TORCHMARK CORPORATION
2nd 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 our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2006 10-K which is on file with the SEC.

Net operating income for the second quarter was $129 million, or $1.34 per share; a per share increase of 10% from $1.22 for the year-ago quarter. Our return on equity was the same as a year-ago at 15.8% and our per share book value increased 10% over the last 12 months to $34.20.

In our life insurance operations, premium revenue grew 3% to $392 million and life underwriting margin grew 2% to $101.5 million. Life insurance net sales were $67.4 million, up 8% from last quarter, but still 5% less than the year-ago quarter. Life first-year collected premiums were $49.4 million; down 7% from a year ago.

In our Direct Response operations, life premiums grew 7% to $121 million, and life underwriting margin increased 4% to $29 million. Net life sales were $29 million, down 5%, and life first-year collected premiums declined 3%.

On the last conference call, I stated that I expected to see 5% to 10% growth in Direct Response net life insurance sales during the second quarter. I was wrong. I underestimated the time lag between increases in our insert media circulation and increases in our reported net sales. While this time lag averages 2 to 3 months on our direct mail side of the business, it runs 4 to 7 months on the insert media side. As a result, we continued to be impacted by the 11% decline in insert media circulation during the first quarter of the year as well as the 30% decline we saw in the fourth quarter of last year. As we had discussed previously, these insert media sales had been controlled in prior years by Direct Marketing Distributors which we acquired in January of this year.

Net sales from new insert media inquiries dropped 24% for the quarter to $10.5 million. Net Direct Response sales from all other sources (primarily direct mail) increased 10.5% for the quarter to $18.9 million.

On a brighter note, our insert media distribution increased 6% for the second quarter versus a year ago. Our current estimates for this circulation during the third and fourth quarters of this year show increases of 27% and 36%, respectively. As I just mentioned, similar increases in net sales from this media can be expected to follow 4 to 7 months after these circulation increases.

At American Income, life premiums grew 7% to $109 million and life underwriting margin increased 6% to $34 million. Net life sales were up 1% to $23 million and life first-year collected premiums increased 2% to $18.4 million.

The American Income producing agent count was up 4% from a year ago, but was flat with the end of the first quarter. To achieve greater long-term growth at American Income, we must continue to expand our elimination of exclusive territories for the American Income agencies. Through the end of the second quarter, we had eliminated exclusivity in only 17% of American Income's territories. For these non-exclusive territories, net life sales have increased 47% for the first half of 2007. We are accelerating our efforts in this area and plan to double the non-exclusive territories by the end of this year.

At Liberty National, life premiums declined 2% to $74 million while life underwriting margin dropped 12% to $16 million due to higher than normal claims for the quarter. Net life sales were down 20% for the second quarter to $9 million and life first-year collected premiums declined 19% for the quarter. The producing agent count at Liberty National grew 11% during the quarter to 1,596, continuing the turnaround which began in the first quarter of this year.

On the health insurance side, premium revenue, excluding Part D, grew 2% to $259 million and health underwriting margin also grew 2% to $46 million. Health net sales declined 1% to $63.8 million and health first-year collected premiums increased 10% to $49.4 million.

For the Independent Agency operation at United American, health premiums dropped 7% to $98 million and underwriting margin was down 9% to $17 million. Net health sales were $13 million for the quarter; down 18% from a year ago.

On the Branch Office side, health premiums were up 12% to $97 million and health underwriting margin was up 7% to $13 million. Net health sales grew 8% in the Branch Office to $44 million and first-year collected health premiums were up 26% to $32.6 million. The producing agent count at the end of the quarter was 3,252; an 18% increase over last year.

Premium revenue from Medicare Part D was $55 million for the quarter and the underwriting margin was $6 million.

Administrative expenses were $36.9 million for the quarter; a decrease of 7% from a year ago. As a percentage of premium revenue, administrative expenses declined to 5.2% versus 5.7% twelve months ago. We have again lowered our estimates for 2007 administrative expenses. We now project a 3% decline in administrative expenses for the full year of 2007.

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 $9.2 billion of bonds at amortized cost, which comprise 94% of invested assets.

Investment grade bonds total $8.5 billion and have an average rating of A-. Below investment grade bonds are $677 million, and comprise 7% of invested assets.

Overall, the total portfolio is rated A-, same as 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 $944 million at an average annual effective yield of 6.8%, an average life to worst call of 26 years and an average rating of A. This compares to the 7% yield, 24 year average life and A+ rating of bonds acquired in the second quarter of last year.

Although the second quarter new money yield was higher than in the previous two quarters, it was still lower than the portfolio yield. At June 30, the average yield on the portfolio was 6.97%, 7 basis points lower than a year ago.

Now turning to excess investment income. It was $80 million, up $1.5 million, or 2%. On a per share basis, excess investment income increased 6%, which reflects the effect of our stock repurchase program.

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

First, net investment income was up $6 million. However, taking into consideration the $466 million of municipal bonds acquired in March and April, total investment income on a tax equivalent basis was up $7 million. This represents a 4.4% increase in income, slightly lower than the 5.1% increase in average invested assets.

Next, the interest costs on net policy liabilities increased $5 million, or 9%, due primarily to an 8% increase in the average liabilities.

And, lastly, financing costs were down $1 million due to the lower average debt outstanding.

Finally, I would like to comment on our share repurchase program. In the quarter, we spent $131 million to buy 1.9 million Torchmark shares. This is comparable to the $99 million used to buy 1.7 million shares in the second quarter of 2006.

As we have discussed before, we use our free cash flow at the holding company to fund the stock repurchases. In 2007, free cash flow will be around $350 million. With our debt at an appropriate level, and as long as we can receive a superior return over other investment alternatives, we expect that stock repurchases will again be the best use of our free cash flow.

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

Mark McAndrew: Thank you, Gary.

We are again raising our estimates for 2007 earnings per share to a range of $5.40 to $5.45. This upward revision is due primarily to a $5,000,000 reduction in our administrative expense reductions; $2,000,000 of higher investment income due to the upturn of interest rates during the quarter; and $2,000,000 of better than anticipated revenues and underwriting margins for Medicare Part D.

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

Jimmy Bhullar, J. P. Morgan: Hi. Good morning. Thank you. I just have a couple of questions. The first one is on Liberty National. In the life side your benefits ratio, I think 49.7%, was the highest that it's been in the last several years. So I wanted to see if there's something going on in that business that you consider nonrecurring or do you expect the benefits ratio to remain at this level going forward?

And then second, on Direct Response, I'm not sure if you mentioned this in your remarks – but what do you expect sales growth to be now in the second half of the year and when do you actually

expect an improvement? I am assuming it's a wait but if you can discuss that?

Mark McAndrew: Okay, Rosemary, I'll let you take the first part of that.

Rosemary Montgomery: Okay. In regard to the Liberty National question on policy obligations, we did have unusually high claims this quarter. That's not really something that we expect to continue. That number does tend to fluctuate a little bit. I would say if you compared it to a year-ago quarter, claims were really unusually low in that quarter. So again, nothing that we really see is going on there and we would expect the policy obligations to go back down to our expectations.

Mark McAndrew: Okay. On the Direct Response, Jimmy, I've got to lower my projections a little bit from where they were last quarter; not that anything has deteriorated. Again, it's more on the insert media side. There's a longer tail to that business than what I had projected. Right now, if I look at our gross sales, which are policies that we've issued that haven't paid the first full premium; our gross sales for the quarter were up 7%. That's a reasonable estimate for what growth we'll see in net sales during the upcoming quarter. Future quarters will be significantly better than that. Again, what's been dragging us down has been the insert media. Those sales were down 24% this quarter, net sales. Their gross sales were only down 4% for the quarter. But now we're seeing growth in that circulation. It was up 6% this quarter, and it will be up 27% next quarter, and 36% the fourth quarter. Again, there's a lag there but each quarter we will see better growth really for the next four, five, six quarters. That growth will accelerate. We still expect to see strong double-digit growth by fourth quarter of this year and very good growth in 2008.

Jimmy Bhullar: Okay, thank you.

Nigel Dally, Morgan Stanley: Thank you. Good morning. First question is on acquisitions. There's been rumors that the Gerber block of direct response type businesses tend to be on the block. Given your appetite for acquisitions, what kind of criteria are you using in accessing potential transactions and what's the maximum size of the deal you can complete without issuing equity?

Then I just have a follow-up on health insurance sales. The 8% sales increase you saw at UA Branch trailed the growth that you saw in the number of agents, which I think were up 18%. So I'm hoping can you discuss the reasons for that trend as well?

Mark McAndrew: Okay, as far as Gerber, obviously that's the only primary competitor we have in our Direct Response operation. We would like to see it be put on the block. We would definitely have an interest in it. That remains to be seen. That is definitely a company we would take a hard look at.

On the United American Branch, there is a couple of factors there. One, what's driven our growth over the past couple of years there is really our ability to open new offices and grow the agents. Unfortunately, in the first quarter, we had a little more turnover in our Branch managers and we only opened two new offices in the first quarter, and that did have some impact on our growth in agents and sales. Since the end of the first quarter we have opened up ten new offices. That would help going forward, so I expect that to accelerate. The other factor in there is we have put more emphasis in the Branch Office in trying to develop more life insurance sales. The customers we are writing have no health insurance, and most of these people also have no life insurance. So where we're seeing growth in our life sales, and we should continue to see significant growth in our life sales at our Branch Office, it does detract from our

health sales. Truth be known I'd rather have the life versus the health; if I had a choice anyway.

Nigel Dally: Just to go back to the acquisitions. A number of companies when they talk about acquisitions that have very specific criteria; like it has to be EPS accretive in the first year or various other measures. Do you have any particular measures or criteria you're holding potential acquisitions out to?

Mark McAndrew: Well, we would definitely like to see it be accretive to earnings per share. But again, I think for a company that size most of the funds could come from our insurance operations from the insurance subsidiaries – money that we're using now to invest in bonds. I can't imagine that we would pay a price that would not be accretive to earnings per share assuming we can use the cash out of the insurance subsidiaries.

Nigel Dally: Right, right. And just one last question with your investments. I'm guessing it's not an issue, but can you discuss whether you're holding subsidiaries in your portfolio?

Mark McAndrew: I'm sorry, could you ask that again?

Nigel Dally: Any subsidiaries in your investment portfolio?

Mark McAndrew: Gary?

Gary Coleman: Nigel, we have just a very small amount; less than $100 million.

Nigel Dally: Okay, great. Thank you.

Bob Glasspiegel, Langen McAlenney: Mark, I want to be sure I understood your last answer properly. You guys haven't done any acquisitions? You said a screen that has to be accretive but then you sort of say that's an easy screen to follow. But buying your own stock back has been, and I would assume, would be much preferable than just being able to pay 20 times earnings and beat the after-tax return on bonds. You have a little bit sharper hurdle than that on acquisitions, right?

Mark McAndrew: No. I don't expect we would pay 20 times earnings for something but –

Bob Glasspiegel: You're saying you could pay up to 20 times earnings and have it be accretive relative to your return on bonds after tax?

Mark McAndrew: That is basically true. That doesn't mean that we're going to overpay for something, but by being able to use money out of the insurance subsidiaries we will have a much better impact on earnings per share and not take money away from our share repurchase. That makes all the sense in the world. And for a company that size, we believe we could do that.

Gary Coleman: Yes, Bob, you know we're limited to how much money we can take out of statutory earnings and what Mark is talking about is money that's left over in the insurance companies that we can take out, that's what we're investing in bonds. We think we could – we just have really estimates – we could do a $400, $500 million transaction within the insurance companies and not impair our ratings at all. We might be able to do more. We just hadn't put a sharp pencil to it. But again, if the opportunity calls that we're talking about compared to bonds, that's for money that has to remain in the insurance company and for right now bonds are the best asset.

Bob Glasspiegel: You haven't done any acquisitions in a long time, so I think, obviously, you've been pretty rigorous. There have been a lot of deals out there, even on that level. So I'm just saying you're not

saying is it better than 20 times earnings? Therefore, it would be accretive; therefore, we consider doing it?

Mark McAndrew: No, obviously we have more criteria than that. Yes, we're looking for something with a distribution that we believe we can grow. We're not going to pay 20 times earnings for something. But something like a Gerber makes a lot of sense in many ways for us. Again, it is a significant competitor to our Globe Life subsidiary, and we think it would be of more value to us than it would be to other companies out there because of the expertise that they have combined with the expertise and efficiencies that we have, we think we could add a lot of value to that company. But no, we're not saying that we would pay 20 times earnings for something.

Bob Glasspiegel: Okay. Switching gears. Is there any risk, Mark, that you're being a little bit overly optimistic about what the insert turn could be given that you haven't been owning the operation for the whole time, or maybe I'm missing where the shortfall to date is coming from? But, are you seeing something in Q3 sales that's making you feel like you're right on this, or is there a little bit of hope in this?

Mark McAndrew: Well, the increases in the circulation are pretty solid. I mean, it's really the difference in my projections from this quarter versus last quarter is really just a change in the timing; that again, it takes so much longer because of the nature of those sales for the net sales to flow through. But the 27% increase in the circulation for the third quarter is a solid number. It's pretty easy to predict. We know what the response rates are. One of the factors that's allowed us to increase that circulation is we've increased the maximum face amount we issue from $30,000 to $50,000. That not only has improved our response rates but it's improved our average premium that we're seeing, so it's allowed us to increase these circulations going forward. So, they're solid numbers. I'm very optimistic. I'm not overly optimistic, but I feel very good that the increases in sales are there. They are just going to take a little longer than what I estimated three months ago.

Bob Glasspiegel: Okay, appreciate it.

Eric Berg, Lehman Brothers: Thanks. I have a few questions, and good morning. Mark, the first question – with respect to the pushing out of the recovery at Globe, to the extent that you have been dealing with this inserter and mailer for years, and presumably you're aware of the lag – in other words, presumably there's always been a lag and all that has happened here is that the ownership has changed. What's your best sense of why you were surprised by the lag here? What was different from what has always been the case in dealing with this inserter and mailer?

Mark McAndrew: Eric, I don't have an excuse for that. I made a mistake. What I didn't take into account--one of the things was, you have to understand the nature of these. They put an insert in, say the first of April. Those go out third class. So we get a inquiry card (a response card) back in 4 to 8 weeks afterwards. Then we send out over the next 3 months a series of six different packages that include product information and applications. Those are going out third class. I missed that. Instead of first class, which has pretty much overnight delivery in most places, the average delivery there is 2 to 3 weeks. So I missed it there. I don't have an excuse for that. It has been the same, you're right. It's just in my projection – my estimation of the time between the increase in circulation to the time the net sales come in I just miscalculated. And you know, I apologize for that, but I don't have an excuse, Eric.

Eric Berg: I very much appreciate your candor. That's perfectly understandable. Could I move on to expenses?

Mark McAndrew: Sure.

Eric Berg: Thank you. What is really driving the lower expenses; in the sense that I'm certainly aware of the fact that some time ago you eliminated the service salaries in Birmingham at Liberty in favor of higher commissions? So, in concept, if one is sort of being funneled into the other, why are expenses falling at your company as much as they are?

Mark McAndrew: Well, there's two things. There's no doubt the changes that we made at Liberty National is a big piece of the expense savings. Those changes went in the second quarter of last year. We started to see those savings during the third and fourth quarters last year. That's why we don't expect to see the same percentage decreases in the second half of this year that we're seeing in the first half. But there are also other things. We have lowered our expenses on the Part D but also just through other efficiencies. It's not the only reason. For the quarter, I think the savings and the costs at Liberty attributable to the changes in compensation for the field people was about $1.5 million. So it's not all of the savings.

Eric Berg: Last question relates to the recruiting and the composition of the agents at Liberty. My question is – we continue to see a decline in the number of renewal agents – who are presumably the more, (maybe not, you can challenge me on this if I don't have this right) the more productive agents and we're seeing a tremendous increase in first-year. What's going on with the composition and how are you feeling about that composition of the agent force?

Mark McAndrew: Well, you're right there, Eric. We have continued to see a decline in the renewal year agents and they are more productive. The average renewal agent is producing about $800 a week of sales versus closer to $450 – $500 in a first-year agent. About half of the decline that we've seen at Liberty National in the renewal year agents are people that have been promoted in management. And because we had a higher turnover in management, we saw more promotions than we would typically see. That is a concern and really until we -- recruiting has really picked up the last two quarters, and so really it will be the first two quarters of next year when we see significant numbers of those flow through into renewal year agents. So short-term we are going to continue to see a higher percentage of our agents at Liberty be first-year. A year ago, I think we were at 57% of the agents were first-year. Now it's 70% of the total agents are first-year. That is why total sales haven't kept pace with our growth in agents at this point. But they will going forward.

Eric Berg: Thank you.

Tom Gallagher, Credit Suisse: First question is, Mark, related to your comments about how you potentially fund M&A out of the insurance operation, I guess listening to your answer, it occurred to me that I think the implication here is that you have some trapped capital in your insurance subsidiaries. Just wanted to get your perspective a little bit on that. Have you thought about running the Company actually at a lower capital level because I don't view your business as particularly ratings sensitive? So, can you talk a little about that balance between if you do believe there's excess capital, you know, maybe how you get at that or is it simply need to do an acquisition to get at that excess capital? Thanks.

Mark McAndrew: Well, I'll make a couple of comments and then I will let Gary add his thoughts. Part of that is regulatory. Right now we are dividending up to the parent our statutory earnings for the year. We haven't taken any additional capital out of the insurance subsidiaries. To do that requires regulatory approval. So it's not that it couldn't be done, but it's not something we can do without getting regulatory approval. Gary, you want to comment?

Gary Coleman: No, Mark, I agree with that. Tom, the only thing I would add is we do feel like there is trapped capital from the standpoint the way our operations are. Our different distribution system's really fund the new business out of current operations. But Mark is right. It's difficult to get more money out than just the statutory earnings, so that's why we've kept the capital where it is.

Tom Gallagher: So the idea here is you can do an acquisition and potentially funding that added a life company because you would not necessarily need to upstream the money. It could be done with the cash that resides in the insurance company so you wouldn't need to get regulatory approval. I presume it's a trapped capital issue more than anything. Is that right?

Mark McAndrew: I think that's a fair assessment.

Gary Coleman: It would be a better use of the capital that we have to keep there.

Tom Gallagher: Is there any consideration underway, you know, discussions with the rating agencies to somehow get access to that capital? Because if it's really just simply the structure and the relationship to the regulation, it would seem that, you know, there's a way to better optimize your capitalization.

Mark McAndrew: Oh again, it's not a problem with the rating agencies. We could upstream that capital without affecting our ratings. It's the state insurance departments that we have to get approval from. It's really not a rating issue.

Tom Gallagher: Got it, okay. And then just one question on your investment portfolio. Noticed that you actually acquired more bonds this quarter than you did a year ago. Just curious if anything was going on from a repositioning standpoint or were there just more maturities taking place now that you needed to redeploy cash into, or maybe just granularity for what's happened there.

Mark McAndrew: Gary, you should comment on the activity that we had in the quarter.

Gary Coleman: Right. Tom, there are really a couple of things. One thing is that (and this was expected) we had $274 million of bonds called this quarter, and last year I think it was only $19 million. So there's an extra $250 million of calls. We also had slightly higher maturities. And we also had $200 million in sales. We sold some bonds, very low yielding bonds, in the quarter that were about to mature and invested that money in much higher rates. So it's really a combination of the calls and the sales.

Tom Gallagher: Got it. Thank you.

Joan Zief, Goldman Sachs: Thank you. Just a couple of questions. The first one is – you've done a great job in reducing your admin expenses. I guess my question is, is there more to go or do you think that you're now at the bottom level that we're going to see going forward?

The second thing is – you have always been able to buy back enough stock that covers your free cash flow. Are you thinking is there anything you can do to maybe upsize that buyback program anyway through, you know, hybrids or as you said, you have trapped capital. Anything that you're thinking about that could upsize that buyback?

And then my last question is – you talked about wanting to sell more life insurance at the United American Branch Office at the expense of health. And if you are successful in increasing your life insurance sales, are we going to see your free cash flow shrink a bit and will that impact your ability to buyback stock?

Mark McAndrew: Okay, I'll take the first one. On the administrative expenses – no, we think we have significant potential to continue to reduce our administrative expenses as a percentage of our premium. One of the things in the third quarter, we should complete the addition to our building here in McKinney which will allow us ample space to consolidate some additional functions. One of the functions, customer service, we've already identified several million dollars of savings there. When we have the space we will proceed with that, as well as some other functions. You know, Vern Herbel, who's now our Chief Administrative Officer, has been in that position for about a year, and I think he has a lot of abilities. I expect to see our administrative expense ratio continue to come down.

Gary, you want to talk about the buyback?

Gary Coleman: Sure. Joan, we could upsize buyback by borrowing. Our debt to capital ratio is around 23%, I think. And it's well within our ratings and I don't think you will see us do that. I think we're satisfied to keep it where it is. Where you might see it is a drop in the stock price, or something out of our marketing condition, or something out of our control, we might borrow to buy more there, but we're not a big fan of the hybrids. But that would -- that is a possibility but I wouldn't look for us doing that.

Mark McAndrew: On the life insurance at United American, yes, we think we can pick up hopefully a million or $2 million additional per quarter of life insurance there. But the surplus drain there is relatively small that it would be an insignificant impact on our cash flow that we would dividend to the parent.

Joan Zief: Great. Thank you very much.

Jeff Schuman, Keefe, Bruyette & Woods: Good morning, I'd like to start with a couple questions on the marketing side. First of all, can you give us an update on the efforts to stimulate the underage 65 sales in the Independent channel?

And secondly, can you give us any sort of updated color about the Med supp market in terms of, you know, levels of competition, either on the insured side or Medicare Advantage side, please?

Mark McAndrew: Okay. The first part of your question again, Jeff? I got the second part.

Jeff Schuman: You had been trying to stimulate sales of the underage 65 and the Independent channels have been a little slow for a while. I wasn't sure if there is any update there?

Mark McAndrew: Again, we have added some agencies which have added some sales there. Unfortunately, it still comes down to 3 years ago we had one agency producing 60% of our business on the Independent agency side. That agency's now producing about 8% of our total business. So their sales have continued to decline whereas we have been picking up sales from other sources. The one agency that's caused the big decline there over the last 3 years really is producing now a relatively insignificant amount. So we do expect to see sequential growth going forward there, but it's not going to see the type of growth we've seen in our captive agency force because there is more competition for those agents.

On the Medicare side, our Medicare supplemental sales have become a relatively insignificant piece of our health sales. Medicare Advantage, particularly the private fee-for-service plans, are really dominating that marketplace right now. A big question is, how long will they survive at the current levels of compensation from CMS? It's hard to say. It could be a year; two years; could even be three years. But I don't see that continuing long-term. It's something we're trying to get a better feel

politically what is going on there. I know there's supposed to be some legislation introduced shortly about cutting those reimbursement rates, and with all of the abuses that are going on there, I expect to see something happen I would hope in the next year that makes those plans less attractive, which would be good news for us in that I think our Medicare supplement sales would rebound if those reimbursement rates are cut.

Jeff Schuman: And thank you for that. Moving on to a couple of financial questions. Gary talked about interest costs and he referenced the year-over-year comparison. But, Gary, I'm a little confused about the sequential comparison because you had a big drop in interest costs sequentially, yet the long-term debt package was the same and short-term debt went up. So which is the number to go forward with? The first quarter number or the second quarter number?

Gary Coleman: Jeff, probably the second quarter number. Although the short-term debt ended up at $260 million for the quarter, the average outstanding was $215 million and that was much lower than what we had in the first quarter. And so the difference between the interest expense on the sequential quarter is we had $700,000 less in short-term interest. Even though we ended up at $260 at the end of the quarter, we expect to be back around $200 million later in the year. I would use the second quarter more so than the first.

Jeff Schuman: Okay, so it's an issue of the average short-term debt versus the end of quarter?

Gary Coleman: That's right.

Jeff Schuman: I'm a little fascinated with this discussion about the trapped capital and ordinary dividend restrictions. We're used to seeing other companies routinely pull extraordinary dividends – Ameriprise, Metlife, Prudential, Principal – pulling billions of extraordinary dividends. Is there something about one of more of your states that domicile that creates a problem? Why is that a difficult constraint for you?

Gary Coleman: I don't know what the other companies do. We have in the past gotten extraordinary dividends, and one example is when we spun off Waddell & Reed. The money that was generated by that IPO and spin off went through Liberty and we were able to get an extraordinary dividend for that. Again, I don't know what the other companies experience is. Our experience is when we go for extraordinary dividends we really have to have a very good reason to pull that money out, and at least the states we deal with they are not swayed by much fact that we think we have capital trapped in the Company, and we can utilize it better at the holding company. They want to keep it there in the insurance companies. So, that's been our experience and we're in domicile in several different states.

Jeff Schuman: Do you have any potential just to use internal surplus notes or anything else to leverage that capital or not?

Gary Coleman: Yes, we would have that potential. We haven't really looked at that that closely, but that is something we do need to look at.

Jeff Schuman: Thanks a lot.

Steven Schwartz, Raymond James: Good morning, Mark. I just wanted to go over a number that you brought up to Jimmy way back at the start of the Q&A period. Were you saying that insert media sales on a gross basis in this quarter were up some 7%? Was that accurate?

Mark McAndrew: That was total Direct Response sales. The insert media was still down 4% for the quarter.

Steven Schwartz: On a gross basis?

Mark McAndrew: On a gross basis. The total Direct Response sales on a gross basis were up 7% for the quarter.

Steven Schwartz: Okay, so just following along the logic here; then we should expect to see insert media sales down probably 4% in the third quarter and then beginning to pick up as gross sales pick up following the increase in distribution?

Mark McAndrew: That would be reasonable. We might beat that a little bit in the third quarter on a net basis, but that's pretty close to our expectations.

Steven Schwarz: Okay, great. That's what I wanted to get to.

Colin Devine, Citigroup: Thanks. First, I acknowledge your ability to get down expenses, frankly, faster than we thought you could and also, Mark, your candor on the forecast issue. I've got really three questions I'd like to focus on.

First, you tried a lot of things over the last couple of years, but growing the level of your inforce or really picking up the pace of that beyond, what maybe about 2% now, seems to remain elusive. Is there anything that we can be looking for that you're doing that's going to start to accelerate that? That's question number one, on both the life and the health.

Second, can you give us a bit of an update as to what's happening at First Command? You no longer, I guess, break out the agent account there and just sort of what's happening there would be very helpful.

Then, I guess coming back to the trapped capital issue since it's been raised. It strikes me what some of your peers have done is to shrink the number of legal entities that they're writing through. Is there a reason that is not available to you or is that something – why do you need to, frankly, have as many writing life insurance companies as you have today?

Mark McAndrew: Okay. Well, first, on growing our top line growth and growth in premiums. Sure, we're always trying something. In the Direct Response, the acquisition of the DMAD going forward will help us get back to double-digit growth and premiums in our Direct Response. Unfortunately, some of the other distributions are not going to be as quick and easy. At American Income, we have a plan. We think we can get there over the next 2 years, where we can get back to seeing double-digit growth in sales and double-digit growth in premiums. Right now we're running about 7% growth there. Liberty National is going to definitely take some time where premiums are down 2% there. That's going to take some time for us to continue to grow the agent count there to where we can start seeing respectable growth. I do expect in 2008 we will see better growth in both life and health inforce, and collected premiums than what we're seeing this year. The quickest, easiest thing will be in the Direct Response. That should begin growing substantially here over the next quarter, two quarters, three quarters.

On the First Command, looks like they have at least started to turn the corner. If you look at our sales there this quarter, it's the first sequential quarter that we haven't seen a decline in at least two to three years. So our sales did pick-up a little in the quarter. I'm still not expecting it to become a major growth piece for us as it was, but at least the sales are starting to pick up there.

As far as a trapped capital issue and combining entities, it is something we are considering. It's something we will be discussing at our board meeting next week. There is some potential there for a number of reasons that it may make some sense to

combine some of our entities including cost savings, but one of the benefits could be that it could free up some trapped capital.

Colin Devine: Okay. Just coming back on two quick follow-ups. First, can you give us some sense -- has the agent count at least stabilized at First Command, or are you now under 300 agents? So where are we there?

And then secondly, in terms of what are your two or three key objectives in trying to, you know, run Torchmark over the next two years? What should we judge you on in saying okay, you've done a good job or maybe not so good a job? Is it inforce, revenues, nominal earnings, you know? What are you holding yourself accountable to?

Mark McAndrew: Okay, first off, on First Command. The agent count as far as producers (it looks like we do put that out on our website) it grew by 3 for the quarter, and it's 8 less than it was 6 months ago. So it's pretty well stabilized.

On the other issue, what I judge myself on and I think what most of the people here at the Company are judged on, is how we grow earnings per share. I think we can get it back to double-digit growth in earnings per share, which has always been our goal. We've run a little bit under that recently. How we do that? It is a combination of things. We can generate better internal growth than what we have seen the last couple of years. We can reduce our administrative expenses further and improve our underwriting margin. Also, I would like to see sometime in the next year, two years, three years, I think there is the potential for us to make an acquisition which can add to growth in earnings per share. But it still comes down to our goal is to grow the bottom line and grow earnings per share. Everything we do is directed toward that end.

Colin Devine: By double-digit then; that's the metric?

Mark McAndrew: I've been with the Company 27 years and that's always been our goal. Double-digit growth in earnings per share is what's always been expected or that's always been our measure of what's a good year versus a not so good year. I think the worst year we've had in the last 10 years is 8½%, but I would love to see it get back above double-digits, yes.

Colin Devine: Thank you.

Mark Finklestein, Cochran, Caronia, Waller: A few questions, thank you. Firstly, on the first quarter call, I think you mentioned the expectation of double-digit growth at Liberty National in the back half of the year. I can't recall if you stated your new anticipations or if there's any changes to that earlier. I want to get an update on that firstly.

Mark McAndrew: Okay. Probably tone that down a little bit. We do have easier quarters to compare to in the second half of this year. We're already producing at a level that's higher than what we had in the fourth quarter of last year. So by the fourth quarter, it's reasonable to assume that we should see double-digit growth in the fourth quarter. We're probably not going to hit double-digit growth in the third because if you just look at the quarters we're comparing to, that may be a little difficult. Sequentially, we should see growth quarter-over-quarter going forward. So I would have to move back about three months my expectation for double-digit growth.

Mark Finkelstein: Okay. And I guess this is a little bit of a philosophical question. If I understand some of the changes at least in the administrative expense decline, a part of that is due to the changes that you made at LNL. I'm going back a little bit, but I thought that the idea was kind of the net cost wouldn't be that different, but you were really shifting from a fixed

expense structure for part of it to a fully variable structure. And so what I guess I'm trying to understand is, if the sales do increase at Liberty National, should you expect some of that cost shift to move into the commission expense line in that segment and, therefore, a slight uptick on a relative basis in that number? Or am I misunderstanding that?

Mark McAndrew: Well, that's partially true. If we look at just our cash expenses, they have come down substantially at Liberty National. Some of those we have moved from a fixed expense into a variable expense. That variable expense commissions is deferred and it's shown in acquisition expenses. So even there, if sales do – when they do come up going forward, we may see less of a reduction in our cash expenses. But the commissions are deferred so you will still see an improvement in our profit margin.

Mark Finklestein: Okay. And just finally on American Income. In terms of taking the lead generation etcetera in house, I think you stated a goal of getting to half of the territories by the end of the year. Can you talk quickly about the logistics in doing that? I guess what I'm trying to get at is the whole process fully at your discretion and it's just administratively and personnel wise kind of putting it in place or are there any elements of that that are out of your discretion and, you know, kind of of what are the points you have to kind of clear up to fulfill?

Mark McAndrew: That's a fair question because one of the things that's fueled our growth at United American was about three years ago where we basically had exclusive territories in our Branch Office. We eliminated those exclusive territories and we've been able to significantly expand the number of offices that we have. The difference between that and American Income is the reason we're not able to do that overnight at American Income is the agencies, the SGAs, which is our top person in our American Income agencies. They control the lead generation. They have control of the local unions where the bulk of our leads are generated. They have people employed, which we call public relations representatives, who go out and get these endorsements from the local unions and they pay for the mailings. And that's what we have to take over. We have to make that a home office function and that takes time. Because as we've got these people spread out all over all 50 states as well as Canada, that we have to get the management hierarchy in place and have to hire the right people to take this over because it is so important not to mess that up. It is the life blood of American Income and we're not going to rush into it, and do it to where we actually harm sales. Actually, in the areas that we have taken over, we've actually been able to add public relations people and grow the lead generation. That's one of the reasons why we've seen such significant growth in sales in those areas. But it is a time consuming thing. I said right now we're at 17% of the territories. We hope to double that to more than the 33%, 34% of the territories by the end of this year. Hopefully, we can move that from a third of them by the end of this year to two-thirds of them by the end of next year. But it's still a long-term process. We have seen great results where we've been able to do that and we are going to accelerate our efforts. But we still can't do it overnight.

Mark Finkelstein: Okay. Thank you.

Eric Berg: Thanks very much. A couple of quick follow-ups. Mark, why can't it be done overnight or something close to it? In other words, I think you have been at this process for over a year. What is it about the contracts, the sensitivity -- why is this proving to be such a protracted multiyear process?

Mark McAndrew: Well, it's hard to describe briefly, Eric, but again, developing those union relationships and we have to hire people and train people to go in

and develop and maintain these union relationships. Plus, we're dealing with unionized agents and public relations people. We do have some restrictions there. We have to get the right people in the management structure. We have 200 of these people around the country and we need to grow that number. We can't have 200 people reporting to one person. We've got to develop a management hierarchy which we started to do and we're going to accelerate that effort. We've identified more people that we are going to put into management positions, but it's still you have to take it one area at a time because we're taking areas where sales are down. In fact, the areas that we're taking over the second half of this year, their sales are down 27% the first half of this year. We're able to turn those around to get growth there, but Eric, I don't know how to simply state it other than it is a time-consuming process that we just absolutely have to make sure that we do it properly because if we do anything that upsets those union relationships that we have developed, that Bernard Rappaport developed over 40 years, would be a terrible mistake. It would be something that would take us years to recover from.

Eric Berg: Last question relates to Globe again. You talked more than once about gross versus net sales. Why is that an understanding, in analyzing and understanding the progress being made at Globe, why is that distinction important?

Mark McAndrew: Okay. Again in years past, if I look back 5 years, 10 years ago, we always reported gross sales. These were the annualized premiums on policies issued. It didn't affect us much except in the Direct Response because we have the introductory offer. We used to count sales, report gross sales that was the annualized premium on every policy issued even if they only paid the dollar introductory offer. That led to real misunderstandings about the persistency of the business. Now we're only reporting policies and net sales for policies that pay the first full premium. Well, on our adult policies, we still have a dollar-for-one-month introductory offer. On the insert media we have on the juvenile products, we have a dollar for the first three months. So, the gross sales are policies that have been issued that have not yet paid the first full premium. The net sales that we report in our financials are policies that have paid the first full premium. We still lose about 40% of the policies we issue that never pay beyond the dollar introductory offer. So that persistency hasn't changed significantly. So when we see growth in our gross sales, we know that a month later on the adult and three months later on the juvenile that those will flow through to net sales.

Eric Berg: Thank you.

Joan Zief, Goldman Sachs: Hi, thank you. Can you talk a little about how the premium income is going to flow into results in the second half from the Medicare Part D and exactly why you're thinking the margins are going to be higher and, you know, how the earnings impact is going to flow in through the second half?

Mark McAndrew: Rosemary, I'll let you have that one.

Rosemary Montgomery: Okay. We did have a higher premium than normal this quarter because we did receive a $2 million amount of money from CMS due to their adjustments of the risk selection factors. This is something that they do twice a year. It's really hard to predict what that number's actually going to be so we're anticipating really that the premium income over the next two quarters would go back down to a level that wouldn't include that amount and actually a little bit less than that.

And I believe your second question was about the expectation of the future margins. We do have an adjustment also, or actually it's an

improvement, in our savings due to our taking over improvement in our fees to the PBM due to our taking over the administrative function. That was in place the entire quarter this time whereas it wasn't in place the entire first quarter. So we do expect to see that savings continue.

Also, we had some improvements in our policy obligations. That was due to our improving our rebate estimate a little bit. Also, we're going to be going through a reconciliation process with CMS this summer. It actually starts at the end of July and that's where you'll [we'll] reconcile the pass-through money and also risk sharing. We made some adjustments to that in the second quarter. That was the cause for the policy obligations going down from 80.5% to 79.7%. So what we're really anticipating for the profits on this line for the third and fourth quarter are about 10%. That really is saying that some of the unusual adjustment that we had in the second quarter we are not anticipating that we will have them at that level in the third and fourth quarters.

Joan Zief: Thank you.

Mark McAndrew: Those are our comments today. We will talk to you again in three months. Thank you for joining us again this morning.