TORCHMARK CORPORATION
3rd QUARTER 2008 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 2007 10-K, which is on file with the SEC.

Net operating income for the third quarter was $132 million, or $1.51 per share – a per share increase of 9% from the year ago quarter. Net income was $.72 per share as a result of an $.80 per share charge for impairments in our bond portfolio. Excluding FAS 115, our return on equity was 15.7% for the quarter, and our book value per share was $37.99, up 8% from a year ago. On a GAAP reported basis, with fixed maturities carried at market value, book value is $27.95 per share. At that book value, our return on equity would be roughly 21%.

In our life insurance operations, premium revenue grew 3% to $406 million and life underwriting margins increased 2% to $108 million. Life insurance net sales were $75 million for the quarter – up 13% from the third quarter of 2007.

At American Income, life premiums grew 8.5% to $121 million and life underwriting margin was up 12% to $40 million. Net life sales increased 15% to $28 million with first-year collected life premiums also growing 15% to $21 million. The agent count at American Income was up 10% from a year ago to 2,887.

I continue to be pleased with the results at American Income and expect double-digit growth in sales to continue in 2009. We have begun work on a new needs-based computer sales presentation which we hope to introduce the first half of next year similar to something we are doing at Liberty National. When implemented, we believe this presentation will increase our average sales size, improve our persistency, and have a positive impact on agent retention.

We are also close to 50% complete with our centralization of the lead generation at American Income. In those areas where we have assumed this responsibility, lead generation increased 33% during the quarter and sales increased over 25%. We expect to have this completed by the end of next year.

In our Direct Response operation, life premiums were up 6% to $127 million and life underwriting margin grew 2% to $30 million. Life net sales increased 7% to $30 million.

We continue to see some declines in our response rates in our insert media. We have, however, seen some very encouraging test results in both our pricing and packaging in this media during the third quarter. We believe these changes will more than offset this decline in response rates although it is too early to project 2009 sales for this distribution system. We will do so on the next call.

At Liberty National, life premiums declined 1% to $72 million and life underwriting margin declined 4% to $18 million. Net life sales grew 47% to $13 million, and the agent count was 3,476 – up 69% from a year ago.

I continue to be pleasantly surprised by the sales growth at Liberty National and expect it to continue. While collected premiums and margins declined slightly, the sales have now reached a level to where Liberty National can contribute meaningful growth in both premiums and underwriting margins for 2009.

On the health side, premium revenue, excluding Part D, declined 9% to $231 million and health underwriting margin was down 7% to $42 million. Health net sales declined 49% to $29 million.

The health sales results at United American continued to deteriorate in both the Branch Office and Independent Agency channels. This market remains highly competitive and also appears to be negatively impacted by the economy. We are continuing our efforts to shift sales into life and supplemental health products which have higher margins and better persistency.

I would also like to point out that a major portion of our health underwriting profits are generated at Liberty National and American Income. While these distribution systems account for only 23% of our health premiums, they contribute roughly 44% of our health underwriting profit after administrative expenses.

Premium revenue from Medicare Part D was down 21% to $41.5 million although underwriting margin was flat at $6.4 million primarily as a result of a renegotiated contract with our Pharmacy Benefit Manager.

Administrative expenses were $38 million for the quarter – down 4% from a year ago. Year-to-date administrative expenses are up 0.5% and are in line with our expectations.

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 our investment portfolio, our liquidity and capital, and share repurchases.

First, the investment portfolio. On our website are three schedules that provide summary information regarding our portfolio as of September 30, 2008. They are included under “Supplemental Financial Information” in the “Financial Reports and Other Financial Information” section of our Investor Relations page.

As indicated on these schedules, invested assets are $10.1 billion, with fixed maturities included at amortized cost. Of this amount, $9.6 billion are in fixed maturities. Combined, equities, mortgage loans and real estate are $42 million, less than 1% of invested assets. We have no counterparty risk as we hold no credit default swaps or other derivatives. In addition, we do not operate a securities lending program.

Of the $9.6 billion of fixed maturities, $8.9 billion are investment grade with an average rating of A-. Below investment grade bonds are $698 million with an average rating of BB-, and are 7.3% of fixed maturities compared to 7.8% a year ago.

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

Net unrealized losses in the fixed maturity portfolio are $1.4 billion, up from the $670 million at the end of the second quarter. By sector, the largest losses are in the financials which comprise 42% of the portfolio at amortized cost, but 64% of the total net unrealized losses. Almost 85% of the total increase in unrealized losses during the quarter was related to bonds for which there was no downgrades in their ratings. Accordingly, we feel that most of the unrealized losses reflect the current illiquid market that has contributed to a significant spread widening on bonds that are likely to be money good. Obviously, this is not a market to be a seller of bonds, and due to the strong and stable positive cash flow generated by our insurance products, we not only have the intent to hold our bonds to maturity, but more important, we have the ability to do so.

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

As to asset type, 78% of the portfolio is in corporate bonds and another 15% is in redeemable preferred stocks. There is no direct exposure to sub prime or Alt-A. We have only $41 million in RMBS and CMBS securities, all rated AAA. Our CDO exposure is $131 million in which the underlying collateral is bank and insurance company trust preferreds. The average rating of these securities is A-, with none rated less than BBB.

Regarding sectors, as I mentioned, the financial sector comprises $4 billion, or 42%, of the portfolio. Within financials, the life/health/property casualty insurance sector is $1.8 billion and banks are $1.6 billion. Financial guarantors and mortgage insurers total $180 million, less than 2% of the portfolio. Next to financials, the next largest sector is utilities which account for $1 billion, or 11%, of the portfolio. The remaining $4.6 billion of fixed maturities is spread among 242 issuers in 9 sectors.

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

In the third quarter, we invested $263 million in investment grade fixed maturities, primarily in the industrial and utility sectors. We invested at an average annual effective yield of 7%, an average rating of A-, and an average life, depending on future calls, of between 26 and 28 years. This compares to the 6.84% yield, A rating and 22 to 30 year average life of bonds acquired in the third quarter of last year.

This is the fourth consecutive quarter that the new money yield was 7% or higher and also exceeded the portfolio yield. The average yield on the portfolio in the third quarter was 6.97%, virtually the same as it has been for the last four sequential quarters.

Now, regarding liquidity and capital.

Our insurance companies primarily sell basic protection life and supplemental health insurance policies which generate strong and stable cash flows. In the third quarter, only $3 million, or .5%, of premium revenue came from asset accumulation products where revenue is subject to changes in equity markets.

Regulatory capital remains sufficient to support our current operations and ratings. As noted in previous calls, our RBC ratio was just under 300% at December 31, 2007. It had dropped below our 300%+ target due to several unusual one-time items. In 2008, we have increased statutory capital primarily through intercompany transactions involving reinsurance and monetization of agent receivables. Even with the $70 million other than temporary impairment writedown in the third quarter, we expect RBC at 12/31/08 to be in the range of 305% to 315%.

Finally, regarding capital management. Torchmark has no plans to raise equity capital or reduce dividends to shareholders. Cash flow at the insurance companies and free cash flow to the holding company remain strong. Free cash flow will be approximately $350 million in 2008, and although we haven't done our projections, we expect 2009 free cash flow to also be in excess of $300 million.

We've already used our 2008 free cash to purchase Torchmark shares. In the third quarter, we spent $116 million to buy 2 million shares, and for the nine months, we've spent $351 million in acquiring 5.9 million shares.

Although we have already used our available cash for this year, we still have the ability to repurchase shares in the fourth quarter with funds raised through the issuance of commercial paper. In fact, to date in the fourth quarter, we have spent $64 million to buy 1.4 million shares.

Although we have explored making a strategic acquisition, the probability of such a transaction in the near term is unlikely. At our current share price we would be reluctant to issue equity, and in the current market it would be difficult to issue a sizable debt offering in order to finance an acquisition. Thus, given the current conditions, share repurchases, and to some extent the reduction of short-term debt, will be the best use of our available cash.

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

Mark McAndrew: Thank you, Gary.

We are lowering our guidance for operating earnings per share for 2008 to a range of $5.85 to $5.89 due to the unforeseen changes in the credit and equity markets. After-tax variances from our previous guidance include:

- Lower underwriting income on our variable annuity business of between $1.1 and $2.4 million in the fourth quarter.

- Lower investment income of $1.2 million due to lost interest on Lehman, Washington Mutual and Fannie Mae bonds.

- Increased cost of commercial paper in the fourth quarter of $1.2 million.

- And $1.6 million of parent company expense related to an acquisition in which we have withdrawn from negotiations.

In summary, we believe Torchmark is in good shape. Our core life businesses are growing sales at a double-digit pace during tough economic conditions and we continue to generate strong, predictable cash flows and earnings.

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

Jeff Schuman, Keefe, Bruyette & Woods: Good morning. I wanted to come back to the issue of share repurchase. I mean, obviously, you do have the very strong and steady cash flow which is a nice buffer and certainly the stock is very cheap, but is there any thought at this point, Gary, to maybe conserving capital for a while? I mean, certainly I think in terms of trying to impress investors, all the conversations we have with investors at this point are in terms of measuring down side risk, not so much in terms of figuring out who can kind of juice ROE or EPS the most next year. So can you give us a few more thoughts there, please?

Gary Coleman: Well, Jeff, we are not just buying the stock to be aggressive. The stock is trading -- has been trading below book value. That makes it a more compelling buy than even it has been in the past. But we are not going to jeopardize our capital. We spent $64 million in the fourth quarter. I wouldn't expect us to spend more than $30 million in the remainder of the quarter. If we went over that, then I think we would start getting outside the boundaries of our ratings and I think it would be wise to stop at that point. The additional commercial paper that we have used to do additional borrowing, we are also not looking to leave that out a long period of time as 2009 gets underway and precash -- or cash starts coming up to the parent company. I think, as I mentioned in my comments, you will see us reducing our short-term debt. It is just really more a matter of the price at the moment.

Mark McAndrew: And we also, Jeff, we took a very hard look at our downside risk before we made the decision to go out, and we just think our downside risk is minimal.

Jeff Schuman: Maybe just to complete the picture, I mean, in terms of capital management, I know, Gary, you mentioned you were able to kind of do some transactions and manage the RBC ratio a little bit. Do you have additional flexibility, you know, to manage the RBC a little bit structurally or not?

Gary Coleman: Yes, I think we do.

Jeff Schuman: Any sense of how much that is worth?

Gary Coleman: Not offhand. I think we have been fairly conservative with our regulatory capital and there is still some room there. I can't put a number on it at the moment.

Jeff Schuman: Okay, thank you very much.

Jimmy Bhullar, J. P. Morgan: Hi. Thank you. I just have a question on your outlook for the agent count, especially at United American. It has been declining the last several quarters. When do you think it will bottom out, and what are some of the things that you are doing to try to improve that? And then with that, if you could address your outlook for health insurance sales as well?

Mark McAndrew: Okay. Well, Jimmy, I wish I could be certain of where and when that would bottom out. The agent count continues to decline. We are trying to move more of that production to Liberty National products which we are seeing some success with. But I really, I can't say with any certainty where and when it will bottom out. We are introducing a new underage 65 health insurance product which started here in the last 30 days which we think will help that, but I wish I could give you more guidance there. It just comes down to, again, it is a very competitive and volatile market. And it is something that long-term, it's not a market that I really see as being a market that we want to be in long term. So, we are definitely spending most of our focus on the life and other supplemental health products that are more profitable and more persistent.

Jimmy Bhullar: And then just on the life business. Have you seen any impact recently of the economy weakening on your sales? Obviously, the numbers in the third quarter were pretty good.

Mark McAndrew: Well, I haven't seen any, and again, I think in the markets that we are in and the products we are selling -- true protection products, very simple products -- we haven't seen any significant impact in our persistency on the business. And we're not seeing -- obviously, Liberty National sales were up 47%, American Income sales were strong -- the only place we have seen anything, Jimmy, is in the insert media in the Direct Response where these are more newspaper inserts and the

coupon packs. We deal with a little lower income marketplace there, and we have seen some decline in some response rates there, although it is pretty well stabilized now. That's the only place we have seen anything. And again, as I mentioned earlier, actually, some of the product and pricing tests that we had done in the third quarter, we have seen very encouraging results as far as improving the profitability and improving the number of sales we are getting there. So I think that will offset that decline and we sure like to see gas prices go down. I don't think any of our markets are affected by changes in the equity markets, but I do believe that lower gas prices can do nothing but help our markets.

Jimmy Bhullar: Okay, thanks.

Bob Glasspiegel, Langen McAlenney: Good morning. I'm going to stay sort of on Jeff's theme. Your stock is down 45% in the last quarter, and Mark and Gary, your story sounds like not much has changed and you are doing your thing and taking advantage of it, and clearly, you think the market has got it wrong. The whole market has got it wrong with respect to credit because you seem awfully relaxed about your exposure to that issue. Have you done any stress tests or sensitivity analysis to test whether, in fact, the market is right on this? You know, how bad things could things get and you are still fine in the cash?

Mark McAndrew: And I will let Gary answer more fully -- but, yes, we have, Bob. It comes down to we had a bad third quarter, if you look at the write downs that we had to take. But in looking, we could sustain those same level of losses throughout every quarter -- fourth quarter this year and every quarter next year, and be fine. We would not have to raise equity. The unrealized losses that we see in our portfolio, again, we have the ability and the intent to hold those bonds. It doesn't affect our statutory earnings. We don't believe it is going to have any effect on us being able to dividend money up to the parent. So yes, we have looked at it quite a bit here in the last three months. Gary, you want to comment?

Gary Coleman: Well, just to add to that. As Mark mentioned, if we sustain $70 million of losses in the next fourth quarter and then each quarter next year, we can do that and still keep our capital at the insurance companies above the 300% level. What that would mean is that our free cash flow would go toward staying in the companies. If we had those extreme losses, we wouldn't have the share repurchases and our earnings growth wouldn't be as high. We would still have earnings growth. But the key thing there is that the types of products we write are not subject to equity market swings. I mean they are very consistent and we look for our profits to be consistent going forward.

Bob Glasspiegel: Well, I appreciate that. It is just that the credit markets have the bonds marked right, we are going to have more Wachovia's in the next quarter. I am sure you're expecting some more if we go into a recession. The BBB+ portfolio is going to start having some stress from cash flow and statutory perspective.

Gary Coleman: Well, I look at it this way. First of all, I think, yes, versus our peers we have a high BBB exposure. But as I mentioned, I think that is offset to a large extent that we have no equity, mortgage or real estate exposure. In addition, we do a great deal of credit research, not only when we buy but follow-up on our BBB bonds. We are comfortable with those bonds. But the other thing I mentioned, if you look at our BBB bonds, they are 48% of the portfolio. The unrealized losses for BBBs are 49% of the total unrealized losses. In other words, the unrealized losses are spread throughout the portfolios at all ratings. Now I would be more concerned if 49% were BBBs and we had 80% of the unrealized losses in BBBs, I think I'd be more concerned. But I think that

the fact that it is equally spread indicates that it is reflective of an illiquid market throughout, and we think it is going to improve. I'll tell you the thing that is more concerning to us, is that out of our $70 million loss that we booked this quarter, $50 million was in Lehman. And, you know, a week before it went into bankruptcy, Lehman was rated A. It was a surprise to everybody, and those are the ones that you can't predict. It concerns us that there may be some of those out there.

Bob Glasspiegel: One last question. Your debt to the capital ratio year-over-year is up from 22 to 28, and mostly it is the AOCI, you know, hitting the denominator more than debt levels going up. I mean, fourth quarter we are off to another sort of crappy start. Is there debt to capital ratio that starts to become a material issue or not?

Gary Coleman: Well, if you exclude the AOCI, we are 22.6%, which is in line with where we have been. And you know the rating agencies are looking at that, but they generally look at it excluding unrealized losses. So even at 28%, using that basis, I think we are probably okay.

Bob Glasspiegel: There is no bank covenant issues or…..?

Gary Coleman: Definitely no bank covenant issues at all.

Bob Glasspiegel: Thank you, Gary.

Gary Coleman: Sure.

Randy Binner, Friedman, Billings, Ramsey: Hi, thanks everyone. I noticed from the press release that AIG was not included in the impairments this quarter. From Gary, I was just hoping to get some color on that, you know, how that decision was arrived at and maybe where those are trading and how you are looking at that exposure in particular, I think it is about $105 million.

Gary Coleman: Yes, it is $105 million. Randy, $57 million of that $105 is the bonds of the operating subsidiaries, and, of course, everybody is looking for those to be sold and assume that the bonds will go along with them. The other roughly $48 million is -- $27 million is senior secured debt at the holding company and then another $22 million is junior subordinated debt at the holding company. And obviously, we have exposure there. But the exposure is if they go into bankruptcy. We are not going to sell the bonds. So at this point, we did not write them down, because at this point we don't have anything to indicate that they will go into bankruptcy, and we will have to monitor that situation as we go forward.

Randy Binner: Okay, great. And then moving to commercial paper. Could you give color on how well you are able to roll that now? I mean you quantified the higher expense for us which is very helpful, but maybe some color on how that market is moving and then how your ratings, I believe are A1 P2, might coincide with the CPFF, those commercial paper funding facilities that the federal reserve has organized. And if that would be something that you would consider accessing?

Gary Coleman: Yes, we would. You are right about the A1 P2. But we have an F1 from Fitch, and as a result of having those two higher ratings, we are eligible to be in the CPFF program. And, in fact, we have registered and we should be able to start accessing that market late next week. The situation regarding commercial paper prior to September 15, it was pretty easy. We just determined how much we needed and we got it immediately and we got pretty much whatever maturities we wanted. It didn't go up more than 30 days. Since that time, we have been able to place the commercial paper that we needed. In fact, we have issued more than has matured. But

we are seeing maturities more in the -- we are seeing it for a while, just one day paper. Now, it is more in the 10, 11 day maturities. And as I mentioned, the price has gone up. Our interest rate there was less than 3% prior and now it is closer to 6%. So we have been able to place the paper. We are paying quite a bit more. Now what the CPFF will do for us when we get involved with that, we will be eligible to sell up to $300 million of commercial paper. It will be 90 day paper. As you probably know, the rate that we paid on that is an overnight rate index plus a spread and today, that rate is about 3%. So as we are able to pay off the CP that is out right now and then borrow on the CPFF, we will see our rate transitioning from the 6% level for the first half of the quarter to more of a 3% rate toward the end of the quarter.

Randy Binner: And that is 3% all in, index plus spread. Is that correct?

Gary Coleman: That's correct. That is today. That rate will change. But where it stands today it is about 3%.

Randy Binner: I mean, so I guess the CPFF isn't going to last forever. How do you view it? Is it a transition to more normal credit markets? Are you committed to continuing to use short-term debt on the balance sheet, or would you want to transition out and rely more on kind of a natural cash flow of the organization?

Gary Coleman: Well, historically, our short-term debt has averaged around $200 million. Going over $300 million has been an unusual event for us. And really, the timing of our cash flow coming up from the insurance companies varies, and so we use it just for short-term needs. I don't think that's going to vary going forward. Under the CPFF, the last paper can be issued in April, late April, and that's 90 days. So between now and the end of June next year we will be using that program. If nothing else, one, to reduce our costs that we are paying now on commercial paper; and then secondly, we would rather not draw on our bank line. We haven't done that. This program will help us lower the cost without having to draw on that bank line. But overall, I think we are not going to ramp up to borrow the full $300 million under this program and then borrow the full amount we can under our short-term line. I think in the long run you will see that commercial paper going back to about the $200 million average.

Randy Binner: Just real quick, can you remind us of what the bank line is?

Gary Coleman: Pardon?

Randy Binner: What is the capacity of the bank line?

Gary Coleman: Our bank line is -- we have a $600 million line. We have $200 million dedicated to letter of credit, so that leaves $400 million for either borrowing or back up to commercial paper.

Randy Binner: Great. Thank you very much.

Tom Gallagher, Credit Suisse: Good morning. Wanted to come back to the question of free cash flow and how you are thinking about the environment. So, if the plan is to have $300 million of free cash flow, I assume that contemplates very little credit losses for '09. I just wanted to get clarification of that.

Gary Coleman: Yes. I'm saying $300 plus with no credit losses.

Tom Gallagher: Okay. So essentially, what we could think about is, you know, $300 million after-tax credit losses on a static counting basis being the thing that would wipe out your free cash flow for the year. And so on a pretax basis, let's say $450 million, which would be what, 4% to 5% of your entire investment

portfolio. Is that the right way to think about the stress test here?

Gary Coleman: Yes.

Tom Gallagher: Okay. The other question is, have you had any discussions with the rating agencies just in terms of continuing your buyback and whether or not that could put some pressure on your ratings?

Gary Coleman: We have had just some preliminary discussions but nothing in detail. I think they have a good feel for our risk profile. The way we look at that free cash, that is free cash. If we need to put some of it back into the insurance companies to maintain our capital not only from a regulatory standpoint but also from the rating agencies, we can do that. We have the flexibility to do so. To answer your question, we haven't had in-depth discussions. We will probably do that later, but we don't know of anything that would restrict us.

Tom Gallagher: Okay. And can you talk a little bit about how important ratings are to your franchise? And the reason I ask that is that some other life insurers who have pretty good capital positions, you know, even further **trueing** up or strengthening their capital positions over sort of prospective fear of any negative rating actions. Can you talk a little bit about the balancing act? How important is your rating and how you sort of view that with your planning process here?

Mark McAndrew: Gary, I will address it on the marketing side. In the markets that we are in -- and again, we are not really marketing any investment type products, we are really selling small face amount life insurance primarily in middle and lower middle income markets. The only rating we even advertise there is the A. M. Best rating, which is A+. If that rating were to drop a notch to A, I don't think it would have any impact at all on our life sales. We don't want to see it drop, but I don't see any impact on the marketing side of any ratings changes. Gary, do you want to --

Gary Coleman: I would add -- I mentioned that our commercial paper ratings are A1 P2 and F1. We definitely would like to keep two of those at the one level. So that's a consideration.

Tom Gallagher: Okay. And then last question, more on the business side. So is it fair to say with the very weak health insurance sales and barring something unusual, as we think about '09, will we see premium revenue on the health side decline double-digits, only because you are seeing, you know, much larger declines in sales which should be a leading indicator for where premium revenue goes next year. Would that be a fair conclusion at this point?

Mark McAndrew: Well, again, we will give more guidance on the next call. It is really difficult to say. It is possible. Again, I don't think you will see underwriting margins decline, because the premiums that we are losing are the least profitable premiums we have out there. It is just difficult to predict at this point. But it is possible that we could see double-digit declines in health premiums, but I don't think we will see it in health margins. But again, we will give more guidance on that on the next call.

Tom Gallagher: Okay. Thanks.

John Nadel, Sterne Agee: Hi, good morning, everybody. Mark, maybe just a quick philosophical question for you. If the businesses is less impacted or not impacted at an A rating versus an A+ or versus, let's say a low AA, I guess I wonder why not manage the, you know, especially from a capital management perspective, to the A rating?

Mark McAndrew: Well, we pay more attention to the S&P and Moody's ratings as far as our credit is

concerned, and Gary, you can address that. Those are more important to us.

John Nadel: For the holding company, right?

Mark McAndrew: Right.

John Nadel: And then I guess A. M. Best obviously on the insurance side?

Mark McAndrew: Well, we do take pride in the A+, but if there was a compelling reason that we decided to manage to an A rating, but we are basically already dividending out the statutory earnings each year from the subsidiary companies, and that's really why we are able to maintain an A+ rating by doing so.

John Nadel: Okay. A follow-up question maybe on the investment portfolio. I am thinking about a little bit of sensitivity around the risk-based capital ratio. You know, mindful that a fair amount of the portfolio at the insurance subsidiaries is in BBB category, you know, in the sensitivities that you discussed a little bit earlier in the Q&A, have you taken a look at the sensitivity to your risk-based capital levels? Should you see, you know, downgrades from the BBB to a BB or below rating category and what that means from a risk-based capital perspective? How much of that can you sustain?

Gary Coleman: To answer your question, we haven't looked at that. Well, I say that -- our projections take into the fact that we at times do have downgrades. We didn't go in and stress test that we would have a big multiple of more downgrades. We didn't do that, but we haven't seen that so far and if we do, then we will revise the test. I'm not sure how much impact that would have, but we will take a look at it.

John Nadel: Okay. I think I understand that the capital charges are, I guess they become increasingly, you know, difficult the lower the rating category.

Gary Coleman: Yes, they do. Again, we just haven't seen -- as a matter of fact, we had less downgrades this quarter than we had the prior, which is a little strange. We just haven't had that many downgrades in the lower investment grade portfolio.

John Nadel: And then finally, Mark, I wouldn't necessarily expect you to, you know, name the company you were looking at, but can you give us a sense for -- to the extent that there was -- and it sounds like there was a lot of, at least discussion of various opportunities out there, maybe some significantly bigger in size and maybe more out of your comfort zone -- but could you give us a sense for where are you most interested, what sort of deal characteristics would be important in terms of metrics, especially around accretion? Would you be willing to suffer some dilution, or no?

Mark McAndrew: We were willing to -- when we started looking at this particular company, it was not in the current environment. Our stock was up around $63 a share and the credit markets, we felt comfortable we could raise the cash at a reasonable price. But it all went away. So in this environment, we basically put that on the back burner. Are we willing to issue equity at our current price? No, I'm not willing to issue equity to make an acquisition at the current stock price. And also, the credit markets are such, as Gary mentioned, we couldn't raise the capital anyway. So unless it was the size of an acquisition that we could basically make with our free cash in the next 12 months, anything larger than that at this point we couldn't do if we wanted to. The valuations that you are seeing are very attractive but we just wouldn't be willing to take that credit risk.

John Nadel: Yes, understood. Thanks very much for the openness.

Maria Panganiban, New York Life: Hi, I have several questions. The first one is, if you can address liquidity at the holding company and how you intend to refinance the August '09 debt maturity?

Gary Coleman: Okay. We have $100 million coming due and at this point our preference would be to refinance that. If it is happening today, it would be difficult to do that. We would have to use our free cash flow to retire that debt. In August, when that comes about, and when we get to that point, hopefully the debt markets will be open again and we can refinance it. If not, we may have to allocate a $100 million of our free cash flow to retire it.

Maria Pinaganiban: With regards to your bank line, are there any restrictions there? Could you talk about any restrictions as it relates to either ratings or leverage or, you know, net worth?

Gary Coleman: There are regarding net worth and leverage, but we are not anywhere near approaching those. We are well within our covenants.

Maria Pinaganiban: Could you talk about what those covenants might be?

Gary Coleman: I don't recall at the moment. But I know that -- there again, I can't recall the exact ones but we are well within it.

Maria Pinaganiban: And just the liquidity at the holding companies, like how much cash you might have there?

Gary Coleman: As far as cash, we have very low cash at the holding company at the moment. As I mentioned, the free cash flow for this year we have used for share repurchases to date. We don't have assets at the holding company. All our assets are down in the insurance companies, but as far as liquidity at the holding company, we do have the bank line that I mentioned earlier and the ability to issue commercial paper under that bank line. And that's what we are using for liquidity at the moment.

Maria Pinaganiban: Okay. And then just finally, you have some preferred stocks in your portfolio. What industry would those -- are those also financials, redeemable preferred stock?

Gary Coleman: Yes, the bulk of those are financials. I don't have that right here in front of me, but I know they are mostly in banks and insurance companies.

Maria Pinaganiban: Okay. Thank you.

Steven Schwartz, Raymond James: Hey, good morning, everybody. So, no intention of recreating 1990 and going back after American General?

Mark McAndrew: (laughter) If you can tell me how I can raise that much money -- yes, if you can guarantee me loans and that I can issue equity at $60 a share, we would be happy to go look at it.

Steven Schwartz: Okay, I will remember that if the stock goes back up. A couple of questions here. Gary, first, you were moving along pretty fast. You stated a number. I think it was the percentage of the increase in the unrealized loss that was due to downgrades. Could you give that number again?

Gary Coleman: Okay, I must have been going fast. We said that 85% of the increase in the unrealized losses from the second quarter were in bonds where there was no change in rating. There was no downgrade.

Steven Schwartz: So reciprocal being 15%. Okay. Following up on the discussion of AIG, it sounded kind of like your impairment policy was if the underlying company entered bankruptcy or not. I don't know if this is accurate or not, but S&L has you

having about $41 million or so of National City. Maybe -- if that is accurate -- maybe you can discuss that and what your thoughts are there vis-à-vis the impairment.

Gary Coleman: Let's see. Yes, we do have $47 million. There again, as far as our analysis is that we don't think -- they are not going into bankruptcy. That there is not a impairment at this time. There is a possibility that that will happen, but again, as we mentioned, we will not going to be selling these type assets. It is going to be whether they do go into bankruptcy.

Steven Schwartz: Okay, and then -- I don't remember. Is Rosemary there by any chance?

Rosemary Montgomery: I am here.

Steven Schwartz: Hi, Rosemary. Could you -- in the second quarter, if I remember correctly, you had a little bit of a mortality issue. Maybe you can address how things turned out in the third quarter. I noticed there was no mention. And then, I think your bidding is done for Part D. Maybe you can touch on an outlook for Part D in '09?

Rosemary Montgomery: Sure. Yes, for the second quarter, we had mortality issues that we talked about in three of our lines -- Liberty National, Direct Response, and I believe United Investors. And of the first two, the claims did come back down as we had predicted, so we didn't see any mortality issues remaining there. United Investors did still have higher claims in the third quarter than what we had anticipated. However, we had gone back and done a little more analysis of that, and that's just a line that has high average size policies but low volume in terms of claims, so it can fluctuate. We went back and looked at the higher average sized claims, ones over $250,000, and that's really where the fluctuation was. But it wasn't a fluctuation in terms of number of claims to any great extent. so --

Mark McAndrew: If I could, Rosemary, just add. In looking back at the prior two years, 2006, 2007, claims over $250,000 at United Investors, we averaged one a month. Well, in the second and third quarter of this year, we averaged three a month. But those were, on average, roughly $400,000 claims, and that is the fluctuation. The claims under $250,000 have been very stable, and so I continue to believe that it's just a blip, but -- sorry, Rosemary, go ahead.

Rosemary Montgomery: No, that's fine. In regard to Part D, we really aren't anticipating much difference in terms of what we are going to do in 2009. Our products are going to be pretty similar. We didn't change the rate a whole lot. We have lowered our benefit structure. We lowered our co-pays because of expected improvements in the discounts that we are getting off of the drug costs. We are expecting still that our underwriting margin will continue to be 11% next year. As far as the outlook for the fourth quarter of this year, I had originally anticipated that due to the discounts that we were going to get off of the drugs that we would also show a 15% underwriting margin for the fourth quarter. However, our actual to expected for this year is running a little bit over, and so now I don't think that we are really going to see that 15% continue into the fourth quarter, and it will probably go back down to the level it was in the first six months of this year.

Steven Schwartz: Okay, great. Thanks a lot.

Lynn Savage, KBW Asset Management: Hi, thanks guys. You mentioned at the beginning of the call that you did some intercompany transactions that helped RBC. Can you just give us how much they helped RBC and then if you can explain a little more about

what kind of transactions they were? A little more detail.

Gary Coleman: Well, as I mentioned, it involved reinsurance and monetization of agents' receivables. Agents' balances are not admitted for regulatory capital purposes, and we were able to sell those inter-company to one of our companies where we can admit them. I think that's probably $20 million plus that we were able to increase capital. The reinsurance was, I think, a little over $50 million of additional capital that we were able to do there. Again, those were -- as I mentioned earlier, there may be some more capacity there. We are trying to be conservative of doing that.

Lynn Savage: Just on the reinsurance, is that done through a third party or to another sub?

Gary Coleman: No, this is all intercompany.

Lynn Savage: All intercompany. So you have got some subsidiaries that are over capitalized still? Is that what you're saying?

Gary Coleman: Well, we have a Bermuda company. It is a Torchmark company. When we do the reinsurance, we are reinsuring policies that have deficiency reserves in say United American, Liberty National -- we are reinsuring those with the Bermuda company, and the Bermuda company is not required to set up deficiency reserves. A lot of people do that with outside reinsurance. We just happen to do it inside. The cost to us of doing that is we have to have letters of credit to support the amount of the reinsurance, but that's a very low cost. So doing that reinsurance is a low cost way of increasing the statutory surplus of Liberty National, United American, Globe.

Lynn Savage: Got you. Okay, thanks very much.

John Lancefield, Royal Capital: Hi, thanks for taking my question. Just another question on the investment book. If you looked at the roughly $600 million increase in mark-to-market charges that occurred in the third quarter and rolled that forward, obviously given the volatility we have had thus far this month, any estimate of what the charge would be today?

Gary Coleman: Well, we have done an estimate. We think that we were $1.4 billion of net unrealized losses at the end of September. We think they would be $1.9 billion now.

John Lancefield: So roughly another $500 million?

Gary Coleman: Right.

John Lancefield: And can you talk a little bit about how that actually would -- is that offset at all by some DAC write-ups or how that would actually manifest itself in your book value?

Gary Coleman: No. There is just a small amount of a DAC offset because we have very little business that is asset accumulation type business where you have that situation. And so really it is immaterial as to how much the DAC part of it is.

John Lancefield: Okay. Thanks very much.

Jeff Schuman, Keefe, Bruyette & Woods: Thanks again. Just want to clean up a few numbers. When you were talking about the changed guidance, I think you mentioned an impact to variable annuities of $1.1 million to $2.4 million. I wasn't sure. So is that a delta that we should apply towards your normal run rate? Is that what we should do?

Mark McAndrew: Well, obviously that depends on what the stock market does here between now and year end, but that's kind of the range that we see the

potential in the fourth quarter. Obviously, if the DOW goes back to 11,000, we won't have those losses. But, Rosemary, you want to comment?

Rosemary Montgomery: Yes, I would like to add one additional thing. That was definitely related to two things, really. We had been seeing higher than expected lapses in that line. So that takes that into account. But also, the bulk of it is really based on the fund balances, so it does depend on what would happen to that in the fourth quarter.

Jeff Schuman: I'm sorry. I wasn't quite sure what the numbers meant. So is that a delta versus a run rate or is it an estimation that you would actually lose $1.1 million to $2.4 million?

Gary Coleman: We were anticipating underwriting margins of about $750,000 in the fourth quarter. So yes, it would translate -- not all of that would be a loss. But we are now expecting to take a loss in that line of business in the fourth quarter.

Jeff Schuman: Okay, and that view is as of 9-30, or as of more recently given the subsequent market decline?

Rosemary Montgomery: It is actually as of 9-30 with some estimate as to what we think could happen as of year end.

Jeff Schuman: Okay. And then -- I'm not sure I transcribed very well -- did you specify an amount for the impact of the lower investment income on the securities?

Mark McAndrew: Yes. It was $1.2 million after tax.

Jeff Schuman: $1.2 million after tax. Great. Thanks a lot.

John Hall, Wachovia Securities: Thanks very much. I'm just going to go back to the topic of acquisition and capital a little bit now. I wanted to be clear about your walking away from the deal was a function of financing as opposed to pricing or anything else?

Mark McAndrew: Yes.

John Hall: Okay. Secondly, as you look at that M&A environment, how would you categorize sort of the pricing environment? Are public multiples at a lower point than what private multiples are? Are they roughly in sync?

Mark McAndrew: Well, the multiples that you are willing to pay -- again, acquisitions of the size you are talking about with AIG, most anyone is going to have to raise some equity to make that type of acquisition. And when you look at the price you would have to issue equity at it obviously lowers the price you are willing to pay in an acquisition. So, yes, the multiples that you are seeing for potential acquisitions are coming down -- have come down.

John Hall: Okay, great. I was wondering, you had mentioned the possible use of cash as buying in debt. I was wondering what the decision process would lead you in that direction to do that.

Gary Coleman: I was referring to the fact there was a question that we have $100 million of maturity of our debt in August of 2009. It would be our intention to refinance that. But it would be difficult to do that in today's market, and if conditions persist -- which gosh, I hope they don't -- but if they do and it's still in August of '09 it is still this difficult -- then we could -- instead of -- if the refinancing was too costly or difficult to get, then we could use a portion of our free cash flow to pay the maturity.

John Hall: Great. Thank you very much.

Dan Johnson, Citadel Investment Group: Great. Thank you very much. Actually, this Dan Johnson. On going back to a quick question on impairment policy. On page 13 in the supplement, I think is where you have got your $1.4 billion sort of broken out by asset category. And I think, if I understand it right, generally on the corporates and again on the preferreds, the intent is not to impair until effectively you think the company issuing the bond will be going bankrupt or unless you intend to sell the security. I just wanted to frame that right before going and asking my question.

Gary Coleman: Well, it's maybe a little more involved than that. But I think what we have to look at is we have got these losses. If we were going to sell all our bonds, we would realize those losses. So we would either realize them by selling them or we'd have to do an impairment if we were going to sell them. Our position is we buy and hold to maturity. So as long as when the maturity comes, they pay off the bonds, then if the market value is half the par value for that, it really doesn't make any difference. So when we are looking at this, we are trying to see what the net realizable value is going to be of the bonds. In the case of Lehman, obviously, going into bankruptcy, we are not going to recover the full value. We are going to recover some, but not the full value. But when looking at other bonds that may be -- again, their market price may be 50% of their book. Well, that is more of a sign of the market. If we were going to sell today, yes, that's we would get, 50 cents on the dollar, but we are not going to sell and as long as their fundamentals look good, and we don't see that it looks like they are going to go into bankruptcy, we are not going to -- in our minds, it is not other than temporarily impaired and we are not going to write it down.

Dan Johnson: Regardless of the age at which those are, I guess, in your mind at an unrealistically depressed price?

Gary Coleman: Right.

Dan Johnson: So let's go then to the CDO. You've fair valued the CDO down to about 80%. So two questions. One, remind us of the underlying collateral of that CDO and given that that's not a single entity that you can determine whether or not they will become bankrupt. What is the test to decide whether or not that $100 million of unrealized loss would become considered other than temporary?

Gary Coleman: Well, the underlying collateral on those securities are, as I mentioned earlier, trust preferreds issued by banks and insurance companies primarily. I think there's a small amount of other. We have a pretty high tranche in our stress testing so there would be substantial defaults before, if we get to the point where it would affect our tranche. When you put that out to different brokers, what would they pay for those at a particular time? Or what would people pay for them? Again, the market is affecting that. But when you are talking about whether we are going to recover our value at this point we think they are money good.

Dan Johnson: The A- rating on that CDO, is that the original rating or is that the current rating?

Gary Coleman: No, that's the current rating.

Dan Johnson: Has that been marked down over the last year in terms of rating downgrades?

Gary Coleman: No, I don't believe it has. Again, there is three or four. And as I mentioned, the lowest is a BBB. But overall, they are A-.

Dan Johnson: Thank you very much.

Mark McAndrew: Well, those are our comments for today. Thank you for joining us and we'll talk to you next quarter. Have a great day.