have to look at that. But we do have liquidity available if we wanted to shore the companies up. At some point though, I guess it may not be worth it to maintain the rating.

Eric Berg: Actually, Gary, one last quick one if I could fit one in here. And that is, I just want to check my definition of free cash flow available to the parent. As you defined it is the dividending capability of this year from the insurance companies to the parent, minus the common stock dividend, and minus the corporate expenses such as interest expense?

Gary Coleman: Yes. That's after paying all obligations to Torchmark. That's the money that's left over.

Eric Berg: Thank you very much.

John Nadel, Sterne Agee: Can you guys hear me this time?

Gary Coleman: Good to hear you now.

John Nadel: Thank you. I was screaming. I guess it was -- anyway. So, a couple of quick ones for you guys. First, I was just wondering if you could just -- what was -- I mean with all of this coming up here in the near term, potentially, especially in light of the extreme downgrade activity during the first quarter, what was the thought process behind another $47 million of buybacks? I mean, wouldn't that $47 million of capital be nice to have right now?

Mark McAndrew: Well, again, the vast majority of those downgrades came towards the end of the quarter. And you know, hindsight is 20/20. But considering the average price we paid was $22 a share, and we still feel -- we felt very strongly and we still do feel very strongly that we have more than ample liquidity and capital to get through this. So, it was --

John Nadel: Okay. Allright. I realize hindsight is easier than during the quarter. Quick question then, too. On risk-based capital, I understand that -- I understand from Gary's comment that there's really no impact one way or another with respect to borrowings from the subs through the holding company. But so that said, formulaically in the RBC ratio, it doesn't have an impact. But as I understand from most of the rating agencies, they tend to look directly through that. And so I guess my question is this -- while it might not have an impact on the reported RBC ratio, wouldn't you expect it to have a negative impact on the way the rating agencies view your risk-based capital?

Gary Coleman: John, we've had discussions with the rating agencies regarding that. A lot of it depends on how long you leave it out there. If it is very short-term, I don't think it has near the impact. And that's what we would be looking at this as short-term. But there is a possibility though that that could be a factor.

Mark McAndrew: The other thing is we really have no intent to do that or to utilize that unless we do get a downgrade and we had to repay that commercial paper. So, if we should make those loans up from the insurance companies, it will probably be as a result that we've already had a downgrade.

John Nadel: Understood. Oh, understood.

Gary Coleman: Right.

John Nadel: And then the last one for you is just to think about the -- how to think about impairments from here. You know, has there been -- I guess one, have you seen, you know, the late March sort of heavy downgrade activity in financials? I guess I just haven't been paying attention enough. But has that sort of continued into April? That would be one. And then, two, as you look at the remaining CDO exposure and the preferred that you own, is there any increased probability that we're going to see impairments come out of those two asset classes?

Gary Coleman: Well, I think that there is a possibility of both. But I think you know, we're looking closely at the CDOs and we had six of those, and one of them we wrote down. We determined the collateral is not sufficient. We would not get all of the cash flows. Working with the collateral manager and looking at the information they have and the possibility the various stressing of potential defaults, it still looks like the collateral is more than sufficient on the others so that we get all of our cash. In other words, no impairment. But as time goes by and things worsen, there could be a potential there for other write-offs.

John Nadel: Okay.

Mark McAndrew: But also on the downgrades, particularly in the financials, we don't expect the level of March to continue. In fact, basically what we've heard is there was a big rush to reevaluate the ratings for most of the financials, and that has pretty well happened. So, we don't expect the downgrades particularly in the financial sector to continue at the March level.

John Nadel: Right. In general, I certainly hope you're right. Thank you.

Mark Finkelstein, Fox, Pitt, Kelton: I've got a few quick ones and a longer one. I guess, I can't recall if you mentioned what were the stat impairments in the quarter?

Gary Coleman: Well, the stat impairments will be the same as GAAP.

Mark Finkelstein: Okay. So, those are the same.

Gary Coleman: Right.

Mark Finkelstein: And then secondly, just to make sure we're right on this -- you had 47 or so million of repurchases in the quarter. Was there anything in early April?

Gary Coleman: No. As we mentioned, we have stopped our share repurchase program at this point.

Mark McAndrew: We actually discontinued it early in March.

Mark Finkelstein: Okay, perfect. And then just -- I'm just thinking about the effective tax rate on the write-offs. I think your policy is to only offset taxes against where you have kind of realized gains or unrealized gains. Maybe if you could just review for us that policy. And then I guess secondly, how should we think about that on impairments going forward? And are there any strategies that you can adopt in terms of maybe trying to shift earnings around or what have you to kind of create offsets?

Gary Coleman: Well, our policy is in the past for tax purposes has been to match our gains and losses. And that's in effect in a way that's kind of going to hurt us here. We don't have any gains to carry back the impairment losses, current impairment losses against. As far as shifting income, it is difficult for insurance companies because we can't offset gains and losses against operating income.

Mark Finkelstein: Right.

Gary Coleman: We can only offset against capital items so it is our major source of capital gains or losses, is in our bond portfolio. So, we're limited to a certain extent as to what we can do. I think this is an issue that's going to come to the forefront, not only because it affects us but it affects other companies, is even if you don't have gains to carry back to offset, you can still carry losses forward for five years. In addition, that five years doesn't run until the loss is taken for tax purposes. And I'll give you an example. We wrote down Lehman in the third quarter of last year. That's like a $70 million write-down. The bankruptcy there though may not be finalized until early next year and that's when we'll take the tax loss. We'll have five years from then to offset those losses. And if the economy improves, which we think it will, we think during the five-year time period, we will be able to generate gains to offset those losses. Right now, the accounting literature doesn't allow to anticipate any gains in the future. It has to be based on what you have in the balance sheet at the moment. So that's why you don't see a full 35% tax benefit of our impairments, and you probably won't on a lot of the other companies.

Mark Finkelstein: Right. Okay. I guess just moving on -- the UA Branch agent count just continues to, I guess, go down. It is about half of what it was a year ago. I understand the strategy is shifting there and I understand there's kind of a combination with LNL. But I guess I'm just thinking when would you expect to see some stabilization in that agent count and how should we think about, you know, that business going forward?

Mark McAndrew: Well, we are moving along with transition of the -- we have 85 branch offices that were United American branch offices. We have converted 33 of those to date, and we'll convert the rest of them during the course of the year. I think we are starting to see a leveling off of the agent count there. But it is going to be new hires and the recruiting there is starting to pick up. The sales force is starting to stabilize. The people we still have left as far as management are starting to really buy into the Liberty National products and marketing, and I feel good during the course of the year that we're not going to see a whole lot of additional deterioration there.

But I also would like to point out, if you look at the Branch office, we had $8 in the health side. We had $8 million of underwriting margin -- that's before administrative expenses. Less than $3 million of that came from the under age 65 health insurance, which is the business that is rapidly running off and also that's where the sales have declined. Medicare supplement business is still staying on the books very well. And we expect that may even come back somewhat next year. So, we don't have to generate -- in fact, I think in the first quarter the United American offices generated roughly $3 million of sales -- of the Liberty National products and that's growing significantly quarter by quarter. So, we may not replace the premium but we'll definitely more than replace the profitability of that business that's running off.

Mark Finkelstein: Okay. Thank you.

Tom Gallagher, Credit Suisse: First question I have is just a follow-up on something Colin had asked earlier. And I understand the view that your liabilities are sticky so you don't necessarily need to -- you'll never become a forced seller of these bonds and recognize the losses. I definitely get that. The question I have is just from a high level risk management standpoint, do you have any limits on what percent you would be hesitant to see the portfolio get above? You know, we're at 13% today. Is it 20%? Do you look at it more as a percent of statutory capital? As of right now, the junk bonds are greater than stat capital, just in aggregate terms. Just curious if you're thinking about risk parameters broadly speaking as it relates to below investment grade.

Gary Coleman: No, I don't think we do look at it as a certain percentage that we don't want to exceed. I think what we're looking at is we are constantly looking at not only below investment grade bonds but any other bonds we have concerns about. What is the likelihood that we're going to collect our money? -- That they'll be money good? When we get to the point -- okay, we may not get that cash. How much will we get if we sell it versus how much we get it if we hold it -- It goes into bankruptcy and we get a return on it? It is more constantly looking at what is going to provide us the best answer in terms of cash. And just because $400 million of these bonds, the financial bonds move down into below investment grade bonds doesn't mean we ought to go ahead and sell those in my mind. We need to continue to watch. If we feel like we are only going to get a certain percentage on the dollar, but that's better than if we hold it and it possibly goes into bankruptcy, then we'll go ahead and sell it. I think we look at more individually as opposed to setting an arbitrary percentage that we're not going above.

Tom Gallagher: I guess, Gary, one of the reasons I ask is I think the rating agencies for sure will have tolerances. Just thinking back historically when companies exceeded a very large percent of their portfolio in junk bonds, I think that's typically been a big sticking point with them. So that was the main reason for asking.

Gary Coleman: Well, I guess, Tom, would they -- I haven't had those conversations with the rating agencies, but would they want us to go ahead and sell things at $.10, $.20 on the dollar just to get down to a lower ratio. I mean that's obviously it is capital whereas in the long run, you may not have any hit at all. But, I understand your point and I know that's right. We just haven't -- I don't know what those parameters that they set are. We may have that discussion. We're just reluctant just to sell to get below a certain percentage because of where the values are today.

Tom Gallagher: Understood. The other question I had was just on the DAC and the goodwill. Can you comment at all about what percent of your DAC, even in broad terms, and the goodwill would be related to the health business? And the reason I ask is, you know, as that business declines, as least from a premium revenue standpoint, I wonder, you know, is there risk of any acceleration of either DAC or goodwill related to that?

Mark McAndrew: Well, as far as the DAC, I mean we are seeing again on the underage 65 health business, we have seen a higher amortization of the DAC because of these higher than anticipated lapse rates. We don't expect to see any DAC write-off but we do expect -- we are seeing lower margins on that business than what we had originally anticipated. But Rosemary, you want to comment on that?

Rosemary Montgomery: Yes, I do. We did really a complete review of not only our policy obligations ratio but also the DAC amortization, and I don't have right in front of me what that percentage is. But we did make some adjustments to the DAC that were -- or the amortization -- that were based on bringing 2008 experience into play. And the higher than expected lapse that we had on some of our underage business did impact that. But we've made that adjustment and so what we anticipate going forward on really all of the health lines -- that would be the independent health, the Direct Response health, and then also the Liberty National exclusive agency -- that the DAC percentage, the amortization percentages that we have in there, we do anticipate that those will continue forward, and we do not anticipate any additional write-offs or any write-offs.

Gary Coleman: And, Tom, as far as the goodwill goes, we've got $423 million of goodwill. Almost all of that is American Income which is not related to the health side. So, we don't anticipate a goodwill charge.

Tom Gallagher: Got it. Thank you.

Dan Johnson, Citadel Investment Group: Great. Thank you very much. Most of those questions have been answered. I wanted to go back -- there were some questions before about split rating and the SVO. I felt like I understood your answer to Colin's question then got confused afterwards. So help me with how you use ratings whether the rating agency ratings or the SVO ratings in determining your OTTI process. And then I have one follow-up, please.

Mark McAndrew: Well, as far as where the ratings come in, in looking at the risk-based capital charges, we were using the NAIC ratings which were based on the SVO. The question was whether -- I think they handle split rating on I guess maybe the trust preferreds. I'm not sure how they handle that. We're just very careful to use -- we recognize what the rating agencies -- their ratings don't have an impact on the RBC. It is the NAIC ratings. How they handle split ratings, I'm not sure.

Dan Johnson: And then I guess the other part of that was how quickly do the SVO ratings reflect the changes done at the rating agencies? Did I understand you correctly to say that you were comfortable that all of your bonds that had been downgraded on rating from the rating agencies had fairly quickly been picked up by the SVO and you were reflecting that?

Gary Coleman: Yes. I feel very comfortable with that. What we saw in the change in the NAIC ratings was close to what we saw in the change -- or the rating agency ratings.

Dan Johnson: Great. Real quick follow-up was on the tax front. What sort of rate -- to follow up on Mark Finkelstein's question -- what sort of rate should we be thinking about on realized losses, or OTTI going forward?

Gary Coleman: If we continue to have impairments, and eventually get to where there is no tax offset -- because you've always had to demonstrate that you've got unrealized gains in your portfolio to offset your -- theoretically, you could sell those bonds, and have the gains to offset the losses. If impairments continue to increase and we don't have -- our unrealized gains don't increase, then we'll get to the point where we wouldn't be able to justify taking a tax deduction.

Dan Johnson: Understood. Thanks very much.

Ed Spehar, Banc of America: Thank you. A couple of follow-ups on the scenario, Gary, that you were laying out. When you talked about $1.7 billion of downgrades, were you talking about from BBB to BB?

Gary Coleman: Yes. That's what we were assuming.

Ed Spehar: Okay. And then the other part of that was I think are you saying if you had $225 million of after-tax impairments and you turned around and put the $242 million of free cash at the holding -- free capital at the holding company back at the sublevel -- is that what you are suggesting?

Gary Coleman: Yes.

Ed Spehar: Okay, so if we are thinking about this and assuming that rating agencies take a view of more than just today and look at the statutory earnings power of the Company, are we still talking about approximately a $400 million stat earnings run rate or is it changed?

Gary Coleman: Well, it would change because, you know, $225 million in impairments….

Ed Spehar: That's operating. I'm talking about pre any capital losses.

Gary Coleman: Yes. We're still up in the $450 million level or above as far as statutory operating earnings. Is that what you're asking?

Ed Spehar: Statutory operating earnings after tax.

Gary Coleman: Right.

Ed Spehar: Okay. So, doesn't that suggest that -- I mean, I think your holding company requirements, dividends and interest, corporate -- everything else is less than $100 million, isn't it?

Gary Coleman: It is right at $100, yes.

Ed Spehar: So, doesn't that suggest that the necessity of actually putting anything back in the subsidiary, if we're talking about the, you know, sort of elevated impairment scenario, I mean we're already in April, right? Toward the end of April. Don't we have $450 million of earnings that's coming through this year that's going to help us offset any pretty significant level of impairments?

Gary Coleman: Well, I was taking that in consideration when I calculated the numbers -- the $225 million.

Ed Spehar: Okay. So, you're talking about this analysis. Are you talking about a point and time as of today, or are you talking about as of year end that you would take into account the stat earnings you're generating to come up with this 300?

Gary Coleman: Yes, Ed, we were talking about at year end 2009. That's the next time we really calculate the RBC or for regulatory purposes. So, this assumption was that through the remainder of the year, or say at the end of the year, that we could have had a total of $2.2 billion of downgrades for the first quarter and another $1.7 for the next three quarters, plus we could have $225 million of impairments. Taking that into consideration and our statutory earnings, we would still still have to put $243 million into the Company.

Ed Spehar: Okay. All right. Right. So that's taking into account $2.2 billion the first quarter plus an additional $1.7 billion for the next three quarters.

Gary Coleman: Right.

Ed Spehar: Okay. And then in terms of the comments. Just quickly, Mark, you made a comment about you thought that Med supp might come back somewhat next year. I think that's the first time you've said something like that in a long time I believe. Wonder if you could expand on that.

Mark McAndrew: Well, Ed, it is a little early to tell. It will be interesting to see -- there is no doubt that Medicare Advantage reimbursement rates have been cut far more than what people anticipated; particularly the private fee for service plans. I think we're going to come under pressure. It is hard to say yet whether there will actually be disenrollments. They're definitely going to lose their competitive advantage that they've had because of the over-reimbursement. So, actually, the Obama administration has indicated that they intend to eliminate that overreimbursement. And they're taking pretty dramatic steps in 2010. But I don't think it is until June 1st that companies have to file their intentions for next year as far as what plans and what areas they intend to offer their products. But I think there is a possibility you'll see some disenrollments from Medicare Advantage plans. But regardless, as far as new enrollees, I think you'll definitely see them lose their competitive advantage next year.

Ed Spehar: Okay. Then just going back to the statutory stuff. Gary, the $225 million impairment, that is an after tax number, correct?

Gary Coleman: Yes. But again -- yes, it is.

Ed Spehar: Okay. Thanks a lot.

Jeff Schumann, KBW: Thank you. Hello. Gary, I was wondering on this bank facility that you're putting together, is the completion of that based on any particular ratings or financial metrics that we should keep in mind?

Gary Coleman: No. Not as far as the completion of it. As a matter of fact, all of the due diligence that the banks did were based on the first quarter numbers so that's up-to-date. The only thing regarding ratings is the interest rate is a LIBOR rate plus a spread. If we got downgraded, then we would pay, you know, a little bit more on that spread. But it is not that big of an amount. What we're looking at, if we issued it today, we're talking about an all end rate of around 5%. And that's one thing that appeals to us. This is a very low cost way of paying down that August maturity but at the same time, it is also providing us time for the debt markets to open up.

Jeff Schumann: Okay. And then next, I am wondering -- given the fact you're already kind of maintaining a fair amount of spare cash and that you feel like you can pretty readily lend up to the holding company, have you thought about just upstreaming some cash and buying in the debt instead of maturing it to par?

Gary Coleman: Yes, we have thought about that. It is a little hard to do. There's not much of it out there. But we have looked at that and if we can get it at a good price, we will.

Mark McAndrew: And we've also looked at the possibility of short-term paying down the commercial paper. Because we're basically not earning anything on the cash that we're holding.

Jeff Schumann: Okay and then lastly, I guess help me maybe kind of reconcile what seems to be a little bit of a mixed message. It seems like you've painted a picture of, you know, fair degree of comfort and confidence about your sources of capital and liquidity, but then I also thought I heard you say at the beginning of the call that you're kind of dialing down maybe some of the growth in Direct Response -- which I think of as being very high quality, very profitable business that generates a lot of value. First of all, did I understand that correctly that you're kind of managing that down in an effort to conserve statutory capital, and if that's true, how do I kind of reconcile that against the bigger message that you're pretty comfortable with your capital situation?

Mark McAndrew: Well, I'll try to explain that. You know, in the Direct Response, everything we do we calculate a return on the investment. We invest money up-front in acquisition expense and we look at the present value of the profits that that business generates. Overall, we run around 23%, 24% return on investment overall in Direct Response for every dollar that we spend. But within there, there are segments that generate significantly higher returns than that and there are some that return lower returns. So, we've got some of the programs that we're doing that are down in that 10% to 12% return on investment. All we're saying is we're going to cut back on some of the lower return on investment programs that we're doing for the time being. The nice thing about it, when we do let some of that circulation rest, as we would call it, if we let it rest for 6x months or 12 months, when we start it back up the response rates improve just because it hasn't been hit as many times. So, it is just one of those things that in the current environment we don't feel like it is a good time to be overly aggressive in the Direct Response, and the circulation that we're going to be reducing is the least profitable of that. So, if anything, we'll see our overall margins go up as a result of that. But we just think it is not a particularly good time to be aggressive. But again, I think last year, we spent $139 million on direct costs in the Direct Response and we're look at cutting about $15 to $20 million out of that this year. But we're really just cutting out the lowest profitable business within that.

Jeff Schumann: Okay. That's helpful. Thank you.

Steven Schwartz, Raymond James: Hi, there, can you hear me?

Mark McAndrew: Yes.

Steven Schwartz: Okay, great. Ed confused me. Can we go back to the statutory -- the capital calculation and I think it might be easier to start from -- since we have real year end numbers. You had $1.2 billion, $1.248, of total adjusted capital at year end. You had $379 million of company action level required capital, which was your $329. Your statutory operating income should be around $450.

Gary Coleman: Right.

Steven Schwartz: That's correct. And unless how much that's going to have to be up to the holding company in order to pay off interest expense and other expenses?

Gary Coleman: Okay. Let's go back. What goes up to the holding company is based on last year's earnings.

Steven Schwartz: Right.

Gary Coleman: Last year's statutory earnings. And that money is coming out of the insurance companies. That's $363 million.

Steven Schwartz: Okay.

Gary Coleman: Our earnings are going to be about $450 million for this year.

Steven Schwartz: Okay.

Gary Coleman: What I was doing is I was starting with that beginning capital, the $1.281 you mentioned; adding in the earnings; subtracting out the dividends. And then from there, solved for -- again, assuming that the downgrades will be $1.7 billion over the last three quarters, added to the $2.2 billion we had in the first quarter, that we had that many impairments for the year.

Mark McAndrew: Downgrades.

Gary Coleman: Downgrades, excuse me. Then once I got that number, and knowing what I would have to have to have 300% RBC, then I would back into how much of impairments I could have and still be at the capital needed to be at the 300%.

Steven Schwartz: Right. I understand how you're getting there, but here's how I'm looking at this thing. You've got $1.248 less $225 of impairments. That's yours. I'm just trying to engineer backwards your number.

Gary Coleman: Okay.

Steven Schwartz: Less $225 of impairments. Plus how much of retained statutory income?

Gary Coleman: Okay, let's just break down the numbers. The beginning number was $1.281 billion. That was our capital at the end of last year. Add $450 of earnings. Take $363 of dividends out.

Steven Schwartz: Okay. That still going to go up to the holding company.

Gary Coleman: That leaves me at $1.368 billion of capital. And what we're estimating our capital to be is -- our risk-based capital was 389 at the end of the year because of the downgrades. We're saying it will be 463 at the end of year this year. That gives you 295. Okay, so we're still close to the 300. But now you layer in the -- I was just trying to figure out how much we could have impairments knowing that by having impairments, I'm going to have to put cash in at some point because I'm already below the 295. So, I've got $242 million available to put in the Company. So, once you have that -- I forgot what you said -- capital was I think it was $368. You add $242 into that. Then you can subtract what amount -- you can find out what amount it is that you can have impairments and still be at the 300% level.

Steven Schwartz: Okay. And the $242 was what again?

Gary Coleman: That's our free cash flow that's available for the rest of the year.

Steven Schwartz: From last year?

Mark McAndrew: Right.

Gary Coleman: Right.

Steven Schwartz: Got you. Okay. And then if I could ask an actual operating question. Looking at the breakouts by the various agencies and health, and Mark, maybe you touched on this and I didn't understand it. But looking at LNL, you had a very nice increase year-over-year in the expense ratio. Was that somehow driven by this reclassification of expenses that you were talking about?

Mark McAndrew: Rosemary?

Rosemary Montgomery: I think the answer is no. I think that relates back to what I talked about earlier was the fact that we had done a complete review of our health lines and --

Steven Schwartz: I'm just looking at life.

Rosemary Montgomery: Oh, the life one is actually due to the termination rates continuing to --

Mark McAndrew: Actually the acquisition expense at Liberty National went up significantly from a year ago.

Rosemary Montgomery: Yes. The non-deferred amortization percentage is up from a year ago, consistent though I think with what we had in the fourth quarter of '08. And that's due to us continuing to experience a higher termination rate than what we had before.

Mark McAndrew: The expense ratio, the acquisition expense ratio, went up at Liberty National, and that is a result of the higher than anticipated lapses…

Rosemary Montgomery: Right.

Mark McAndrew: …that we are taking corrective steps to reverse that.

Steven Schwartz: That was the first year stuff?

Mark McAndrew: Yes.

Steven Schwartz: Okay. I got you. Thanks.

John Nadel, Sterne Agee: Oh, yes, I just had one quick follow-up for you. Did I hear correctly that you said with respect to this new bank line that you were in the process of, that the two banks involved in it were also the two lead banks from your back-up line?

Gary Coleman: No, they are not.

John Nadel: Oh, okay. They're two different banks?

Gary Coleman: Yes. They are banks in our bank line but they are not our lead banks.

John Nadel: Oh, they are not your lead banks. Okay. Thank you.

Hani Sabbagh, Viking: Yes, thank you. Just a question. You mentioned that you may at some point feel it is not worth defending your rating, and at that point you could live with the lower RBC ratio. What sort of ratio could you live with in the lower rating?

Mark McAndrew: Want to try that, Gary?

Gary Coleman: I don't think in discussions we've had -- I don't think we know if we went down one rating I don't know where the threshold would drop to. It would drop from 300% to somewhere below that. I really can't answer at what that level would be.

Hani Sabbagh: All right. Thanks.

Mark McAndrew: Well, thank you everyone for joining us this morning and we will visit with you again at the end of next quarter. Have a nice day.