TORCHMARK CORPORATION
2nd 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 second quarter was $126 million, or $1.53 per share – a per share increase of 6% from a year ago. Net income was $114 million, or $1.38 per share.

Excluding FAS 115, our return on equity was 14.9% for the quarter and our book value per share was $41.74. On a GAAP reported basis, with fixed maturity investments carried at market value, our book value was $31.70 per share.

In our life insurance operations, premium revenue grew 2% to $415 million and life underwriting margins increased 6% to $111 million. Life insurance net sales were $85.5 million – up 12% from a year ago.

At American Income, life premiums grew 5% to $125 million and life underwriting margin was up 9% to $41 million. Net life sales increased 19% to $33 million. Our producing agents at American Income grew to 3,822 – up 36% from a year ago and up 24% since the first of the year.

I would also point out that without the impact of currency conversion, our sales at American Income would have been up 23% for the quarter and premiums would have grown by 8% for the quarter. But for the quarter, American Income contributed 30% of our total underwriting income and is our most profitable distribution system. I am pleased with the progress at American Income and I believe it is on track to see continued double-digit growth in new sales for the foreseeable future.

In our Direct Response operation, life premiums were up 5% to $135 million and life underwriting margin grew 13% to $34 million. Net life sales increased 9% to $34 million.

Sales results in Direct Response were in-line with our expectations and we continue to expect to see mid-single digit growth for the balance of this year with a $15 – $20 million reduction in our acquisition expenses.

Life premiums at Liberty National declined 2% to $75 million and life underwriting margin was down 13% to $15 million. Net life sales for the Liberty National traditional offices grew 4% to $13 million for the quarter, and the producing agent count was 3,259 − up 5% from a year ago but down 8.5% for the quarter. Net life sales for the UA Branch offices, which are selling Liberty National products, were up 53% to $2.5 million.

Life underwriting margin at Liberty National continues to be impacted by a deterioration in our first-year persistency on our non-payroll deduction

business. We have taken steps to reverse this trend, but it will take several quarters before we start to see improvement in the Liberty National underwriting margins.

We have also been experiencing a negative trend in our first year agent retention at Liberty National. We have spent considerable time and effort analyzing this trend and believe that we have identified the causes and we will implement solutions during the third quarter to reverse that trend.

On the health side, premium revenue, excluding Part D, declined 13% to $212 million and health underwriting margin was down 12% to $38 million. Health net sales declined 48% to $20 million.

With health care reform legislation being a priority for the Obama administration, we are more convinced than ever that the market for individual primary health coverage is a dying market. We continue to believe our decision to deemphasize this market was the correct one.

On a brighter note, our supplemental health sales at Liberty National and American Income (which have much higher margins) each grew 15% for the quarter.

Premium revenue from Medicare Part D was $45 million and underwriting margin was $5 million for the quarter – both unchanged from a year ago.

Underwriting margin from our annuity business was $5 million for the quarter versus $1 million a year ago.

If our account values on our annuity business remain at second quarter levels with anticipated lapses, we expect an underwriting loss of $1.2 million for the second half of 2009. If account values decline 10%, that estimated loss would be $6.6 million. If those account values increase 6% (which would be equivalent to a 980 S&P index), we would expect a gain of $1.1 million for the balance of the year.

Administrative expenses were $39.8 million for the quarter, up 4% from a year ago. For the full year, we continue to expect administrative expenses to be flat with 2008.

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

Gary Coleman: Thanks, Mark.

I want to spend a few minutes discussing our investment portfolio, and liquidity and capital.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of June 30, 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 $10.5 billion, including $9.4 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 $9.4 billion of fixed maturities, $8 billion are investment grade with an average rating of BBB+. Below investment grade bonds are $1.4 billion with an average rating of B+, and are 14.8% of fixed maturities compared to 13.2% at March 31, 2009. This percentage is high relative to our peers, but due

to our lower double leverage ratio, the ratio of below investment grade assets to equity, excluding FAS 115, is 40%, which is in line with our peers.

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

During the quarter, we charged realized capital losses for Other-Than-Temporary Impairments on four bonds. The total charge was $38 million pre-tax, or $17 million after-tax.

Year-to-date, impairments charged to realized capital losses are $85 million pre-tax, or $58 million after-tax. For further information regarding impairments, see the schedule on our website entitled Summary of Net Realized Investment Losses.

Net unrealized losses in the fixed maturity portfolio are $1.4 billion, down $870 million from the $2.2 billion at March 31, 2009, and also down from the $1.8 billion at the end of 2008. By sector, the largest losses are in the financials which comprise 41% of the portfolio at amortized cost, but 73% of the total net unrealized losses. However, of the $870 million decrease in unrealized losses during the quarter, $442 million, or one half of the decrease, occurred in the bank and insurance sectors. Although valuations have improved, they are still less than our expected realizable values. Torchmark prefers to hold bonds to maturity, and due to the strong and stable positive cash flow generated by our insurance products, we have the ability to do so.

Below investment grade bonds have grown due to rating agency downgrades of formerly investment grade securities. At $1.4 billion, they are $682 million higher than at the end of 2008. Of this year-to-date increase, $554 million occurred in the first quarter and the remaining $128 million in the second quarter. The smaller second quarter increase is primarily due to downgrades being much lower than they were in the first quarter

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

As to asset type, 79% 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 6% of the portfolio consists primarily of municipals and government related securities. Our CDO exposure is $89 million in five securities where the underlying collateral is primarily bank and insurance company trust preferred securities. We have only $26 million in RMBS and CMBS securities, all rated AAA.

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

In the second quarter, we invested $246 million in investment grade fixed maturities, primarily in the utility and industrial sectors. We invested at an average annual effective yield of 7%, an average rating of A–, and an average life of 17 years. This compares to the 7% yield, A+ rating and 22 to 33 year average life of bonds acquired in the second quarter of 2008.

We held extra cash during the second quarter due to uncertainty regarding the commercial paper and long-term debt markets. At June 30, we had $968 million in cash and short-term investments; $343 million in the parent company and the remainder in the insurance companies. With the successful

issuance of commercial paper outside the Federal program, and the $300 million debt issuance in late June, we no longer see the need to hold so much excess cash. We are currently in the process of investing the extra cash, but the supply of bonds is more limited than in the past. As a result, we have temporarily relaxed our objectives regarding tenor in order to have a larger supply of bonds to invest in. Since June 30, we have invested $213 million at an average yield of 6.7%, and an average life of 13 to17 years and an average rating of A.

Next, I would like to discuss the August debt maturity, commercial paper and capital and liquidity.

In August, we have a $99 million senior debt issue that matures. Our preference all along has been to refinance, and in late June, we issued $300 million of senior notes. From the $298 million of net proceeds, $99 million will be used to fund the August maturity, while the remaining $199 million will be available for other needs. On our last analyst call, we announced that we were negotiating a new two year term loan credit facility as an alternative source of funding the August maturity. We were able to reach an agreement with our banks for a $145 million facility that was slated to close in the last week of June. However, with the improvement in the public debt market, we chose to issue the senior notes instead.

Commercial paper outstanding was $238 million at June 30, compared to $273 million at March 31, and $305 million at year end 2008. On June 5, Fitch lowered its rating of Torchmark's commercial paper from F1 to F2. Due to the downgrade, the Company is no longer eligible to issue in the Federal CPFF program. Since then, we have successfully issued all the CP that we need in the public market, and have done so at a lower cost. In April and May, the average yield was 139 basis points, but in the six weeks since the Fitch downgrade, we have issued $313 million at an average yield of 109 basis points. And on the most recent issues, the yield had been around 90 basis points. In addition, investor demand continues to be more than adequate to meet our commercial paper needs.

Regarding RBC. As previously indicated, we intend to maintain our RBC ratio at around 300%. In the first quarter, we announced that we were suspending our share repurchase program. The program will remain suspended in the near future due to the continued uncertainty in the general economy and the likelihood of additional realized losses and rating agency downgrades of our fixed maturities.

Now regarding RBC Sensitivity. If we have no more net realized losses or downgrades for the rest of the year, we would need to put $175 million back into the insurance companies to maintain the 300% ratio.

We have performed stress tests under several different scenarios regarding impairments and downgrades for the remainder of the year. In one scenario, we assumed that impairments in the last half of the year are one and a half times first half impairments and that downgrades for the last half of the year are at the same level that they were in the first half. Under this severe scenario, we would need to put approximately $350 million into the insurance companies to maintain the 300% RBC ratio. We don't expect to have this level of realized losses and downgrades in the second half of the year. But if we did, we have the liquidity at the parent company to maintain the 300% ratio.

Between cash on hand and free cash flow in the last half of the year, the parent company has $325 million of available cash. In addition, we have additional commercial paper and/or bank line capacity of $160 million. These two sources give us a total of $485 million of readily available funds; well in excess

of the amount that we believe will be necessary to maintain a 300% RBC ratio.

In addition, other sources of liquidity such as increased credit facilities, debt issuance and intercompany financing could provide another $1.2 billion of cash.

Based on the results of our stress testing, the available liquidity, and the temporary suspension of share repurchases, we believe that the parent company has more than sufficient liquidity to offset the impact of further realized losses and downgrades on the statutory capital of our insurance companies.

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

Mark McAndrew: Thank you, Gary.

As a result of higher debt costs and lower margins at Liberty National, we are lowering our operating earnings per share guidance for 2009 to a range of $5.93 to $6.08 per share which assumes no share repurchase for the balance of the year.

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

Jimmy Bhuller, J. P. Morgan: Fine. Thank you. Good morning. Mark, you spoke briefly about Liberty National. The agent count there has been growing at a steady base of decline sequentially. If you can talk about what you think is causing that; what your outlook is for the rest of the year.

And then secondly, Gary, if you could talk about just your free cash flow outlook for the rest of the year. And just on buybacks, doesn't seem like buybacks are likely this year. But what would you need to see next year to resume buybacks whether it's a decline in investment losses or stability in the environment overall? If you could just discuss that

Mark McAndrew: Okay. Well, first off at Liberty National. Jimmy, one, you know, we made some changes back in May to improve the quality of the business we were writing, and that did have some impact on the agent turnover. But, as I mentioned in my comments, in looking back at the agents we've hired in the last year, our first-year turnover of new agents is at an unacceptable level. In fact, comparing it to American Income, we retain more than twice as many agents for a full year than what we have been seeing at Liberty National. We've done a lot of work to analyze that and we believe we have solutions for that, and those will be implemented in the very near future. So I expect to see a turnaround.

Third quarter, we may see some continued decline in the agent count. I'm not really sure what the short-term impact, but I do believe that going forward we will see renewed growth there and I believe strongly that our retention of those agents will be better and also that the quality of business that we are writing will be better. But it may well be the fourth quarter before we see those numbers increase significantly.

Gary, you want to take the second piece?

Gary Coleman: Yes. Jimmy, from our free cash flow for the year, we have $45 million in-house right now and there will be another around approximately $80 million coming in the rest of the year. As far as what it will take to resume share repurchases, I think we do want to see – I think you mentioned it – we want to see some stability in terms of the investment portfolio, and also not only impairments, but downgrades. We have seen improvement in the second quarter in the downgrades. The effect on RBC for downgrades in the second quarter was about half of what it was in the first quarter. So we hope we continue to see

improvement there. I think once we are comfortable where we stand in terms of impairments, downgrades, and then I think we would be open to start the share repurchase program again.

Mark McAndrew: And I would emphasize that, too, Jimmy. What happens the next couple of quarters will have a big impact on that. As Gary mentioned in his comments, we're looking at $325 million of free cash at the parent right now. It's something we'll take a look at between now and the end of the year. But obviously downgrades and impairments are going to have an impact on that because it will impact the free cash that we have for next year. So as we get closer to the end of the year and we see how much available cash we have for this year, as well as what our expected free cash flow is for next year, we'll have a better idea. But we definitely won't be buying back any in the third quarter.

Jimmy Bhullar: Finally, on the health business. Is there -- like the sales have been pretty weak -- is there a chance that they will improve?

And there also has been talk about maybe Medicare Advantage reimbursement rates being cut given the Democratic control of Congress. Doesn't seem like there is any move in that direction. I would just be interested in your view on that.

Mark McAndrew: Well, I think as far as the Medicare Advantage rates being cut, I think that's a very high probability because even without the Medicare health care reform legislation that's in Congress now, they've already earmarked some cuts to just pay for the changes in the physician reimbursement in the Medicare program. But they fully intend to -- everything I've seen, they intend to cut those reimbursement rates back to be at least equal to traditional Medicare over the next three or four years. I haven't seen any numbers on disenrollments for 2010. I've heard at least rumor that there is going to be a significant number, but I don't think any of those numbers have been made public at this point. So, you know, I don't know when, but I think the Medicare supplement market will come back over the next year to two years. I don't know that it will be what it was at our peak, but I don't intend to get back into emphasizing the underage 65 primary coverage individual health insurance marketplace. I just don't think there's a future in that. It's also very regulated, very volatile as we're seeing right now. It can be regulated away by an act of Congress and it's just not a market that we really want to be in. And, in fact, if we were still writing the level of business we were writing a year or two ago, I would be very concerned about our DAC.

So we're comfortable that the products we are marketing today, the worksite, the truly supplemental products that we are marketing at Liberty National and American Income are not going to be affected by the Federal legislation, but we will continue to deemphasize that underage 65 primary coverage marketplace.

Gary Coleman: Jimmy, I'd like to add one thing back on the cash. You mentioned $125 million from free cash flow. We also have the $200 million excess of the debt proceeds over what's going to be required for that August maturity. So the total of the $125 million free cash flow plus that $200 million is the $325 million of available cash that I referred to earlier.

Jimmy Bhullar: And the most you expect to have to put down under a stress scenario I think is $350, right?

Gary Coleman: Right.

Jimmy Bhullar: Okay. Thank you.

Colin Devine, Citigroup: Good morning. A couple of questions. First, Mark, it seems, at least to me, I'm

hearing a bit of a different tone with respect to the commitment to maintaining the RBC ratio at 300. And I certainly had the impression, and perhaps I'm mistaken, last quarter that, you know, if a downgrade happened, you weren't really going to try to defend it by boosting up the RBC ratio. Has there been a change in your thinking on that is question one.

And then I guess I missed it, but I didn't catch what you said was the problem with agent retention that you've identified and are now taking steps to correct. What was causing that high turnover?

Mark McAndrew: Okay. First on the 300% RBC, we've always managed to a 300% RBC. Not that there's any requirement to maintain that. We've tried to manage to that level of RBC strictly to maintain our ratings. But what we've found is some of the rating agencies have changed their criteria. In fact, we saw that we were downgraded even though we felt comfortable that we could maintain a 300 RBC and we kept our debt to equity at an acceptable level. So I don't know that there's any magic about the 300% RBC. But we have the ability to do it. That's something we're still going to evaluate through the balance of the year. And I can't really say at this point for certainty whether we will put the money back down into the insurance companies or buy bonds out of the insurance companies to maintain a 300% RBC, or we may let it slip a little below that. But we do have the ability to maintain that RBC ratio if we choose to.

Colin, what was the second part of your question? Oh, on Liberty National?

Colin Devine: Right.

Mark McAndrew: There's a number of changes that we're making. But actually one of the changes for new agents that we hired for their first, I believe, eight months, we set a bonus threshold of $950 a sales week. And then I believe beginning in month nine we started raising that bonus threshold up to $1,450 a week, which is over a 50% increase. And in looking at the agent retention beginning in month eight, nine, ten, the turnover actually increased significantly when it should be improving. What we see at American Income is actually each month that goes by, our agent retention improves. I think one of the big reasons is because we are raising that bonus threshold and that's something that we've already changed. We just changed it here in the last couple of weeks. That is one of the changes we're making to improve that bonus threshold. To change the retention, we are making some changes in our management compensation to better reward the retention of the agents, not just the recruiting and initial training.

Colin Devine: Okay. And then one quick follow-up. You have, obviously, achieved some very strong success in life sales record for the first half again. How much longer can you keep this pace going?

Mark McAndrew: I don't see that -- there's no reason why we can't maintain it indefinitely. Again, as I've mentioned on several calls, we don't believe that the economy affects it. Even at Liberty, I can't blame that quality of business or slowdown of the growth on the economy. American Income, you know, their growth is accelerating. I'm sure we'll have some bumps in the road in the future there, but there's no reason why we can't double those sales. In fact, that is our goal over the next few years, to double those sales. Direct Response, we've actually been conservative in our distribution this year in an effort to improve our margins there. But, it's grown dramatically over the last 25 years. I don't see any reason why it can't continue to grow and I think the prospects for Liberty are much better going forward than they have been. I don't see an end to it and I think we can continue it indefinitely. I still say that the middle class individual life insurance marketplace, the blue collar marketplace, is the most underserved

marketplace out there. There's very little competition in that marketplace and it's a huge market. Even LIMRA did a study a couple of years ago that 74% of the people acknowledged that they didn't have enough life insurance in that marketplace. So I don't see any -- I think it's something we can continue indefinitely.

Colin Devine: Is the metric you want to be judged on your ability to grow the in force?

Mark McAndrew: Ultimately, the metric I really prefer to be judged on is growing the bottom line.

Colin Devine: Yes. But in terms of what's going to lead to the bottom line growth, is that -- because that's the one that still -- it seems to be struggling a little bit. The sales are there, but the in force a little bit slower than it was a few years ago.

Mark McAndrew: No doubt because we basically went through a period of declining life sales and we turned that around and we still have some quality problems at Liberty we have to fix. Actually, we're getting penalized by the Canadian dollar at American Income or we'd be seeing somewhat better growth. No doubt, if we're going to continue to get bottom line growth, we've got to get better top line growth. And if we continue the double-digit growth in sales, the premiums will grow at a faster pace. But it will take time to get there, yes.

Colin Devine: Okay. Thank you.

Ed Spehar, Merrill Lynch: Thank you. Good morning. I had a question about top line growth outlook, the earned premium growth over the next three to five years given the comments about life sales and your view that the favorable trends continue. And then I guess on the health side either the offset of deemphasizing the underage 65 with, you know, it seems like more optimism from you on a Med supp rebound than what I've heard in a very long time. How do we -- if we think about just the premium growth expectation longer term at Torchmark -- what do you think we should be looking at? And then I have a follow-up.

Mark McAndrew: Well….

Ed Spehar: Nothing to specific -- three to five, five to seven, three to seven, whatever you want.

Mark McAndrew: Well, I don't think we'll see any significant change for the balance of this year, Ed. I mean, I think on the life side, I think we are still projecting 2% for the balance of the year. And a lot of it does have to do with how quickly we can get Liberty National back where it should be; getting growth and improving the persistency in that business. It's just impossible for me to say, Ed, going out three to five years, what kind of premium growth we could expect to see there. I can work something up and have more detail on that the next call, but I am just not prepared to give a three to five year projection there. Sorry.

Ed Spehar: But I guess -- I mean it's fair to say that your assumption is that if the life sales trends continue, it should be meaningfully better than 2%, shouldn't it?

Mark McAndrew: Well, yes, it should accelerate. But again, it will -- I think I've given some numbers before, but we are dealing with a large block of business. We have to -- it will still be slow growth -- well, you can take it -- I don't have the numbers right here in front of me, but you can take our total life in force and you can look at what we're selling today that's achieving 2% growth and it's not a difficult calculation to see in order to get that to 5%, how much in additional sales would we have to have. Because we would basically -- you take 3% times our in force and that's how much we would have to grow sales to get it to 5% growth.

Ed Spehar: Okay. And then the follow-up question and what about just generally on the health? I mean how should we think about -- if you look at what your earned premium in force is today and the conflicting trends, I mean how do we think about what earned premium in force might be if we look out? I mean I understand it's difficult, but is this --

Mark McAndrew: Yes. You really have to look at it in segments. The under age 65 primary coverage product is falling off very rapidly. But that will taper off as more and more of that falls off. The Medicare supplement business, even with very low level of sales, is declining very slowly. And actually, if you look at the other products, the worksite products at Liberty National and the products at American Income, we're seeing growth there and those are the high margin products.

Again, Ed, we haven't run projections out beyond this year. And it would just be -- I'm just not prepared to give guidance beyond that on what we can expect. But we'll actually try next quarter to at least come up with some estimates for 2010.

Rosemary Montgomery: I agree with your comments, Mark, about not getting into the numbers right now on the three to five year projection, but I did want to add something about the Medicare supplement. That, as you say, that has been a really stable block over the years. The persistency on that product is really good. So you do have to look at it in segments and the under age health product, particularly the one we sold in the last few years, really did fall off the books at a pretty good clip. But the Medicare supplement is just a real stable block for us.

Mark McAndrew: And Rosemary, our Medicare supplement block is still in excess of $400 million in-force?

Rosemary Montgomery: Oh, Mark, I don't have that number right in front of me.

Mike Grondahl, Northland Securities: Thanks for taking my call, guys. Two things -- one, can you give us an update on the investment portfolio; what the trends you've seen and sort of the mark in the month of July?

And secondly, could you talk a little bit about what you're doing right in Direct Response in American Income? I mean the sales continue to be real strong there and, you know, what is leading to that success?

Mark McAndrew: Gary, you want to --

Gary Coleman: Yes. The first one -- the unrealized losses are just slightly up like $30 million, from $1.362 billion to $1.390 billion.

Mike Grondahl: Okay.

Mark McAndrew: Okay. If I look on the marketing side, the Direct Response, as I always said, is a constant challenge to find ways to do things better and we've been doing that since 1985. We have seen steady, consistent growth in that market. We continue to find ways to do things better. Again, I mentioned one segment of our marketplace we found that actually lowering the rates that we charge improved not only response rates, but improved persistency, resulting in lower acquisition costs, higher profit margins, even though we lowered the premiums. And that's contributing to the growth in net sales that we're seeing now and will actually be reflected in improved growth in premiums going forward because of the improved persistency. We're also doing -- we test things every quarter and we're seeing packages that are performing significantly better in some of our segments. All of the segments of our Direct

Response are not growing at that pace. But we continue to test and we continue to find ways to do things better. We have a very talented group of people and we have a long track record of growth in that marketplace.

At American Income, there have been a number of changes we've made over the last few years that we are now seeing a positive benefit to. One of the changes we made was we took -- we've been taking responsibility for generating the local union endorsements and the sales leads at American Income which we've seen significant increases in the number of leads we've been able to generate. It's also allowed us to add what we call SGAs, which are the field management people out there. By adding those, we've got more people out there building sales organizations for us. We've made some very positive changes in the management compensation and in the agent compensation.

We have improved our agent retention at American Income, but also we've provided much more incentive at American Income, not only to recruit and train agents, but retain those agents. So it's just all the pieces are finally falling into place there. It's taken us actually some time to get all of those things put together, but it is on a very good track right now. And, again, if I look back at the last few quarters, those sales just continue to accelerate.

Mike Grondahl: And, Mark, would you expect to see the agent count continue to ramp at American Income?

Mark McAndrew: Well, you know, again, we're up I think 24% in the first six months of this year. Can we maintain that type of growth indefinitely? It would be difficult. But I expect it to continue to increase at a very good double-digit clip going forward. And it's impossible to predict exactly where we'll be a year from now. But there's no reason why we can't continue to grow the agents and grow the sales at this pace.

Mike Grondahl: Okay. Thank you.

Eric Berg, Barclays Capital: Thanks. Good morning, Mark, and good morning to the rest of the team in Texas.

Mark McAndrew: Good morning, Eric.

Eric Berg: With your sales as strong as they are, up 12% year-to-date on the life side, and with the in force growing much more modestly as we've discussed earlier in the call, while we've discussed that there has been an issue with lapsation, and customer and agent retention at Liberty, what is your sense in general about customer retention across the Torchmark businesses. Is it about the same as it has been or has it been increasing?

Mark McAndrew: Okay. On the life side, Eric, at American Income or Direct Response, we've seen no significant change in the lapsation rates on our business. Again, American Income, even though we were reporting 5% growth in premiums, other than the currency conversion because we write a fair amount of business in Canada, it would have been 8%, which would have been more in line with what we would have expected and what we projected at the first of the year. We expect that to have a negative impact for at least one more quarter before we start seeing that improve. But Direct Response, actually, again, we're seeing positive trends in our persistency there. On the new business we're writing as a result of the rates we're charging, we haven't seen any significant change in our renewal year lapse rates.

So, again, we still don't see the economy impacting us in that regard.

Eric Berg: Two more quick ones. I want to go back to Colin's question about the risk-based capital and the rating. I understood your response that you have historically kept your life companies at certain risk-based capital ratios, but I wasn't clear on the issue of the rating. How you suffered this short-term ratings downgrade, but you're still reasonably highly rated from S&P. Suppose you were downgraded. What is your latest thinking on your willingness to take that and whether it would matter?

Mark McAndrew: Well, that's something that before we make that decision we're going to be talking to all the rating agencies again and getting feedback from them because there have been some changes in their methodology. They've gotten a bit more conservative as far as what we need to do to maintain our ratings. It's just something that I can't answer today whether we'll be at 305 or 290. Again, there's no requirement that we do that, but we have the ability to maintain the 300%. You know, one of the things we're looking at is actually buying some of the below investment grade bonds out of the insurance companies to try to keep the RBC up without incurring the loss and that may be something we do. But we just haven't decided at this point just exactly where we'll be at year end. We'll be able to get a better idea at the end of next quarter.

Eric Berg: It sounds like -- if I could just interject -- my question was more oriented towards the rating and less towards the RBC. It sounds like you want to defend the rating, irrespective of what that means from an RBC perspective.

Mark McAndrew: Well, sure, we'd like to maintain our ratings. But, you know, it's something we've got to weigh the costs of maintaining that rating versus the value of maintaining it. Again, we don't want to be downgraded. We want to maintain our ratings or improve our ratings, but we still have to look at what it costs us to do that. And again, our marketing is not real ratings sensitive and I think we've issued all the debt we're going to need to issue for quite some time, so the ratings are not critical to us.

Gary Coleman: Eric, I would add that from a debt ratings standpoint, we'd rather keep the ratings where they are. For example, our RBC would have to, I think, go below 250. But if for some reason we got downgraded in a commercial paper rating to below a -- we have a number two rating with Fitch and Moody's. If we got downgraded below that, that might drive up the cost and the ability to get as much commercial paper as we would need. Now, on the other hand, we can maintain a lower level of commercial paper than we do. But I think it's extreme going down below, say, 250. We would want to avoid that. But, as Mark said, we've always maintained around 300. I don't think that if we were 290 that makes that much difference.

But I guess our point was it's our intent to maintain the 300 and we really believe we will be able to do so.

Mark McAndrew: Eric, there's a high probability we will be at 300 or above at year end.

Eric Berg: Last question, real quick one for Gary. I noticed that there was a reduction in the June quarter from the March quarter in your average diluted share count, about a million shares. What's that all about, please?

Mark McAndrew: That's really just the shares we repurchased in the first quarter. You're doing an average outstanding for the quarter, so we still received some benefit in the second quarter for the shares we repurchased in the first.

Eric Berg: But none were repurchased in the June quarter.

Gary Coleman: No.

Eric Berg: Very good. Thank you.

John Nadel, Sterne Agee: Hey, good morning everybody. A couple of quick, just data points. I think you mentioned that there was $325 million of cash at the parent company. Was that at June 30?

Gary Coleman: Yes.

John Nadel: And is that assuming that the August debt maturity is repaid or is that -- or will that fall by the $99 million when you repay that debt?

Gary Coleman: The $325 is after the payment of the August maturity.

Mark McAndrew: But is it -- does that $325 include the dividends up from the subsidiaries for the balance of the year?

Gary Coleman: Yes, it does.

Mark McAndrew: Okay. So it's not on hand today?

Gary Coleman: On hand today we've got $343 million.

John Nadel: Okay.

Gary Coleman: But we're going to have to use $100 million of that to pay that August maturity. But we also have to take $200 out of that.

Mark McAndrew: There's another $81 million.

Gary Coleman: $143 and we've got another $81 million coming in in free cash flow for the remainder of the year, and that gets to the $325 that we said we have available for the rest of the year.

John Nadel: Okay. Is the $80 million, or the $81 million that you mentioned of free cash flow for the remainder of the year, that seems low relative to your typical target for free cash flow if I annualized it. Is that just because there's an assumption for investment losses in there or --

Gary Coleman: No, there's not. The cash flow is weighted towards the first part of the year. We said coming into the year we would --

John Nadel: Okay. Got it. So that's not necessarily earnings based. Got it.

Gary Coleman: No, right.

Mark McAndrew: No. It's 2008 statutory earnings.

John Nadel: Right. Understood. Okay. Okay. And then just to come back to risk-based capital for a moment. I understand your comments and, you know, the rating agencies moving seemingly unendingly the bar for everybody, including Torchmark. But just hoping we can maybe level set just a little bit. I guess you don't calculate it necessarily formally each quarter, but could you give us a sense where you were at June 30 understanding that there was, you know, still substantial cash sitting at the holding company that could be pushed down if you so desired.

Gary Coleman: John, I really can't tell you where we'd be at June 30. We don't calculate it quarterly. But I will say this: Even though we haven't calculated it quarterly, I expect going back in the past that June 30 has always been a much lower -- I shouldn't say much lower -- would be a lower RBC than we end the year with. The reason being is that 75% of the dividends go out of the companies in the first six months of the year when less than half of the earnings have come in. So if we get any kind of a loss --

John Nadel: There's a mismatch on capital.

Gary Coleman:: There's a mismatch there.

John Nadel: Okay.

Gary Coleman: So I would -- it almost has to be under 300%.

John Nadel: Okay. And then if I think about -- just the one last one -- the impairments or OTTI that you've taken, or OTTI and realized investment losses that you've taken year-to-date, have the amounts been consistent on both a GAAP and stat basis or has one been treated differently than another?

Gary Coleman: No. They're the same for GAAP and stat.

John Nadel: Okay. I think that's all I had. Thank you.

Mark Finkelstein, Fox, Pitt, Kelton: Good morning. I wanted to ask one further question on the health business. I think you delineated between worksite and individual in the underage market if I caught that correctly. And I guess what I'm curious about is what are the relative premium levels between those because I think you said that the worksite should be more stable than the individual health -- or the individual side sounds like it's almost going to zero over time.

Mark McAndrew: Mark, we can get you details of that, but I just don't have an accurate breakdown by line of business in front of me this morning. If you'll call Mike Majors after this call, we'll be happy to give a breakdown on that.

Mark Finkelstein: Okay. But just to clarify -- I mean, is it true to say that the worksite you're seeing stability in whereas kind of the individual side is really what the major tail-off is occurring?

Mark McAndrew: Well, it's really -- the worksite has been very stable, yes. And now as I look at Liberty National, their total sales, 45% is coming from worksite. So it's a significant block of sales at Liberty National. But I wouldn't lump all individual health sales into the same boat. It's the underage 65 primary coverage products which have been the bulk of our sales for the last seven or eight years.

We've always had some truly supplemental products, cancer, some specified disease products and some accident products and just some hospital indemnity type products, that the persistency on and profitability on those products has always been good, and we will continue to offer those products at American Income and Liberty National. But the primary coverage where it is people's primary health insurance that is being targeted by the Obama administration, and both Democrats and Republicans are saying that is a bad marketplace -- that that should be that you've got to do guarantee issue, can't exclude any preexisting conditions. I do believe that they will raise loss ratio requirements and it's a market that we do not intend to be in and I think it's going to come down to eliminating the agent from any individual health insurance sales, at least primary coverage.

Mark Finkelstein: Okay. And then just a quick investment question. On the CDO portfolio, it looks like you took $20 million of hit on the -- looking at the change in the amortized cost basis, the remaining $89 million, are they all still fully cash flowing as of today?

Gary Coleman: Yes, Mark, they are. Of those, there's three left that we haven't impaired and two of the three look very solid. One of them we've still got a margin there and that's one there could be developments on later on. But right now we've got an adequate margin there. The other two, we're in very good shape.

Mark Finkelstein: What's the value of the one that you said, you know, could have some issues down the road?

Gary Coleman: Well, the value of it is $50 million, but when I say there could be an issue, I don't think there's an issue collecting principle. There could be an issue down the road as to whether we collect all the interest. That could lead -- if that happens, if the collateral is not sufficient to collect all the interest, we would have an impairment but it wouldn't be a sizable impairment as if we're not able to get all the principle. But I want to emphasize, where we stand today, the latest collateral information we have, we still have a margin there.

Mark Finkelstein: Okay, all right. Thank you.

Randy Binner, FBR Capital Markets: Hi, thanks. Just a follow-up on Gary's stress scenario with the RBC. If -- in the instance where there would be one times the ratings drift in the second half that we saw in the first half and then you had to put $350 million down, what would be the required capital level at year end that would get you into that 300% RBC?

Gary Coleman: It would be about a billion two and that's --

Randy Binner: In the -- wait, a billion two in the -- 1.2 billion in the denominator?

Gary Coleman: No. I'm sorry. I thought you were talking about what capital would we have to be.

Mark McAndrew: The required capital would be basically a third of that.

Gary Coleman: Yes. Mark is right.

Randy Binner: I got one of the numbers, so I guess the numerator at one point we'll back on in. Got it.

And then, Gary, you also made some comments about commercial paper that maybe you could manage to a lower level. I guess my question would be what would that level be in the stress scenario? I mean to put it another way -- I mean how much CP could you do without and still manage in the stress scenario to the 300?

Gary Coleman: Well, we're at $238 million right now. At $350, we might have to move that up to $250 in commercial paper if we had to put $350 million down in the insurance companies. But again, we don't expect that situation to happen.

Randy Binner: Okay.

Gary Coleman: I'm not sure. Does that answer your question?

Randy Binner: Well, it does. I'm trying to get an idea of -- maybe the broader question is, is there any kind of near-term plan to reduce the amount of CP that's outstanding and that continues to get issued?

Gary Coleman: Well, I think you will see us probably reduce the commercial paper somewhat. Now, we'll always maintain a commercial paper program and in my mind that means we've got to have at least $75 to $100 million out or you lose interest at the dealers.

Mark McAndrew: And, you know, at least until we get our existing cash fully invested, it's kind of silly to continue to draw on commercial paper. But as Gary mentioned, right now commercial paper is only costing us 90 basis points. So once we feel like we're fully invested in the cash we have on hand, it's still a very low cost of financing day-to-day operations versus sitting on a bunch of cash.

Randy Binner: Got you. And just one other, if I could. The $325 million of available cash -- that is

before the bank line and any other intercompany sources, that's correct?

Gary Coleman: That's correct.

Randy Binner: Okay. Great. Thanks, guys.

Bob Glasspiegel, Langen McAlenney: Good morning. I'm going to microscope the cash position just to make sure I got the numbers right. Cash and short-term, I think you said was $968 million at the end of the quarter?

Gary Coleman: Yes.

Bob Glasspiegel: And you moved $213 down in the bonds from the third quarter?

Gary Coleman: Yes, that's correct.

Bob Glasspiegel: What's your target cash position at year end where you'd like to be?

Gary Coleman: Bob, I think it would be around $100 million and we don't -- it's not that we're targeting $100 million, but there's always a little bit of a lag in terms of cash coming in and when we get it invested, so it would be somewhere in that neighborhood.

Mark McAndrew: Historically, Bob, our target has been basically to not hold cash. That's what we've used commercial paper for is to manage our short-term cash fluctuations.

Bob Glasspiegel: Okay. So you've got at least $600 plus the generating free cash flow in the second half to get invested at 7 that's yielding less than one now? What are you getting on your cash?

Gary Coleman: Well, right now we're getting about 6.5%.

Bob Glasspiegel: Of cash?

Gary Coleman: No, not on cash -- on our investments.

Bob Glasspiegel: I was asking about -- I'm trying to get the leverage in investment income.

Gary Coleman: Okay. As far as on the cash, it's about 15 to 20 basis points.

Bob Glasspiegel: Okay. So we got 650 basis points pickup on $700 million that you annualized that you're under earning right now?

Gary Coleman: Right.

Mark McAndrew: Now remember, $100 million will be going to pay off debt here in August.

Bob Glasspiegel: Right. No, but you have free cash flow too, so, you know, that should offset that. I just sort of -- how much are you under earning currently, trying to figure out -- you know, investment income is clearly depressed, but having nearly a billion dollars earning 15 basis points…

Gary Coleman: Right. Right.

Bob Glasspiegel: -- and you can get a lot of that towards 7% yields before too long, you think, before year end?

Gary Coleman: Yes. Again, as Mark mentioned, the $700, but take off a $100 for that August maturity, that's $600, and it's going to take us for sure through the third quarter and midway through October probably to get all that money invested. In addition, the insurance companies have cash flow coming in --

Bob Glasspiegel: Right.

Gary Coleman: -- that will be invested, so we think in the last half of the year we're going to be investing at about $1.3 billion.

Bob Glasspiegel: Right.

Gary Coleman: But of the $600 million, you're right. Right now we're earning the 15 to 20 basis points. Also when we get that invested, we will pick up the additional that you were talking about. But it will be spread over, you know, the next quarter and a half.

Bob Glasspiegel: Right. So it looks like $.25 to $.30 annualized sort of run rate just compression from just excessive cash, just ball-parking the numbers. Okay. And American Income, I mean you're getting -- if the sales double in the next two to three years, if you're achieving your optimistic outlook there, can we look for your overall underwriting margins in life to widen because you're growing in your highest margin business?

Mark McAndrew: Well, that would be a fair assumption, that American Income having the highest margin, if it becomes a larger and larger piece of the total, that it would bring the overall up and -- but Roger Smith, the CEO of American Income will shoot me if I let you get by with saying we'll double it in two years.

Bob Glasspiegel: Two or three years.

Mark McAndrew: I think his goal is to double it in five, which is, I think, very doable and I think it will actually be a little before that, but his official goal is to double it in five years.

Bob Glasspiegel: But you've got -- let's see, a 36% growth in agents, a lag between new hires being productive and did you say you're sort of rolling out some new products, too, that --

Mark McAndrew: We will. That's going to be over the next six to nine months. Again, yes, we are here in the third quarter, we will be introducing a new sales presentation that's on a laptop computer with some new term products. But we're going to be very careful about introducing that. Again, some of the quality problems at Liberty National coincided with that change because the agents stopped collecting initial premiums when we went to the electronic app. We are going to be very slow to put that out because we want to make sure that it adds to our marketing efforts and doesn't cause problems. So I guess I will be a little less optimistic there because we are going to take our time in introducing that. But that will start in the third quarter.

Bob Glasspiegel: Okay. Last question. Does a 33% sequential growth in book value have any impact on rating agency discussions or is it just strictly RBC calculations and seeing the market sort of come back and flow have any impact on the world?

Mark McAndrew: I guess my answer to that -- I'll let Gary answer, too -- but my answer, Bob, I think the rating agencies have become very quick to down-grade, but I think they'll be much slower to upgrade. One would think if our book value gained that much in a quarter that you might start to see that. But I think it's going to take some time. Even when I look at some of our below investment grade bonds, we're seeing the market values of those bonds double and more, but yet the ratings are not being upgraded. I think the rating agencies are going to be slow to upgrade. They're going to have to see an extended period of time improvement before we start seeing any significant upgrades.

Bob Glasspiegel: It probably does impact your commercial paper costs and how the banks view you, I would think, how they lend.

Gary Coleman: Well, I think we were issuing a lot of that paper before they saw the fact that the unrealized losses had improved so much. I think probably everybody expected that. But yes, I think it probably helps a little bit. With the ratings agencies, it does help. That is one of the things that's on their radar, but also they're looking at possibility of future impairment. They should know better than anybody about the future down grades, so I agree with Mark. They probably view this as a positive development, but I don't see them making a change for a while.

Bob Glasspiegel: Awesome. Thank you very much.

Tom Gallagher, Credit Suisse: Hi. Just wanted to come back to the comment on the health insurance side about the underage 65 primary coverage business. And, Mark, I think you had mentioned that's been the bulk of your health sales over the last six or seven years.

Mark McAndrew: At United American, that's true, yes.

Tom Gallagher: Okay. Just -- and this is just if you can give me rough estimates that would be great -- but if I look at your total annualized inforce health premium of $800 million plus, I think the comment earlier was $400 million was Med supp, should I assume most of the remaining $400 million plus would be this type of product?

Mark McAndrew: Oh, no, it's not that much. Because, again, you can take the business at Liberty National and at American Income, there's significant blocks of business there that are not that product. We can get a better breakdown. We can provide a better breakdown to anyone who would like to see by product line what our inforce looks like. We'll be happy to put that together. I just don't have it here in front of me. But, no, if you looked at what was the United American block of business, that's where all that business is.

Tom Gallagher: Okay.

Mark McAndrew: Most of the Liberty National is truly supplemental products, cancers, specific disease, hospital income type products that are sole payroll deduction.

Rosemary Montgomery: Yes, I would say that product was a significant part of the sales, but it also -- particularly the one that we sold since 2005 -- also had a much higher lapse rate than what we anticipated. So that's the one that was really also falling off the books.

Tom Gallagher: Okay. So if I look at the -- just looking at your supplement, United American total, I believe this is health insurance premium collected year-to-date, $185 million, it's going to be a large part of that number; but that's six months, obviously. So that would be the right number to look at for that product?

Mark McAndrew: Rosemary?

Rosemary Montgomery: Well, the -- let's see.

Mark McAndrew: It really will be -- if you would like an accurate breakdown of the inforce, rather than speculate on or approximate what those numbers are, we can provide as of June 30 a breakdown between the different product lines.

Rosemary Montgomery: Yes. Because there's differences in how much Med supp business is in either line, too, so I want to make sure I'm talking about the right --

Mark McAndrew: Anyone who would like that information, by all means call Mike Majors.

Gary Coleman: Or, Mark, we can put it out on the website.

Tom Gallagher: Yes, I think that will be very helpful just if we're really looking for a run off for that block, it would be good to know --

Mark McAndrew: We'll put that on the website and give historical numbers, too, so you can better track --

Rosemary Montgomery: They'll be different depending on how it runs off depending what's in there, yes, definitely.

Mark McAndrew: We will try to do that this week.

Tom Gallagher: Yes. That would be great. Is there a meaningful difference in margins of that business or is it roughly the same as the other health products?

Mark McAndrew: That health product has the lowest margin of any of our health products. It has much lower margins than Medicare supplement or any of the worksite products or any of the cancer or specified disease products. You want to comment, Rosemary?

Rosemary Montgomery: Yes, I do. It has lower margins because of the persistency differences. So that's really the summary of that.

Tom Gallagher: Got it. So that would have been associated, I assume, with an acceleration of DAC plus not so much…

Rosemary Montgomery: Yes.

Tom Gallagher: -- on the loss ratio side, just on the acquisition costs?

Rosemary Montgomery: Well, it can really -- it will impact both. If you have increased lapses on a health product, it will impact both the loss ratio and the amortization. But they don't offset; so all in all, you're still going to have a negative to your profit because it's going to impact DAC more than what it's going to do to…

Mark McAndrew: Actually -- yes. The higher the lapse rates, the more selection you see as far as on the claims side.

Tom Gallagher: Okay. And, Mark, would you say beyond that specific product Obama health care reform isn't having a meaningful impact on the remaining health insurance?

Mark McAndrew: When I look at the legislation that's out there and just what they're defining as health insurance, it does not include our other products. It has no impact on Medicare supplement or the truly supplemental products that are being sold in the workplace. No, we don't believe that it will have any impact on those products.

Tom Gallagher: Okay. And last question. The comment that I think Gary made about considering buying some of the high yield out of the life sub, would you own that at the holding company or what exactly are you contemplating there?

Gary Coleman: What we would do, Tom, is buy them out -- buy the bonds out of the insurance company and we would buy them at amortized cost. It would be no gain or loss to the insurance company and then we would hold that asset, those bonds, at the holding company.

Mark McAndrew: That will help our RBC, but it will also increase the statutory earnings that we would have available to dividend up next year.

Tom Gallagher: Got it. So it would be sort of swapping cash with high yield bonds.

Gary Coleman: Well, we would either put cash in and then invest those in securities that are higher rated above the categories that where you have the high risk charges. Either that or we would invest that money at the holding company and then put those bonds down into the insurance companies. We could do it either way.

Mark McAndrew: Because it comes down to we still believe that the vast majority of our below investment grade holdings are money good. In fact, we currently believe they're all money good. And, I know we were asked last quarter should we not be selling some of those off to improve the portfolio. And that's interesting that something we looked at prior to the call was that the bonds that were below investment grade at the end of March, we've had gains of $150 million for the quarter. But even within that group, the financials, you know, our holdings there, it would have been a very bad decision to have sold off a significant number of those bonds. In fact, it's interesting, you can look at -- I'll use Bank of America as a classic example -- the end of March, we had a $39 million unrealized loss in Bank of America bonds. They were rated BB+. At the end of June, they were rated BB, which they received another downgrade. But yet our unrealized loss went from $39 million down to $14 million in three months.

So we still believe that the vast majority of these bonds will not default, and we intend to hold them. But we think it would definitely help our RBC to hold them at the parent instead of at the insurance subs.

Tom Gallagher: Got it. Thank you.

Jeff Schuman, KBW Asset Management: Thank you, good morning. I wanted to ask a couple of questions about how the economy might or might not be impacting your business and kind of how it might affect rolling forward. First of all, in Direct Response. Obviously, the advertising demand is way down to a very soft market, is that translating into any lower media costs for the Direct Response business?

And then my other question has to do with agent recruiting. You had this tremendous momentum at American income, but it has been in the context of a soft economy and rising unemployment. You seem pretty confident about maintaining recruiting momentum going forward. But I'm just wondering if we should maybe temper that confidence a little bit with the idea that as unemployment comes down at some point, that recruiting will recover.

Thanks.

Mark McAndrew: Okay. Well, first on Direct Response. Again, if you look at the markets we're in in the direct mail side of our business, which is roughly 45% of our sales there, there's no change. In fact, other than postage increases, the costs can go up, but there's really no -- the economy does not result in savings. We might be able to buy paper at a little bit lower cost because we do everything in-house. We do all of our printing and manufacturing of envelopes. But on the insert media side, which is the balance of that, in segments, sure, we've seen some costs come down. We've been able to negotiate some better rates -- but it's not -- when I look at the $15 to $20 million of savings that we're going to see, or the reduced acquisition costs, we're really not assuming anything as far as a lower cost per piece distributed. It's really just cutting back on some of the marginal volume that we've been doing.

Let's see. Now if I can recall. What was the second part of your question?

Jeff Schuman: Whether the relationship between the soft economy, rising unemployment and agent recruitment and how that dynamic might change going forward.

Mark McAndrew: Well, you know, there's no doubt that there's more resumes out on these internet sites, but we never had a shortage of people to recruit. If unemployment goes back down in the 5% to 6% range, which I don't think that's going to happen in the short-term, it could have some impact. But there's still no reason why we can't grow our agency force double-digits indefinitely regardless of the unemployment rate.

Jeff Schuman: Okay. Thanks a lot.

John Nadel, Sterne Agee: Thanks for extending for one more. Mark, I don't think there was a comment about why the reduction in EPS guidance. I was just wondering if you could, you know, focus us on marginally what changed in your view from 1Q to 2Q? Was that more just a reflection of the high cost of the debt issued during the quarter?

Mark McAndrew: That's the single biggest thing, John, was three months ago we did not anticipate borrowing $300 million at 9.25%. We knew we had to cover $100 million, but if we had gone with a two-year credit line, the cost of that was only going to be -- I think it was less than 5% and we ended up borrowing $300 million at 9.25%. So we did not anticipate that three months ago, and that additional debt cost is really the biggest difference.

You want to comment, Gary?

Gary Coleman: The only other thing, John, I would add is that the holding the extra cash is -- we think that is about $4 million less investment income than we're going to have than we thought we would back at the end of March.

John Nadel: Okay. Allright. That's helpful.

Gary Coleman: Those two are the biggest items.

John Nadel: Okay. And then the last one I wanted to follow up on. Gary, in response -- I think it was to Randy's question earlier about the stress case that you walked us through in your prepared remarks -- I think it was -- what it impairments at 1.5 times the level from the first half in the second half?

Gary Coleman: Yes.

John Nadel: And then, I don't recall the stress that you put on the below investment grade. It increased at the same pace as it did in the first half?

Gary Coleman: Yes. We -- that the downgrades in terms of the effect on capital would be as great in the second half as it was in the first half.

John Nadel: As it was in the first half. Okay.

Gary Coleman: Although in the second quarter, the effect was about half of what it was in the first quarter. We went ahead and assumed the full six months downgrade in the second six months.

Mark McAndrew: Gary, it's safe to say that the downgrades have more of an impact on the RBC than the impairments at this point because most of the impairments are becoming from the below investment grade.

Gary Coleman: Well, to a certain extent some of those impairments are coming from bonds that are already impaired -- already not admitted for statutory purposes. So, yes, the downgrades would have a little more impact.

John Nadel: Bonds that are not admitted or just already have such a high risk charge?

Gary Coleman: Well, once they get to -- there is percentages of class six assets, there's percentages of class five and six, there's percentages of class four,

five and six. If you exceed those percentages, then you have to not admit the excess. And so there's --

John Nadel: Oh, oh, interesting.

Gary Coleman: Right.

John Nadel: Have you crossed over that threshold yet or does the stress case --

Gary Coleman: Well, we have just slightly as of June. But my point is that, once you go past that, then really the impairments are -- now, you can have impairments come from bonds that haven't been not admitted and that would have a, you know, a direct impact,

John Nadel: Got it. Okay.

Gary Coleman: -- but if it comes from the lower losses, some portion of those may already be not admitted.

John Nadel: Okay. I understand. Okay. So then in sort of direct follow-up to your response to Randy, Gary, I think you mentioned that the denominator under that scenario would be around $400 million?

Gary Coleman: It's around -- John, it's $445 million.

John Nadel: $445. Okay. I was going to say because your denominator was $370 or thereabouts at year end '08. It didn't seem like that was enough of a move.

Gary Coleman: No, it is $445.

John Nadel: All right. Okay. Thanks very much.

Mark McAndrew: Well, those are our comments for this morning. I want to thank everybody for joining us and we'll talk to you again next quarter.