Torchmark Corporation

3rd QUARTER 2010 CONFERENCE CALL
October 28, 2010

Corporation Participants

Mark McAndrew, Chairman and CEO
Gary L. Coleman, EVP and CFO
Larry Hutchison, EVP & General Counsel
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; and Mike Majors, Vice President of Investor Relations.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2009 10-K and any subsequent forms 10-Q on file with the SEC.

Net operating income for the third quarter was $132 million or $1.63 per share – a per share increase of 10% from a year ago. Net income was $115 million or $1.41 per share – a 16% increase. Net income for the quarter was reduced by $31 million as a result of a GAAP loss on our pending sale of United Investors.

Excluding FAS 115, our return on equity was 13.7% and our book value per share was $47.92 – a 12% increase from a year ago. On a GAAP reported basis, with fixed maturities carried at market value, book value was $52.77 per share.

In our life insurance operations, premium revenue (excluding United Investors) grew 5% to $417 million and life underwriting margins increased 8% to $115 million. Life net sales were $79 million – down 3% from a year ago – our first down quarter in two years. Life first-year collected premiums, however, were up 8% to $61 million - significantly better than our 3% growth in year-to-date sales and reflective of improving persistency.

At American Income, life premiums were up 11% to $142 million and life underwriting margin was up 9% to $47 million. Life net sales increased 5% to $34 million. The producing agent count was 4,065 – up 3% from a year ago, but down 3% from last quarter.

The renewed growth in our producing agents at American Income is taking longer than we previously anticipated. In addition to changes in our management incentive compensation, we are working on growing our middle management ranks as well as improvements in our sales lead volume and flow. We expect it will take another two to three months to see the impact of these efforts.

We are also in the fourth quarter beginning to implement a centralized recruiting call center for both American Income and Liberty National which we believe will significantly increase our recruiting activity at both companies.

In our Direct Response operation at Globe Life, life premiums were up 6% to $142 million and life underwriting margin grew 8% to $36 million. Life net sales declined 3% to $32 million.

The sales in Direct Response were again less than anticipated as response rates in our insert media segment continued to fall during the summer months. For the June to August time period, response rates were 14% to 17% less than a year ago. For the last 60 Days, however, we have seen some improvement with response rates lagging only 3% from last year.

Due to other positive developments in our testing and modeling, we expect to see mid-single digit growth in life sales in Direct Response for 2011 despite these lower response rates in our insert media.

Life premiums at Liberty National declined 2% to $73 million and life underwriting margin was up 10% to $16 million.

Net life sales for the combined Liberty National/United American Agency declined 19% to $11.4 million, although first-year collected life premiums were flat at $8.6 million, again reflecting improved persistency.

We are beginning to see an upturn in our recruiting activity at Liberty National as a result of our implementation of the recruiting call center which I previously mentioned. For 2011, we currently anticipate 10% to 15% growth in net life sales at Liberty National.

On the health side, premium revenue, excluding Part D, declined 5% to $189 million while health underwriting margin grew 2% to $37 million. Health net sales decreased 29% from a year ago to $13 million, but first-year health collected premium increased 11% to $20 million.

While official numbers are not yet available, a contact person at CMS has estimated that roughly 900,000 Medicare Advantage participants will be disenrolled at the end of this year, which would be a 50% increase over last year. We believe we are in significantly better position than we were a year ago to capture a share of these disenrollees.

Premium revenue from Medicare Part D was $53 million – a 10% increase; while the underwriting margin was $6 million – down 4%. Part D sales grew 128% to $7 million for the quarter and first-year collected premiums were up 83% to $13 million.

Administrative expenses were $38.4 million for the quarter – up 5% from a year ago. This increase is primarily the result of continued high employee health care costs.

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

Gary Coleman: Thanks, Mark.

As disclosed, we entered into a contract in the third quarter under which Liberty National will sell its wholly owned subsidiary, United Investors, to Protective Life. The sale is expected to close on or before December 31, 2010, at which time the final sales price will be determined based on the then statutory capital and surplus of United Investors. Any numbers discussed here regarding the sale are presented as if the sale had closed on September 30.

Prior to closing, United Investors will distribute approximately $327 million to Liberty in the form of dividends. At closing, Liberty will receive approximately $344 million from Protective, resulting in a statutory gain of approximately $190 million, pre-tax, or $124 million after tax.

The $327 million of pre-closing distributions consist of $188 million of Torchmark preferred stock, $132 million of fixed maturities and approximately $7 million of other assets and liabilities. The fixed maturities, consisting primarily of below investment grade bonds, were excluded from the sale because we did not want to sell them at a loss. We expect to hold them and receive full value at maturity for all of these bonds.

Although the sale generates a statutory gain, we are recognizing a GAAP loss of approximately $35 million, or $31 million after tax, and that's due primarily to DAC, goodwill and the difference in GAAP and stat benefit reserves.

We expect the sale to result in approximately $15 million of lost income, after tax, in 2011; $25 million of foregone United Investors earnings offset by $10 million of investment income on the sales proceeds if all the proceeds are invested at 5½%. However, due to the sale, Liberty National should be able to increase its dividends to the parent company by $250 to $320 million dollars in 2011. To the extent, the sales proceeds are dividended to the parent, the offsetting investment income will be less than the $10 million.

For the remainder of my comments, any reference to investments from continuing operations includes the bonds that will be received in the pre-closing distribution.

Now, I want to spend a few minutes discussing our investments, as well as excess investment income, 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.

As indicated on these schedules, invested assets are $10.9 billion, including $10.4 billion of fixed maturities at amortized cost. On the fixed maturities, $9.6 billion are investment grade with an average rating of A-. Below investment grade bonds are $822 million, 7.9% of fixed maturities; compared to $832 million at the end of the second quarter and $946 million a year ago.

Again, we expect that the percentage of below investment grade bonds at 7.9% is still high relative to our peers. However, due to our significantly lower portfolio leverage, the percentage of below investment grade bonds to equity, excluding OCI, is 21%, which is likely less than the peer average. Overall, the total portfolio is rated BBB+, same as a year ago.

During the quarter, we recognized $5 million of after tax realized gains. For the nine months, we had net realized capital gains of $6.7 million, after tax.

We have net unrealized gains in the fixed maturity portfolio of $572 million compared to net unrealized gains of $143 million at June 30 and net unrealized losses of $402 million a year ago. The increase in unrealized gains in the third quarter is due primarily to the decline in both treasury yields and credit spreads.

Regarding investment yield.

In the third quarter, we invested $447 million in investment grade fixed maturities, primarily in the industrial sector. We invested at an average annual effective yield of 5.6%, an average rating of A-, and an average life of 23 to 25 years. For the nine months, we've invested $1.4 billion at an average yield of 5.9%.

For the entire portfolio, the third quarter yield was 6.68% compared to 6.74% yield earned in the previous quarter and the 6.96% earned in the third quarter of 2009. The decline in yield is due to investing a larger than normal amount of money at lower yields. In the last 12 months, we invested over $2 billion at an average yield of 5.95%. This unusually high amount of money invested in that period was due to the third quarter 2009 portfolio repositioning to reduce below investment grade bonds and investing money that was previously held as cash for liquidity purposes. As of September 30, the yield on the portfolio is 6.66%.

Now, turning to excess investment income.

Excess investment income is the net investment income less the interest cost of the net policy liabilities and the financing costs of our debt. In the second quarter, it was $75 million, up $9 million, or 14% from a year ago. The year over year comparison of each component is as follows:

- First, net investment income was up $13 million. This represents an 8% increase in income, slightly higher than the 7% increase in average invested assets. Despite lower yields in the bond portfolio, investment income increased at a higher rate than the related assets because we held significantly more cash and short term securities in the third quarter of 2009 than we have in 2010.

- Next, the interest costs on net policy liabilities increased $6 million, or 8%, in line with the 8% increase in the average liabilities; and

- Lastly, financing costs were down $1.6 million due primarily to the maturity of a $99 million issue in mid third quarter of 2009.

Regarding RBC.

We plan to maintain our RBC ratio at or around 325%. This ratio is lower than some of our peer companies, but is sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities, and our ratings.

At year end 2009, the RBC ratio was 355%, and adjusted capital was approximately $125 million in excess of that required for the targeted 325% ratio. We estimate that the ratio at September 30 is around 350%. However, we estimate that the RBC at the end of the year will be somewhere around 400% due to the impact of the sale of United Investors. None of the proceeds from the sale will be dividended to the parent company until 2011.

Finally, regarding share repurchases and parent company assets.

In the third quarter, we spent $66 million to buy 1.3 million Torchmark shares. For the nine months, we have spent $141 million to acquire 2.7 million shares.

At September 30, the parent company had liquid assets of $220 million. In addition, we expect to generate another $50 million of free cash flow in the last three months of the year. Considering that we plan to maintain liquid assets of around $200 million, this leaves $70 million of cash available for use in the fourth quarter.

For 2011, in addition to the $200 million of liquid assets, free cash flow at the parent company is expected to be approximately $590 million to $660 million, assuming no more impairments for the remainder of 2010. This consists of approximately $340 million of free cash from normal operations along with $250 to $320 million resulting from the sale of United Investors.

The amount of free cash flow generated by the United Investors sale depends on how much cash will need to be retained in the insurance subsidiaries to maintain our consolidated RBC ratio at or around the 325% level.

As noted before, we will use our cash as efficiently as possible. If market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds.

Now, before I turn the call back to Mark, I would like to address a question that came up on the last call.

The question was: In light of the low interest rate environment, what would be the impact on product pricing if we lowered the assumed interest rate?

As we discussed on the last call, we're not crediting policyholder accounts on our life policies. The GAAP interest rate is the discount rate that we used to calculate GAAP reserves (and is also the rate used in our pricing). For most policies issued since 2000, the weighted average rate has been 6.75%. However, the weighted average discount rate on all policies in force is around 5.6%.

The new money rate on third quarter investments was 5.6%, the lowest it has been in five years. If we felt that interest rates were going to remain at that level for a long period of time we would likely reduce our GAAP and pricing interest rate. For illustration purposes, if we lowered our GAAP interest rate and pricing rate 100 basis points, we could maintain the current underwriting margins by increasing premiums on new business by just 1% to 3% for most of our product lines. To illustrate the magnitude of such a change, a 2% increase in premium on our juvenile whole life business would average about 14 cents a month and a 3% increase in our American Income whole life business would average about 75 cents a month. We don't think that such premium increases would have a significant impact on new sales.

However, we don't have any current plans to make changes to the current GAAP interest rate as we don't expect new money yields to remain this low for an extended period of time.

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

Mark McAndrew: Thank you, Gary.

As Gary mentioned, we are proceeding with the sale of United Investors and expect it to close by the end of 2010. Assuming we use between $250 and $320 million of the proceeds from the sale to repurchase shares, we anticipate a small dilution of our earnings per share for 2011 of roughly $.05 a share, followed by an accretion of $.10 to $.20 for 2012, with additional accretion in subsequent years.

In our guidance, first, for the fourth quarter of 2010, we expect earnings per share to be between $1.66 and $1.70, so we are raising our 2010 guidance to a range of $6.38 to $6.42.

For 2011, we expect earnings per share to be between $6.75 and $7.10 per share, assuming that we spend between $590 and $640 million on share repurchase. This guidance is wider than normal due to our uncertainty concerning the timing and price of the share repurchase.

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

Jimmy Bhullar, J.P. Morgan: All right, thank you. I had a question on just your comments on Liberty National sales. I think you mentioned you expect sales to be up 10% to 15% in 2011. They have been down 20% plus for the last several quarters, so I want an idea on what gives you confidence things will improve there.

And then another one, just on the agent count at Liberty National and American Income. It was down this quarter. I wanted to see what was driving that. Was it more changes in agent compensation or was there anything related to mid-level management. If you could just give us some detail on that?

Mark McAndrew: Okay, well, first, we will start at Liberty National. One of the things, Jimmy, obviously we are going to have a much easier year to compare against next year. If you looked in 2009, we had $46 million of life sales at Liberty National, where this year we expect it to be down closer to $36 million. So, even though we're expecting to see growth going forward next year, it really doesn't quite get us back to the level of sales we were in 2009. But we do expect to see 10% to 15% growth over the current levels. So I believe we are moving forward there. We have seen an improvement in our recruiting activity. Those aren't big increases. As far as the agent count, you know, at American Income, the plateau we have kind of hit in our agent count was a little more involved than what I had originally thought it was. We have made some changes in management incentive compensation. But also in looking we really haven't significantly grown our middle management level, which for the people that are doing the training of these new hires, so, even though our recruiting activity was up some we really didn't have more people there to train those people. And also, our lead flow in some areas really hadn't grown to support an increased number of new agents.

I am encouraged that we have started again the call center to actually be calling on internet resumes and the initial results we have seen there is we have gotten a very high response as far as people wanting to come in and be interviewed. But it's also involved -- so we have got to have more people there to train them. And we also have got to do a little better job in some areas of increasing our lead flow. So we're working on all of those things and I'm optimistic that -- actually in September we started to see some turnaround there but I really think it will be first quarter before we see the full impact of the things we are working on.

Jimmy Bhullar: And then you mentioned the potential for growth in Med Supp because of Med-Advantage disenrollment. What is your view, like could this reverse if the Republicans gain control of the House and/or the Senate?

Mark McAndrew: Well, I will first say that in our guidance we haven't assumed any significant increase in our Medicare supplemental business. It is hard to say. We think, obviously, if the Republicans take control of the House, we think there would be a lot more just basically stagnation which isn't all bad. But it's too early to say what impact some of that will have on the health care reform legislation. I think it's too late -- you'll see those disenrollees -- they've already been filed with CMS - you'll see those disenrollees this year. I don't think you'll see that change. But as far as what will happen down the road next year and the year after, it's hard to say at this point. But I think the number of disenrollees this year has pretty well been set.

Jimmy Bhullar: And then lastly. You have had historically 2% or 3% share that you have picked up when there have been disenrollees. Should we expect something consistent with that for next year?

Mark McAndrew: Well, I would say -- I have said in the past that in the last big round we picked up roughly 3% of the disenrollees. I don't know if we can expect to pick up that many in this round. One, we have far fewer captive agents who are in that marketplace, even though we feel like our product pricing puts us in a better competitive situation. I think most of what we do pick up will be more in the general agency side of the business, but I wouldn't expect to pick up that much.

Jimmy Bhullar: Okay, thank you.

Paul Sarran, Macquarie Research Equities: Hi, good morning. First, I guess on guidance. Can you share what the assumed new money yield is? And also, anything on margin and persistency in 2011 as compared to 2010 where both of those have been relatively strong metrics so far this year.

Mark McAndrew: We're assuming 5.5% new money interest rate. Gary?

Gary Coleman: Right, that's correct.

Mark McAndrew: And as far as persistency, I don't -- we're not -- we're expecting --

Paul Sarran: Anything that is stronger or weaker than what it's been so far this year?

Mark McAndrew: I'm sorry, what?

Paul Sarran: Just, maybe directionally stronger or weaker, about the same as 2010?

Mark McAndrew: Well, in our guidance, we're not expecting any significant changes in our persistency, although in most of our lines of business we are seeing improving trends in our persistency. We haven't assumed any significant improvement in our persistency as far as our guidance.

Paul Sarran: Okay. And then on American Income -- if you gave it, I may have missed it -- did you give expected sales growth for next year?

Mark McAndrew: I don't think that I did. But, in our guidance we're expecting 10% to 15% growth at American Income.

Paul Sarran: And what kind of agent count growth would you need to see for that to be achievable?

Mark McAndrew: Well, historically, it would be roughly the same. Over a year's time, we would need to grow our agents -- maybe a little bit higher because our first-year agents are not quite as productive so it would probably be more in the 15% to 20% growth in agents for the full year to achieve that.

Paul Sarran: Okay, and maybe one more, just on the recruiting call center. Can you maybe describe a little bit more how that will work and how it interacts with the two companies?

Mark McAndrew: Sure, we've done some testing where….actually, well, I'll give you just a little bit of history. We started ten or twelve years ago with internet recruiting with Hot Jobs and Monster, and initially, we just ran ads and we got responses to the ads and that was a good source of recruiting inexpensively.

We later, a few years ago -- well I guess it's been five or six years ago -- we started a program where we started selecting resumes off that data base and sending e-mails to these people asking them whether they would be interested in coming to work for us. That increased our response and potential candidates. I don't have the numbers in front of me, but substantially, we got far more responses from that than we did to our ads. And now recently, we've been testing and doing automated phone calls to selected resumes in addition to the e-mails and, again, the response -- what we did, we would send an automated phone call to people to selected resumes off the internet and if they wanted to schedule an interview it was automatically transferred to a live person. In our test, that live person was in the local sales office, in the offices we use for both companies, and we basically overwhelmed them with calls. So actually what we are working on now is a centralized place where those calls can come in to where we can schedule the interviews so that we can better handle the volume and just have better control over it. But the initial results there are very encouraging and it is something that is going to take us awhile to expand that nationally in both companies. But it has a lot of potential to take our recruiting to a significantly higher level. But again, we've got to have the middle management in place to then recruit and train those people.

Paul Sarran: Okay. And then I guess maybe your comments seem to suggest that the issue with the agent counts is more turnover of newer agents than slowing recruiting. But can you just confirm if that is the case?

Mark McAndrew: Well again, at American Income, it's basically been flat since the first of the year. We've hit a level of recruiting that we haven't been able to take it to the next level. And again, even though our recruiting has been up somewhat, we have seen a little higher turnover. There are a number of factors involved there. We have got to significantly increase the recruiting and have got to have more people there in place to train those people, and we have to be able to generate a smooth source of leads for those people to call on. And again, we're working on all of those things.

Paul Sarran: Okay, thanks.

Steven Schwartz, Raymond James: Hello, good morning, guys. I have a couple here. First, Mark, you made a statement in your prepared remarks that you thought you were in better position to capture the disenrollees this year than last year. I was wondering, why that was? What has changed?

Mark McAndrew: Well, again, mid-year, we did reprice our Medicare supplement products as well as introduce a new plan, which, I think, puts us in a better competitive situation, particularly in the general agency world which is driven by price. So, in that regard, we are in a better competitive situation in the general agency distribution world with our current products and pricing than we were a year ago.

Steven Schwartz: Okay, fair enough. And then just on Direct Response, I don't know that you touched on this. You did mention that your response rates were much lower in June and August. I gather there was a little bit of a lag there and they have gotten better. What do you think the issue was and did you do something to make them better or did they just kind of get better on their own?

Mark McAndrew: That is, and I mentioned this in the past, the insert media portion of our Direct Response is the only segment of our business that we have seen any indication that the economy has had an adverse effect. And, we were surprised by the decline in response, and there is no good reason for it other than the economy, and they have come back. But we are always doing things to improve what we do. So again, even in our assumptions for next year, we are expecting mid-single digit growth in sales, but we're not assuming that the economy is going to improve or that those response rates are going to improve on their own. If they do, we hope to see better growth than what we are using in our guidance, but I think we have been fairly conservative in our estimates for next year as far as sales.

Steven Schwartz: Okay. Just as a follow-up to that then. The response rates that you are assuming in the guidance are kind of these slightly improved as opposed to the June-August numbers. Is that correct?

Mark McAndrew: Well, we're not assuming as bad as they were the June to August period.

Steven Schwartz: Okay.

Mark McAndrew: But they are still less than what we have historically seen.

Steven Schwartz: Okay. Gary, if you can just confirm something for me. If you take the proceeds and capital that you are getting out of UIL and invest it at, I think you said 5.5%, the dilution from the sale would be $0.20. But then if it is used for share repurchase, the dilution would only be $0.05 for 2011. Is that correct?

Gary Coleman: Yes, Steven, $0.05 is correct. And what we were saying is if we invested all the money that the dilution would be $15 million.

Mark McAndrew: That is roughly $0.20.

Gary Coleman: Yes, I guess it is $0.20. Yes, that is right. That would be the hindsight of $0.20 if we invest all the funds and, as Mark indicated, $0.05 if we use it for share repurchases.

Steven Schwartz: Okay, then it becomes accretive in 2012. I haven't done my 2012 numbers yet, but what is the driver there? I guess that it will all be done? Is that the deal as opposed to maybe repurchasing over time?

Gary Coleman: Yes, I think its the fact in 2011 we won't get the full benefit of the repurchase because they will done throughout the year. We will get the full effect in 2012. And also, the amount of the income that United Investors would have provided in 2012 will be less than what it was 2011.

Mark McAndrew: It is basically run off a block of business.

Steven Schwartz: Right.

Mark McAndrew: Each year those earnings will be less and the revenues will be less going forward, and that is one of the reasons it's going to continue to be accretive in years to come.

Steven Schwartz: Okay, great. Thanks, guys.

Jeffrey Schuman, Keefe, Bruyette & Woods: Good morning. First, Mark, I just wanted to confirm -- you talked about the share repurchase assumption guidance. Did you say $590 to $640? Is that what you said?

Mark McAndrew: Yes.

Jeffrey Schuman: Okay. And Gary, you started to touch on this -- but given that much share repurchase, I guess the timing is pretty critical. Should we think about a big chunk early because of the United Investors cash and the rest of it kind of staged throughout the year? How should we think about timing?

Gary Coleman: Jeff, in our guidance, what we assumed is the normal free cash flow, the $340 million expected that would be spread throughout the year, that $250 million to $320 million, how ever much we pull up from the sale of United Investors, that will be passed to the holding company in late March and we're assuming that money will be spent starting the last week of March through the month of April.

Jeffrey Schuman: Okay. And if that is the share repurchase budget then I guess that contemplates that the $200 million cushion basically would remain in place. Can we think about that at some point potentially being drawn down?

Gary Coleman: Yes. As far as our guidance goes, we did assume it was going to stay in place and that is our feeling now. We should have that cushion and that could change. I am sure we will have some amount of cushion. We might change the dollar amount but as far as the guidance goes, we assume it will stay at $200 million.

Jeffrey Schuman: Okay, great. That is it for me. Thanks.

Ed Spehar, BofA Merrill Lynch: Thank you. Good morning. You know, Mark and Gary, you have given out a lot of information on what is underlining the guidance. It seems like maybe more than what you have given in the past. So, I guess I'm going to push for a little more. Can you give us just some sense of what type of premium growth -- earned premium, not just sales -- but what type of premium growth -- I mean is this sort of still 2% or 3% type of premium growth expectation?

Mark McAndrew: Well, again, it gets a little skewed because of…….

Ed Spehar: On an adjusted basis, I guess, adjusted for that.

Mark McAndrew: I would have to -- it would be similar. Well, hold on. I actually -- I have it with….I can say, including United Investors, leaving it in the 2010 numbers, pulling it out of 2011, we expect to see life premiums roughly flat with 2010. So I guess that would be about 4% growth if you pull United Investors out of the 2010 numbers.

Ed Spehar: But in terms of, I guess, when we are thinking about the overall, and I understand that the life is more profitable than the health, but the health is coming down so the life is going up. If everything works as you hope it would in terms of your marketing efforts and let's say we get some benefit from the disenrollment over the next few years, what type of top line growth do you think you can get from your collection of businesses?

Mark McAndrew: Well, you know, Ed, again, if we could continue to grow our life sales -- we are growing life premiums at 5% right now -- and we should be able to see some gradual acceleration of that -- it just depends on how long and how fast we can grow the sales. The numbers I have been giving out, those are the numbers at the mid-point of our guidance and we obviously have calculated the range of sales and premium growth and we have such a big block of life business there that new sales really has not had that much impact as you're aware of. So as far as next year, could we grow at 6%? Sure. We can go from 5% to 6%. Can we go from 5% to 10% in life premiums next year? No. Can we get there in three years? We could if we continue to grow our life sales but that takes a significant amount of time.

The other thing, I think we sometimes focus too much on sales and again, as I mentioned in my comments, and not the first-year collected premiums. Our first-year collected premiums, we have improved our first-year -- our persistency of the business -- and I think the first-year collected premium is a much better indicator of what is going happen to our future premium growth. And as long as we continue to improve our persistency, we can continue to outpace the growth in sales with growth of first-year collected premiums.

Ed Spehar: Just on the health side, Mark, is there any reason to think that the health business doesn't continue to come down over time?

Mark McAndrew: Well, I think we're getting close to -- the first year and there, this -- okay, that mix of the business is different. We put on a significant amount of group Medicare business this year which we expect to see that continue to grow mostly in the fourth quarter and first quarter, but if you look at our first year collected premiums on the health side they were up 11% for the quarter. I think we'll continue to see actually our new health premiums increase. Now again, it's going to take us a little while to get the total back up to flat. Again, the persistency of the business that continues to fall off, that is very poor persistency business and very low margin business. So, no, I don't think the health premium will decline much further than where it is now. I don't think we're that far off from having it flat with margins increasing. We are already seeing improvements in the margin.

Ed Spehar: And you would think, is that a 2011 event or is that beyond?

Mark McAndrew: We're at our midpoint and we're still expecting mid-single digit decline in our health premiums, although we are expecting to see small growth in our health margins for next year, at the mid-point of our guidance.

Ed Spehar: Okay. Perfect. Thank you very much.

Eric Berg, Barclays Capital: Thanks very much. Pardon me. A number of questions. First, Gary, with respect to your comment about a possible, albeit unlikely discount rate cut underlying your GAAP reserves. If you were to do that, would that be what's called in the accounting literature, the result of a loss recognition study, and if that were to happen, a discount rate cut, would that be just a direct hit to your book value as the liabilities on the right-hand side of the balance sheet would all be restated upward?

Gary Coleman: No, not at all, Eric. It would only affect new issues.

Eric Berg: You're referring uniquely to new business. Right?

Mark McAndrew: The total book of business Eric has only 5.6% overall interest rate where the new business is a higher rate and that would only affect new business. And, you know, if interest rates continue where they are, if we continue to invest new money at below 6% in 2012, we very likely will make those rate adjustments and change our interest rates. But we're going give it a little more time before we make that decision.

Eric Berg: Okay. My next question relates to sort of your guidance and this announcement about share repurchase or at least it seems to be an announcement regarding share repurchase. It strikes me unusual in the sense that most companies they tell us sort of what their authorization is and they say, well, if we have nothing better to do with the money we'll buy back stock. But, you have sort of, I don't want to say you committed to it, but I guess you are saying this is your intent and understanding that an intent is not a commitment -- its your desire, your intent -- but why is this your approach to tell us this is your intent? Is this another way of saying, for example, that you do not anticipate any acquisitions?

Mark McAndrew: Well…

Eric Berg: Go ahead.

Mark McAndrew: Oh, I am sorry, Eric, I didn't mean….

Eric Berg: I just wanted to say you could just as easily said, "We have this money. You know we have a history of buying back our stock. If we think that is the right thing to do, we'll do it." And like many other companies, you could have been silent on the issue. Instead, you took the unusual step of saying, we're going take all of this money from Protective Life, and barring something extraordinary, we are going to be buying back our stock. I find it note worthy.

Mark McAndrew: Okay. Well, one, for us to give that guidance, with the amount of cash we're going to have available next year, we felt like we should indicate where we thought our earnings would be if we do use it for share repurchase. We are always looking at opportunities for acquisition. The way I look at it is any acquisition should be accretive to what the share repurchase would be. So that's not to say that we're not looking at acquisitions; by all means we are very much interested. If the right acquisition came along and it was a better use for the money, we would absolutely do it. But barring that, we wanted to make it clear we don't intend to sit on $850 million of cash and invest it at 5.5%. We will find a better use for those funds than buying bonds whether it be share repurchase or acquisition. But again, the way we look at acquisitions, it needs to be accretive versus what buying back our own shares would be.

Eric Berg: And does this explain the timing of your guidance in the sense that I believe that you provided 2010 guidance in 2010's first quarter. I haven't looked in the past where you have done it, but is this early for to you provide the next years guidance?

Mark McAndrew: No, actually we provided it at the same time last year, Eric.

Gary Coleman: Right.

Eric Berg: Okay, because I did see it in the first quarter as well.

Mark McAndrew: In prior years we did. But last year we decided we would move it up a quarter and started doing it at this time of the year.

Eric Berg: Last year?

Mark McAndrew: It's because we have so much flack from analysts we needed to provide it earlier, so we bowed to your wishes, Eric.

Eric Berg: Okay. I appreciate it. I wasn't aware that it took place at this time last year. I thought it was a little later. But in any case, that was a very helpful explanation. Thanks very much.

Bob Glasspiegel, Langen McAlenney: Good morning. Torchmark did better than Cliff Lee did last night.

Mark McAndrew: Thanks for bring that up.

Gary Coleman: You don't have to remind us of that.

Bob Glasspiegel: Sorry, Gary, I'm pulling for them and that is probably why they performed poorly.

On the proceeds, you said you get it the end of March and will use it all in April, or begin using it in April?

Gary Coleman: In our guidance, we assumed we would get it in late March and we would start in March buying back shares. And our assumption was that we would buy the number of shares -- you know, there is a limit as to how much you can buy each day -- we would buy up to that limit and doing that would take us a full month; the last week of March and the full month of April to be able to spend all that money.

Mark McAndrew: Bob, again, understand that is the midpoint of our guidance and we have used different assumptions obviously at the low-end and high-end of our guidance as far as the timing and price of the share repurchase.

Bob Glasspiegel: This is the first time you have used buyback in guidance. Is that sort of a seismic change that we should expect in the future or just one time because the United Investors proceeds are so significant?

Mark McAndrew: It's hard to say. There is no doubt that part of it is because of the amount of cash we're going to have available next year. We felt that we should include it in our guidance.

Bob Glasspiegel: Agreed. On the United Investors divestiture, you haven't spoken publicly on what drove the decision and, believe me, I think it's a great move and I'm pleased with what you did. But, maybe you could articulate why, and specifically, does this have any implications to your annuity block that has been sort of volatile and a nuisance in the past? Is that going to continue to be as volatile in the future?

Mark McAndrew: No, and that's obviously one of the big factors. But not just the annuities, there was some variable life business there. It really was profitability was definitely driven by how the equity markets performed and that has been the single most volatile piece of our business. So it was a runoff block of business that was on the decline and has been on the decline for a number of years. It's a very volatile piece of our business that the value would just continue to decline on and we felt like when we put it out, we felt like we got a very good price for it. So, all of those things, we think it was a good deal for us.

Bob Glasspiegel: And you still had a little bit of annuities in the results? The block goes with it? I just want to make sure I understand.

Gary Coleman: Bob, we had annuities that were not United Investors.

Mark McAndrew: They are fixed annuities.

Gary Coleman: They are fixed annuities and it's sold through banks. It's not the volatile type business that the variable annuities that we had United Investors were.

Mark McAndrew: We have for some time written some fixed annuities.

Bob Glasspiegel: What is the size of the block area inforce?

Gary Coleman: Oh gosh, I think we have about a $900 million of reserves.

Mark McAndrew: I was going to say I was thinking it was just under $1 billion assets.

Gary Coleman: Yes, I think that is right.

Bob Glasspiegel: Guidance for administrative expenses for 2011?

Mark McAndrew: Let's see. I have that here somewhere. Actually, for administrative expenses we are expecting just about a 1% increase at our mid-point for next year.

Robert Glasspiegel: Okay. You have taken almost all the fun of being a Torchmark analyst for 2011 projections away, but I appreciate it.

Mark McAndrew: Well, again, those are our mid-points. We obviously allowed some both ways from that but that is our best estimate right now.

Bob Glasspiegel: Thank you very much.

Randy Binner, FBR Capital Markets: Thank you. So just to change the topic from guidance, the '09 G issue with DAC. We had good commentary from Gary on the last conference call there that it was going to be about 8% to 10% of book value. I think there were still issues of kind of retrospective application of that and maybe some debate about how that affected Globe. So I just was curious for any update on the '09 G issue and DAC.

Gary Coleman: Okay, Randy, first of all, as far as Globe, I am sure you are referring to the Direct Response. The final rules did clarify that although it will be accounted for under SOP93-7, it will still be considered deferred acquisition cost on the balance sheet and there was some talk about that asset being amortized on a straight line basis. That was not put in the final guidance so DAC for the Direct Response we will still be able to defer what we're deferring and the amortization will be on the same method that we have been using. So that is good news. There is no change to the direct response.

Randy Binner: Okay.

Gary Coleman: There was one change that was favorable. There was consideration of not allowing deferred commission paid to the employees. That was not put in the final document. That could have affected us at Liberty National so that shouldn't have an impact there.

As far as the estimates that I gave last time that we would apply retrospectively, we could have an 8% to 10% reduction in equity by the adoption. We haven't refined that yet. We're just in the process of getting started on getting the numbers together. As you remember, we talked about the fact that on a go-forward basis, the earnings impact, whatever expenses that we won't be able to defer going forward should be offset by the fact that we'll have less amortization on the block. In addition to that, the write down that we take at the beginning will be recovered over time as well. And that is what we talked about last time and we haven't changed those numbers at all.

Randy Binner: Okay. That is very helpful. Is the timing 2012?

Gary Coleman: Yes, 2012, which is really good because it's going to take a lot of work by all the companies to adopt these.

Randy Binner: What -- it will be January 1, 2012, and is there any thought developing that could slip again timing wise or is that still a pretty hard date?

Gary Coleman: I think it's a hard date.

Randy Binner: I just wanted to -- and there is another thing in guidance I wanted to clean up. Given the large buyback component of the guidance, I take it by that the $10 million offset and kind of the UIL dilution number, you wouldn't get the $10 million offset because you wouldn't be investing that money in bonds, right? Because it would be going up to buybacks, is that correct?

Gary Coleman: That's correct.

Randy Binner: Okay. Thank you very much.

Steven Schwartz, Raymond James: Hey, guys. I just wanted to follow up kind of where I think Eric Berg might have been going with regards to the low interest rate environment. You reprice anything that you sell if you decide to do that so obviously you're all good there. On the inforce business though, you're getting premium monthly, quarterly, yearly, however you're doing it, and the rate on the premium that you invested at continues to go down. Is there any event -- is there a reserve event -- or anything like that, or is it simply the reserves grow the way they're scheduled to grow, and you know, your interest income gets lower.

Gary Coleman: Yes, Steven, you are right. The reserves continue to grow as they would, and as we talked about before, you're right, we're collecting premiums monthly and annually but we are also collecting over a very long period of time. And that GAAP interest rate, again, we said for pricing, that is based on what we think we'll earn over the 20 to 30-year period that we're going to collect significant cash flow for the policies. So yes, we're low now. We have a low interest rate at this point in time. We went back and looked at our 2005 issues, the policies issued in 2005, the cash flow that we have earned in 2010 on policies issued in 2005, we have only invested at 5.9% rate that we have invested money in this year. But, if you go back all the way to '95 when they were issued and all the cash flows we have received since then, we have invested that cash flow at over 7%. **So,** even though we're low this year, cumulative wise, we have invested at higher than the rate that we priced it at. You know, it's hard to look at one year. It's really got to be quite a few years of low interest rates before it has an impact.

Steven Schwartz: Okay, and let me ask you this then. We're going along and we have QE2. We are sitting here the same rate as where we are today. Nothing seems to be working; the economy is in kind of a funk and the Torchmark brain trust decides that "You know what -- this is Japan and this is where we're going be and this is where we're going to be for a long time". What happens then?

Mark McAndrew: Well, again, as we were explaining there, take for example, American Income. For us to have, even if we lowered our interest rate --

Steven Schwartz: No, no. I'm not talking about your new sales. I am talking about the inforce.

Mark McAndrew: Oh, well, again -- .

Steven Schwartz: Does anything happen? Does the reserves have to be taken up or anything like that? You earn what you earn on the cash flows and the reserves keep on going.

Gary Coleman: Yes, there is not a reserve event.

Steven Schwartz: Okay, that is what I was asking.

Mark McAndrew: Okay.

Steven Schwartz: Okay, great.

Paul Sarran, Macquarie Research Equities: Thanks. I just wanted to approach the interest rate question I guess one other way. If 100 basis point drop in the yield you assume for pricing would cause a 1% to 3% increase in premium, is it valid to kind of flip that around and say that a 100 basis point drop in your new money yield suggests that premium on your existing inforce business is 1% to 3% too low? That's maybe the long-term impact on profitability of your existing business.

Mark McAndrew: When you say too low, if you look at, for example, American Income, where we have even after administrative expenses, we have a pretax underwriting profit margin of 25% or better. If, we lowered our interest rate assumptions there, would those underwriting margins come down a couple of points?

Paul Sarran: Maybe over time as that…

Mark McAndrew: They would over time; but its not that it would be unprofitable. Instead of a 25%, 26% underwriting profit margin we may have 23% or 22%. But, you know, it's not that the business is not still highly profitable.

Paul Sarran: Right, not unprofitable but that is -- I guess the drag caused by lower rates versus if rates stay higher.

Mark McAndrew: Well, but again, you have to understand, the entire block of business on the books we're crediting 5.6%. So the yield on the portfolio is still substantially higher than that.

Paul Sarran: Okay. Yes, I understand that. Okay, thanks.

Mark McAndrew: Okay. Well, thanks for joining us this morning, everyone, and we'll talk to you at the next quarter. Have a great day.