TORCHMARK CORPORATION
3rd QUARTER 2006 CONFERENCE CALL
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Corporation Participants

Mark McAndrew, *Chairman and CEO*
Gary L. Coleman, *EVP and CFO*
Larry Hutchison, *EVP & General Counsel*
Rosemary Montgomery, *EVP and Chief Actuary*
Joyce Lane, *VP Investor Relations*

Mark McAndrew: Thank you. Good morning, everyone. Joining me this morning is Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; Rosemary Montgomery, our Chief Actuary; and Joyce Lane, Vice-President of Investor Relations. For those of you who have not seen our supplemental financial reports and would like to follow along, you can view them on our website at TorchmarkCorp.com at the investor relations page. 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 2005 10-K which is on file with the SEC.

Net operating income, before stock option expense, for the third quarter was $129 million, or $1.27 per share, a 9% increase compared to the $1.16 for the year-ago quarter. Our return on equity was 15.8% for the quarter and our book value was $32.11 per share.

In our life insurance operations, premium revenue grew 4% to $382 million, and life underwriting margins grew 2% to $97 million. Life insurance net sales increased 1% to $66 million and life first year premiums declined 4% to $52 million.

In our Direct Response operation, life premiums grew 10% to $114 million, although underwriting margins declined 5% to $25 million. This decline in life underwriting margins resulted primarily from an adjustment to our claim liability of roughly 5% and is not expected to recur. Life insurance net sales in Direct Response grew 9% to $28 million for the quarter, and first-year collected premiums increased 4% to $19 million.

For the quarter, net sales of our juvenile life insurance products grew 20% to $9.5 million, led by a 42% increase in our direct mail channel as a result of improved product offerings and better modeling of our target market. Net cross sales to the parents of our juvenile insureds increased 19% to $7 million for the quarter. These increases were partially offset by a 5% decline in sales of adult policies to the general public from $9.7 million to $9.2 million.

We expect to see continued strong growth in our juvenile and parent sales for the fourth quarter of this year and into 2007. We expect to see a continued decline in our adult public sales during the fourth quarter, but we are hopeful of reversing this trend in 2007.

At American Income, life premiums grew 8% to $103 million, and underwriting margins grew 3% to $31 million. During the quarter, we incurred a one-time expense of $1.4 million for agency related computer software which reduced our underwriting margin for the quarter.

Life insurance net sales were up 6% at American income to $22 million while life first-year premiums declined 1% to $18 million. American Income's producing agent count increased to 2,448 during the quarter, up 14% from a year ago and 21% year-to-date.

American Income continues to progress as expected. New agent recruiting remained strong in the quarter, up 15% from a year ago. Agent lead generation, which is necessary to support our agent growth, increased by 18% for the quarter. We believe we will see double-digit growth in net life sales at American Income in the fourth quarter of this year and for 2007.

At Liberty National, life premium revenue was $75 million which was flat with a year ago, and underwriting margins grew 1% to $20 million. Life net sales declined 14% to $10 million and life first year premiums were down 5% to $8 million.

Liberty National sales continued to be impacted by the compensation changes we've previously discussed which were implemented in May. The 14% decline in sales was not surprising as we entered the quarter with 18% fewer producing agents. By quarter's end the producing agent count was down only 9% and should come close to being flat by year-end. New agent recruiting was up 69% for the quarter and was 40% higher than our previous record quarter.

We remain optimistic about Liberty's future growth. Liberty's producing agent count should exceed the prior year number by the end of the first quarter of 2007 and we expect to see double-digit growth in agents and sales by this time next year.

On the health side, premium revenue excluding Part D, grew 2% to $254 million, and health underwriting margins were flat at $44 million. Health net sales, again excluding Part D, were up 23% to $60 million with first-year health premiums growing 33% to $47 million.

The growth in health sales and first-year premiums continue to be driven by the United American Branch Office operation. We saw 61% growth in sales and 73% growth in first-year premiums. This distribution system ended the quarter with 2,973 producing agents, up 60% from a year ago.

Part D revenue for the quarter was $63 million and underwriting margin was $8.5 million. We lowered our reported loss ratio for the quarter to 76% bringing our year-to-date loss ratio down to 78% from 80%. While we are more confident than we were three months ago that our four-year loss ratio should not exceed 78%, there remains potential for significant fluctuation in our fourth quarter loss ratio due to two factors.

The first factor is the most obvious. Our paid claims continue to decline on a month-to-month basis. This decline during the last three months has ranged from just under $.5 million to almost $2 million in a given month. How much these claims will continue to decline over the next three months is still very uncertain.

The second factor affecting our loss ratio is rebates from drug manufacturers. In our contract with our pharmacy benefits manager we are guaranteed a minimum amount of rebates which we believe is conservative. We were also given an estimate of the actual rebates we could expect to receive based upon our PBMs prior experience. The difference between the guaranteed rebates and the projected rebates could affect our full-year loss ratio by as much as 2.5 points.

Since these manufacturer rebates are paid to us six months after the end of each calendar quarter we have just now received our first rebate payment and we have not yet had time to analyze the actual rebate payment versus the guaranteed and projected amounts.

Administrative expenses were $37.5 million for the quarter, up 3.8% from a year ago. These expenses were less than anticipated due in part to a $.5 million recovery of legal fees we received during the quarter.

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

Gary Coleman: Good morning. I want to spend a few minutes discussing investments and excess investment income, and also comment on our share repurchases.

First, the investments. Torchmark has $8.9 billion of bonds at amortized cost, which comprise 95% of invested assets. Investment grade bonds total $8.2 billion and have an average rating of A-, while the below investment grade bonds are $701 million and have an average rating of BB-. Overall, the total portfolio is rated A-, compared to BBB+ a year ago.

Regarding new investments. We continued our practice of investing long when finding quality bonds yielding in excess of 6½%. In the quarter, we invested $194 million at an annual effective yield of 7.17%. That's the highest rate that we've earned on new investments in three years. The bonds purchased have an average life of 22 years and an average rating of BBB+. This compares to a yield of 5.3%, and average life of eight years on investments made in the third quarter of 2005.

As noted in our previous earnings calls, the low investment yields in the last three years have had a negative impact on the portfolio, as the average yield on the portfolio in the third quarter was 7.06%, 10 basis points lower than last year. However, with the higher rates on new investments in the second and third quarters of this year, the portfolio yield has remained near the current level for the last three quarters.

Now, I'll make a few comments about excess investment income, which is $80 million in the third quarter, same as a year ago. On a per share basis, excess investment income increased 4%, which reflects the effect of our stock repurchase program.

Late in the second quarter, Torchmark issued $370 million of debt and trust preferred securities to prefund the call of $150 million of trust preferred securities and the maturity of $180 million of debt – both of which will occur in the fourth quarter. During the third quarter, interest expense of $6 million was incurred on the new securities. However, this expense was offset by a similar $6 million of investment income earned on the net proceeds. So excluding the investment income and interest expense related to the prefunding, the components of excess investment income are as follows:

Net investment income was up $4 million, or 2%, slightly lower than the 3% increase in average invested assets.

Offsetting the $4 million increase in investment income was a similar increase in the costs for interest-bearing liabilities.

Interest on the net policy liabilities was up $3 million, or 5%, which was in line with the similar increase in the average liabilities.

The remaining $1 million increase in the costs of the interest-bearing liabilities was due to the reduced benefits from the interest rate swaps that were in effect a year ago, but terminated prior to this quarter.

I'd like to make one more comment regarding the issuance of the new securities. In late June we borrowed $370 million, $250 million of 6⅜% senior notes due in 2016 and $120 million at 7.1% trust preferred securities due in 2046. After issue expenses, the net proceeds were $362 million. In the fourth quarter, we will use $330 million to call the $150 million of 7¾% trust preferreds on November 2, and to retire the $180 million of 6¼% senior notes that mature in December.

Beginning in 2007, this refinancing will benefit excess investment income by about $900,000 a year pre-tax. For more information on Torchmark's debt, please see the related schedule in the financial reports section of our website.

In summary, last quarter I said that we expected improvement in excess investment income in the future because of the higher yield on new investments and the reduced financing costs. In the third quarter, most of our new investments were made early in the quarter and, as mentioned above, those investments yielded 7.2%. Of course, in recent weeks long interest rates have declined somewhat. However, we still feel that we can invest in similar bonds at 6½% plus. And as long as we can do that, we will continue to invest in long maturity, investment grade corporate bonds.

Finally, I'd like to make a few comments regarding our share repurchase program. So far this year we've spent $308 million to buy 5.4 million Torchmark shares. This is comparable to the $289 million used to buy 5.4 million shares in the first nine months of 2005.

We continue to use our free cash flow at the holding company to fund the stock repurchases. And as we have said before, we expect free cash flow for 2006 to be at least $320 million. With our debt at an appropriate level, and as long as the stock is valued such that the repurchases provide a superior return over other investment alternatives, we expect that stock repurchases will once again be the best use of our free cash flow.

Those are my comments. I'll now turn it back over to Mark.

Mark McAndrew: Thank you, Gary. As a result of our continued uncertainty regarding our Part D loss ratios, we will not change our earnings guidance for the full year 2006. We will provide 2007 earnings guidance with our year-end earnings release.

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

Robert Glasspiegel: Good morning. The increase in the claim reserve, which was Direct Response, you said, of 5%. Is that correct?

Mark McAndrew: Yes.

Robert Glasspiegel: A little bit more color; and it's 5% of what?

Mark McAndrew: Okay. Every month we estimate our claims that have been incurred but not yet paid. This is an estimate. And then we track our actual experience later to see how close we were in estimating those incurred, but not paid claims. Unfortunately, that takes six to nine months to get an actual number for where we stand. So what we put up an additional $2 million in the quarter that based upon where our estimate was at year end, we actually put up $3.6 million increase in our claim liability for the quarter, $1.6 million of that which was just a normal increase based upon the growth in the business.

Robert Glasspiegel: Right.

Mark McAndrew: But in tracking our actual experience, we saw that as of the end of last year we were $2 million light, so we put up an extra $2 million in the quarter to bring it up to where we felt like it ought to be.

Robert Glasspiegel: I got you. Mark, you sounded like you were pumped-up on the growth in the sales force at both Liberty National and American Income. Is that a correct read and there's light at end of the tunnel and you're declaring victory? Or a little bit more guarded than – am I misreading how pumped-up you seemed?

Mark McAndrew: Well, I'm obviously very pumped-up about United American's growth. But at American Income, yes, I feel much better that we have turned the corner. We're exactly where I thought we would be at this point. The agent count continues to grow. The lead generation is growing in conjunction with that. And I fully expect to see double-digit growth in sales in the fourth quarter, which is where I thought, hoped, we would be three months ago and six months ago. And I'm really optimistic about where American Income is going in 2007.

Liberty National, I think it's right where we thought it would be. We made the changes. We did take a step back to move forward. But the new agent recruiting is very strong. We did lose a number of agents as a result of the changes made. I think the third quarter number, sales number, will be our low point and we'll grow from there. But I still feel more confident now that by this time next year we should be seeing double-digit growth in sales at Liberty National.

Robert Glasspiegel: So victory at American Income. Liberty National, some things have to break, right?

Mark McAndrew: Right. We knew that this year was going to be difficult and the fourth quarter still – we're not going to see growth in the fourth quarter, but by the end of the first quarter of next year I feel confident that our agent count will be up from the same time this year. And the sales are tracking that agent count very closely.

Robert Glasspiegel: Thank you very much.

David Lewis, SunTrust Robinson Humphrey: Thank you. Good morning.

Mark McAndrew: Good morning.

David Lewis: Hey, Mark, can you talk a little bit about the persistency trends? Have there been any changes on the Medicare Part D in expectations going into '07? I understand some of the medical providers out there plan to get a bit more aggressive on pricing in '07 with margins targeted only in the 5% to 7% range compared to your current 15%, and, I guess you indicated last quarter that you were going to price it for a 13% underwriting margin in '07.

Mark McAndrew: Well, actually, our experience to date, our revenue is holding up very nicely. We are seeing a very small decline but the revenue is going down about $200,000 a month which we are not unhappy with. We are enrolling new people; people turning 65 that are just about offsetting any lapses that we are seeing. We don't know how many people we'll lose during the open enrollment. I would be surprised if we see a significant loss.

The people who bought from us initially, it was not based on price. We were not the lowest price. A lot of them were our existing Medicare supplement customers, but they also bought from us because their particular drugs were in our formulary. Unlike most other plans, we are not raising our co-payments for 2007. So instead of reducing rates, we actually are seeing a small increase in our rates. But I would be surprised to see us lose a significant number.

Again, we'll know by the end of the year how many new ones we will enroll versus how many we'll lose. Any projection I would make would just be a guess. But I would be disappointed if we didn't enroll at least as many as we lost.

David Lewis: So in the fourth quarter call you'll have a pretty good understanding of the business that renews?

Mark McAndrew: Yes. Obviously the open enrollment is only six weeks – from November 15 to January 1 – so by the first week of mid-January we'll have a good idea of what our revenue will be for 2007.

David Lewis: Somebody that even bought a policy on May 1 would have to re-enroll during that period?

Mark McAndrew: They don't have to re-enroll. In fact, we're already telling our existing people they have to do nothing to re-enroll. If they do nothing they'll automatically be re-enrolled with us. That's why I'll be surprised if we lose a significant number, and we're already sending mailings to our existing customers informing them of that; that they have to do absolutely nothing to re-enroll.

David Lewis: If they want to lapse and go with a different provider do they have to notify you during the November 15 to January 1 period?

Mark McAndrew: They don't. But when we send our file into CMS, which we send in on a weekly basis, we'll get notified back from CMS that these people have enrolled elsewhere.

David Lewis: Okay, and just lastly on your pharmacy provider rebates.

Mark McAndrew: Yes.

David Lewis: I guess I didn't understand. Are you seeing that as a potential positive or negative in the fourth quarter?

Mark McAndrew: When we put up the 78% year-to-date, that's assuming – that's a conservative assumption using just the guaranteed rebates that are in our contract, so anything above the guarantee will help to bring that loss ratio down in the fourth quarter.

David Lewis: So you think you may actually do a good bit better than the guarantee?

Mark McAndrew: I can't even speculate because we've just now received our first payment and we really haven't been able to do any analysis of it, so we would hope to get something better than the guaranteed amount. But I have no idea how much impact that would have.

David Lewis: Very good, thank you.

Eric Berg, Lehman Brothers: Thanks very much, and good morning to Mark and the rest of the team. It's obvious – and you have highlighted the fact that you're growing your agent count rapidly, especially on the health side – but it seems like on the life insurance side of the business, where the health – pardon me – where the agent count is also strong, although not as strong as on the health side, you're not getting the sales growth commensurate with the agent growth. In other words, you would think that sales growth would pretty much mirror agent growth. It doesn't seem to be the case on the life side. Why do you think that is? And in particular, are we right when we say, at least it's our thoughts here at Lehman, that your agent growth is being dominated more by first-year agents? I guess what I'm asking – is there a productivity issue that is ultimately preventing you from getting sales to the point that your earned premiums are growing? That's really the question.

Mark McAndrew: Well, Eric, one, I don't know that I agree with your assessment because if you look at American Income, for example, we started the quarter, I believe, with 8% more agents than we had a year ago. We're now up to 14% more. So we had 6% growth in sales year-over-year, so it's somewhat trailing. But when we started the quarter with 8% more and we have 6% growth in sales for the quarter, there's not been a major change in the productivity per agent.

The same way at Liberty National. We did see a 14% decline on our sales, but we started the quarter with 18% fewer producing agents. The production per agent at Liberty National has not declined at all and we fully expect when that number starts growing again, which it has, that the sales will follow. At American Income, the other reason I feel good is that the volume of new leads that we're generating for these new agents is also going up, which has been a problem for us in the past. But I think our life sales will track very closely to our growth in agents.

Eric Berg: Now, with respect to the health business. This is my second and final question. You know, it's clear that your Branch operation continues to prosper reflecting, among other things I'm sure, the growth again in the number, the sharp increase in the number of agents. But with the decline in sales on the Independent side and the resulting impact on earned premium, it looks like, again, you're not getting much health insurance premium growth. I mean, we can talk about agents; we can talk about sales. But I'm hoping, I'd like to ask you to address the issue of what I think really matters – which is what all this boils down to – which is the top line, and ultimately the bottom line – what my question is: When can we expect all this recruitment and sales to start translating into growth of GAAP premium in your health insurance business? Thank you.

Mark McAndrew: Okay. Well, there's no doubt that the Independent agency side at United American has been a drag. Our captive operation in the Branch office is seeing very good growth. We are starting to see some growth. The level of sales we're at now, where before our health premiums were declining, we are now at least back – they grew 2%, I believe, for the quarter. It's going to be somewhat slow. But I'm just looking back – last quarter we grew 1%, this quarter we grew 2%. Is it going to result in – it's going to take us some time to get to double-digit growth in health premiums. But, again, I think I said last quarter that by the end of the second quarter of '07 we should be up in at least in the 5%, 6% growth in health premiums. And I'm a little more optimistic today that on the Independent agency side that it's going to contribute a little more in 2007 and not be quite as big a drag as it was in '06.

Eric Berg: Thank you.

Jimmy Bhullar, J. P. Morgan: Thank you. I have a couple of questions. First, Mark, on American Income, you've seen an improvement in sales. I'm just trying to get an idea on what's really driving that. I think you have been adding SGA's to some territories that were under performing. If you can discuss whether it's that or whether it's just growth in the agents and how far along are you in the process of adding SGA's to additional territories. Actually, I'll ask another one after you answer this one.

Mark McAndrew: Well it's some of both there, Jimmy. We're getting growth from our existing SGAs, but in the last year – a year ago we had 48 SGA's, today we have 55. So we've added seven; so we are making progress.

Jimmy Bhullar: Are you seeing growth in those territories?

Mark McAndrew: Pardon me?

Jimmy Bhullar: Are you seeing growth where you're adding more SGA's in existing territories?

Mark McAndrew: Yes, we are because the existing SGA's that we had there we are leaving in place and they're continuing to produce at about the same level they were previously. So the new SGA's we're putting in is adding incremental business that we were not getting. So we are pleased with how that's coming along. But we're also getting growth from the existing SGA's so it's a combination of both.

Jimmy Bhullar: And then, for Gary, on your investment portfolio. I think you did see an improvement in your portfolio yield this quarter. If you can talk about what your outlook is for the portfolio yield given where rates are right now. And also, I think you have some trust preferreds in your portfolio. What's the likelihood of those being called and what sort of an impact would that have? If you can quantify that or give us some color on that.

Gary Coleman: Okay, Jimmy, we have, I mentioned in the last two to three years, I've seen the portfolio yield decline. It's declining about 15 to 20 basis points a year. It's leveled off, and even though we're not investing at 7% now, we are still investing pretty close to that. And as long as that continues, our portfolio yield will remain fairly consistent.

We do have a billion dollar -- we actually have a $1.5 billion of trust preferreds. Looking at where today's rates are, you know, we've done a projection and we can see up to $1 billion of those could be called within the next 15 months. In other words, fourth quarter all the way through 2007. And if that happens, and we are continuing to invest money where we are today, you know, we could see our -- well, at the end of the fourth quarter 2007, our portfolio yield instead of being 7.06 as it is now, could be 10 to 15 basis points lower. But a lot of it depends on what we invest in. If we invested at 7%, then there would be a much – then the drop in the portfolio yield would be less than 5 basis points. So, you know, we don't know how many are going to be called. We should start finding out midway in the fourth quarter.

Jimmy Bhullar: And the yields on most of those, are those high single-digits or low double-digits?

Gary Coleman: The yields on the ones to be called?

Jimmy Bhullar: On the trust preferreds in general on the portfolio?

Gary Coleman: In general I think they are about 7.4%. The ones that we projected being called are 7.5% yield.

Jimmy Bhullar: Okay, and lastly, on Direct Response. I think you did see an improvement in sales. I think, Mark, you mentioned in the past you were using some credit bureau data. Could you discuss what's really behind that improvement and what your outlook is for that?

Mark McAndrew: Well, again, within Direct Response, we use a multitude of media; what we call the direct mail where we're targeting basically households with children. We are doing a much better job of modeling our target market. As a result, we have seen in the direct mail juvenile sales, as I mentioned, our sales are up 42% for the quarter which we fully expected. And after we make the juvenile sale, we then turn around and cross sell to the parents; which again, those sales are up 19% for the quarter.

I think I mentioned last quarter, some of our other media, which we call insert media, where we're in these coupon packs or newspaper inserts, billing insert type things, there we have – they were primarily selling adult policies to the general public, and we are not able to target those as well. And there we have seen a 5% decline in those sales.

We fully expect to see continued very strong growth in our new juvenile sales, as well as sales to the parents, for the fourth quarter and for '07, but we have cut back in some of our other insert media on those sales of adult policies to the general public. I would point out that those adult policies to the general public are our lowest margin business. So we have cut back some of that circulation for the balance of this year, but we hope to get that volume back up in '07.

Jimmy Bhullar: Okay, thank you.

Tom Gallagher, Credit Suisse: Hi. A couple of questions on Part D. First is, I wanted to make sure I was understanding this. I believe the pre-tax margin guidance you gave last quarter was 15. You came in at 13 this quarter. Should we expect it to be around 13? Where should we expect that to trend? Thanks.

Mark McAndrew: Well, actually last quarter we said it could be as much as 15. You know, there's still a lot of uncertainty there. And could it still be that much? It could be, but that's at the high end of our guidance. Right now, again as I mentioned, if we just look at the claims that we're incurring, while our revenues are staying relatively level, if I just look back at the last – in June, our actual claims were $17.2 million and they dropped to $15.2 million, and then $14.8 million and $12.9 million. We don't know how much those will continue to come down in the fourth quarter. I think the 78% year-to-date is a conservative number which I think gives us an 11% margin year-to-date. We believe those claims will continue to come down in the fourth quarter and the other big factor is, again, the rebates. Realistically, they are probably going to fall somewhere between the guarantee that we have in our contract versus the projection that was given to us at the beginning of the year. But we don't know where in that range. That's a pretty big range.

Rosemary Montgomery: This is Rosemary Montgomery. Excuse me, I'd like to add a little bit to that. We made the adjustment in the third quarter really based on a year-to-date trend of getting to the 11% for the year. So that is really the number that we would expect to see continue into the fourth quarter, unless as Mark says, we see continued claims improvement and then also depending on what happens to the rebates. So those are the unknowns that we could expect to see in the fourth quarter that would impact that 11% year-to-date number that we're seeing now.

Tom Gallagher: But to get to the – to stay consistent with the 11% year-to-date –

Rosemary Montgomery: Right.

Tom Gallagher: – it would imply 13 again in 4Q?

Rosemary Montgomery: To stay consistent with the 11% it would imply 11% again in the fourth quarter unless we see continued improvement in the claims, and then depending on what happens to the rebates.

Tom Gallagher: Okay, so is it fair to say then the band of margin that we could expect in 4Q would be maybe 11 to 15? Does that seem reasonable?

Rosemary Montgomery: Well, as Mark said, the 15% is pretty optimistic. I think 11% is probably the floor, but it's still very uncertain and we really do need a full year's worth of data to really analyze this business. And when we complete the fourth quarter we will have that.

Tom Gallagher: Got it. And then a follow-up question. So, Mark, if I am understanding you correctly in terms of the expectation, and again, I know this is preliminary, but it sounds like you're thinking overall revenues could be flat in '07 versus '06 with maybe some upside. It seemed like you were pretty confident we wouldn't see any kind of material decline in revenues for Part D?

Mark McAndrew: Well, again, I don't really want to make projections there because we haven't – we really don't know. Right now our revenues are staying pretty flat. We do believe we can enroll not as many people during this six-week period, but it's really just a guess. We really don't know how many people we are going to lose and how many people we are going to enroll. Just my best guess is I think we can enroll more than we'll lose, but that's all it is.

Tom Gallagher: Okay, thanks.

Joan Zief, Goldman Sachs: Thank you, good morning.

Mark McAndrew: Good morning.

Joan Zief: I just have a few questions. First, on the rebates, is this normal? Is this structured with everybody who does the Part D? And can you just give me some sense that there's no issue from a litigation standpoint or a regulatory standpoint as to, you know, some points being raised about levels of rebates and conflicts and pricing and things like that?

Mark McAndrew: Well, first off, I know it's something that's included in our pricing to CMS, so it is pretty standard procedure, and any rebates we receive have to be reported to CMS so they are public record. But, Larry, I guess that I –

Larry Hutchison: We negotiated that in our contract and we reviewed that, and I don't think there's any regulatory or litigation exposures to result from that contract.

Joan Zief: And just so I understand again, the difference between what you're saying the difference between guaranteed rebates and what you projected could be as much as 2.5%. Is that what you said on the loss ratio?

Mark McAndrew: It could be that. That's kind of the maximum. If we received the full projected rebates that they had given us at the beginning of the year, it would be 2.5% reduction in our loss ratio from what the guaranteed amounts are.

Joan Zief: Okay.

Mark McAndrew: That's probably not realistic. I mean I think it will fall somewhere in between the two.

Rosemary Montgomery: Yes, I think what we really need to have is some experience with our PBM on their estimates to see how well they actually do track to what turns out to be the amounts that we actually get.

Joan Zief: And is this going to be renegotiated with the PBM every year as to what they would be willing to rebate back, or is that pretty standard going forward?

Mark McAndrew: Our initial contract is a three-year period.

Joan Zief: Okay. All right. So that was my first question. My second question has to do with the adjustment in the claim liability and the life side, the IBNR. Why are you so sure that's a one-time item? Is there any possibility that you may have to go in and just reevaluate, you know, how you're – what assumptions you are using for your IBNR that could be ongoing again?

Mark McAndrew: Rosemary, do you want to take that?

Rosemary Montgomery: Yes. The reason that we really do have a good track record in estimating our claim liability, and this is a number that we spend quite a bit of time on coming up with, really, using a variety of methods to make sure that we get the best number that we can. But over the years we really have done a pretty good job, I think, in estimating our claim liability. Every now and then actual results turn out to be a little bit different, more different than anticipated, and this is just one of those times. However, in terms of coming up with a pretty good number now for the year-end '05 claim liability, I think there has been enough time pass that we've got most of the actual claims in-house, so I think that's why we're pretty comfortable that the amount that we've set up now for that year-end '05 number is going to be accurate.

Joan Zief: And my last question is, you talked about the margins on the Medicare Part D being 11% at the bottom floor that you feel comfortable with now, moving up depending on these various sort of situations. But what would it take for the margin to actually go below 11%?

Mark McAndrew: For it to go below 11?

Joan Zief: Yes, is there –

Mark McAndrew: I would be surprised. Basically, our claims would have to stop declining, which they have done consistently throughout the year. The rebate side, we're assuming the guaranteed rebate, so on that side we really don't have any exposure there. It would just amaze me if the trend where four months ago on basically the same level of revenue we had $17.2 million in claims, in September I think we had $12.9 million.

Joan Zief: Right.

Mark McAndrew: For that number to flatten out would be pretty surprising.

Rosemary Montgomery: Yes, we would have to have a fourth quarter that was significantly lower than what the others have been, and then at some point the risk sharing that we have with CMS would kick in anyway. So there's still a floor that would apply even if we had a way-out-of-line fourth quarter, which we certainly do not anticipate.

Joan Zief: Great, thank you very much.

Steven Schwartz, Raymond James: Good morning everybody. Some questions on Part D. I hate to keep beating the dead horse, but just so I'm clear here because Tom Gallagher's question confused me a little. It seemed to me that Tom was talking about margins on a quarterly basis. If I remember correctly from the second quarter, the margin guidance, if you will, that said it could be as much as 15% was a yearly number which was back ended towards the fourth quarter. Was that correct?

Mark McAndrew: What we said on our last conference call was we could see full year underwriting margins of 15%. If everything – that was kind of the high.

Steven Schwartz: If everything went right?

Mark McAndrew: Yes.

Steven Schwartz: So therefore, to see an improvement from the 11% level mathematically would suggest a potentially much higher margin in the fourth quarter than was reflected in the third and certainly reflected in the second or first quarters?

Mark McAndrew: Again, the 15% for the full year now appears to be pretty optimistic.

Steven Schwartz: Okay.

Mark McAndrew: But, where we end up in the fourth quarter, there's still just an awful lot of uncertainty there.

Steven Schwartz: Sure, that came clear, that came through. Question for Rosemary, I guess. CMS reported last month that the national average bid amount came down roughly 10%.

Rosemary Montgomery: Yes.

Steven Schwartz: On a PMP basis for 2007?

Rosemary Montgomery: Yes.

Steven Schwartz: You know, you've got different products; you've got different stuff in there. It's tough to look at from the outside. Would you say that your bid amount came down by the same amount, less, more?

Rosemary Montgomery: It's very hard to analyze because the basis that was used to determine the nationwide average for 2006 is a little bit different basis than what was used to determine the one for 2007. The nationwide average could have been very much impacted by the very low cost plans because they did take some of the enrollment into account when they did that number.

Steven Schwartz: Yes.

Rosemary Montgomery: Also, our plan that we're going to have – we actually have two plans for 2007 – the main plan is going to be an enhanced plan so you can't compare our average to the CMS bid because that's based on standard benefits, and ours, because we did not change the co-pays, are going to be a little bit richer than that. So all of that said, if you compare our – the amount that we would have had if we had done a standard plan, our numbers did come down a little bit because we did take into account the better-than-average experience, or the better-than-expected experience that we are having in 2006.

Steven Schwartz: Okay. So that would imply some margin deterioration. I think all else equal. Is all else equal or are there expenses in the first year because this is a new program that won't be there in year two and, therefore, you gain some of that margin back, all else equal?

Rosemary Montgomery: You're saying there's margin deterioration?

Steven Schwartz: If all else equal, if your pricing came down somewhat, I would think that we would see some level of –

Rosemary Montgomery: Some margin deterioration? Well, I think it's too early to say.

Steven Schwartz: Okay.

Rosemary Montgomery: It's going to depend on what the margins turn out to be for 2006 and then we can make an analysis to what we expect to see for 2007.

Mark McAndrew: And also I'd like to point – you know, the best risks that we received were the June enrollments.

Steven Schwartz: Yes.

Mark McAndrew: And those people next year we'll have for the full year. Also, even revenue-wise, if you look at – we're going to have this revenue for the full year next year.

Steven Schwartz: Sure.

Mark McAndrew: So we may not see the growth in revenue so much in the third and fourth quarter of next year. But we'll still see some significant growth in revenues during the first two quarters of next year because we'll have these people for the full year.

Steven Schwartz: Oh, yes, absolutely, the apples-to-apples comparison will be great in the first half of the year. Just on a more minor point – and I realize it's becoming minor, becoming more and more of a minor business for you – but on the Med Sup side, your sales were kind of flat year-over-year for the first time in a while in the second quarter and they came way down again in the third quarter which caught me a little bit by surprise since the enrollment period to Medicare Advantage programs came to an end. I would have thought that would have been more stable. Anything going on there?

Mark McAndrew: Well, part of that is, in the second quarter we had some good size group Medicare supplement cases, and I don't have the actual dollar amounts in front of me, which caused some of that for the second quarter to probably look a little better than the individual sales continued to decline and really no reason to expect that to turn around in the short term.

Steven Schwartz: Okay, thank you very much.

Mark Finkelstein, Cochran Caronia Waller: Hi, good morning. My questions have actually largely been answered, but I just wanted to ask one question on the Alabama Supreme Court voiding the cancer settlement at Liberty. I guess what I'm asking is: One, is this purely procedural; two, how does this affect your accounting for the block; and, three, how sizable is this block at this stage?

Larry Hutchison: I'll answer the first question part which is it is purely procedural. We anticipate additional filings at the same trial court before the same trial judge, and we believe the judge will make the same or similar decision because we are going to have the same facts and circumstances presented in that filing. So in our opinion, the nullification of the settlement is procedural only and will have no material impact upon the Liberty

National Life Insurance Company. In terms of the size of block, Rosemary?

Rosemary Montgomery: It's about a $50 million annualized premium block.

Mark Finkelstein: Okay, and finally, it is purely procedural. Are you continuing to account for it for on the same basis?

Mark McAndrew: Yes, we are. We're continuing to administer the claims in the same manner and continuing to account for it on the same basis.

Mark Finkelstein: Thank you.

Yaron Shashoua, Fox-Pitt Kelton: Thank you, and good morning. I just had one question. My question is on the UA Branch in the health segment. The loss ratio in the quarter came in lower from the last quarter, and actually if I look at it, loss ratio seems to be the lowest it's been in the past couple of years. I just wanted to get more color on that. Is that a trend we should see moving forward? And also, the commission and acquisition costs spiked up in a bit in the quarter and I want to know if that is a trend also or is there any one-time items in there, as well? Thank you.

Mark McAndrew: I don't know if there's any one-time items and I'll let Rosemary comment. But basically, what you're seeing is kind of a change in the mix of the business. The non-Medicare supplement business has a lower required loss ratio; although again, it has a little poorer persistency. So we're going to see a little higher acquisition cost but a little lower loss ratio on the non-Medicare supplement business, but…Rosemary?

Rosemary Montgomery: Yes. Those trends really just reflect the mix of business that's changing. There's nothing unusual in there. There's nothing that's one-time at all. Depending on how the mix continues to change in the future, you could see those trends continue. Of course, they'd level out at some point. They're not just going to go down forever. But you would continue to see the policy obligations just slightly going down and the commissions and acquisition expense just slightly coming up as that mix changes.

Yaron Shashoua: Great, thank you very much.

Ed Spehar, Merrill Lynch: Thank you. I had a few questions. First on the life side, and I apologize if you've answered this – but when we talk about your expectation, Mark, for sales in the various distribution channels, you know, you gave us a number on, I think what you think second half of '07, what you might get to in terms of GAAP premium growth for the health side. You know, at what point do we – can you give us some guidance on how to think about translation of sales to, you know, when we'll see growth in first-year collected? And then, you know, if you want to throw out an expectation of when would that transfer to the GAAP revenue line, it would be helpful.

Mark McAndrew: Okay. Well, again, next quarter, Ed, we'll have much more detailed guidance. But if you look at our overall life sales, we finally turned around – it was only 1% increase, but again, last quarter I think our first year premiums declined 7%; it was down to 4% decline. If we continue the 1% increase, by this time next year we'd be seeing 1% growth in first-year premiums. Our total life premiums are grown at a 4% clip even with the decline in first year. I think you can figure up if first year premiums were flat or started to grow what impact that would have on our total life. But I do expect to see life sales in '07 increase by more than the 1%. The Direct Response I'm optimistic for in '07. I think American Income should see double-digit growth in life sales next year. Liberty will be kind of flattish I think the first part of '07, but I think by the second half of '07 we should see some good growth there. I hate to get into too much detail because we really haven't run our projections yet, Ed, but the sales will be significantly better in '07 than what they are today.

Rosemary Montgomery: I'd like to add a little bit to that. You asked about the relationship of sales into first-year collected premium. The first-year collected premium trends really translate pretty well to the last five quarters average of sales. If you look at the trend on that basis it will actually track fairly well. It takes longer, however, for sales to have an impact, of course, on the overall GAAP premium. That can take some time for that to come in.

Ed Spehar: And what, in terms of this tracking of prior five quarters, I'm assuming that we have to make some adjustments if for some reason we thought Direct Response was going to be significantly better or significantly worse on the sales front, right, given the way you account for sales in Direct Response?

Rosemary Montgomery: Well, I was just really referring to the fact as to how to look at that trend that you can really just take an average of the five prior quarters, and if you do a running average like that on your trend it will all track fairly well.

Ed Spehar: Okay, and then on the health side. I don't know if I missed this, but was there anything to say about – the margin was down a little bit – was there anything to say about expectation? Is this just a, you know, slightly worse than normal quarter or is this something we should expect going forward?

Rosemary Montgomery: The margin could fluctuate just slightly, but there's really nothing unusual going on in that block of business. So a small fluctuation you can certainly have. But I would really anticipate that you would, other than the changing mix of business, you would continue to see those margins moving forward.

Ed Spehar: So sort of like the year-to-date is probably a good idea?

Rosemary Montgomery: Yes, yes, yes.

Ed Spehar: Okay, and then finally, Mark, I think maybe last quarter or perhaps the quarter before, you had sounded, I thought, a little bit more optimistic about how you might do this year with the dual eligibles and sort of filing more than one product and maybe picking up more. It sounds like that is going to be a similar number for you next year. So I'm wondering what does this say about sort of the competitive environment today versus what you thought maybe even three months ago in the Part D?

Mark McAndrew: Well, Ed, I'm not too concerned about the dual eligibles. When we look at our experience, our experience on the dual eligibles was the worst of any of our business. And we did lose one state and we picked up a couple of additional states. But, Rosemary, do you – it's going to be roughly the same number we had this year.

Rosemary Montgomery: Yes, right, I think that's right.

Mark McAndrew: But our experience on the dual eligibles has not been that great.

Rosemary Montgomery: It's worse. It's still not bad experience, but when we did a study we did determine that the loss ratios were higher on that particular block of business.

Mark McAndrew: I think the people going after that business are getting more aggressive which we kind of anticipated they would, so it doesn't bother me too much that we didn't pick up a huge amount of that business.

Ed Spehar: You know, It's interesting because I think you would have probably going into this, you probably would have thought the dual eligibles would have been better, right, because you had an anti-selection issue?

Mark McAndrew: That would have been our guess.

Rosemary Montgomery: Yes, that was the anticipation. That has not proven to be the case.

Ed Spehar: Okay, thank you.

Jeffrey Schuman, Keefe, Bruyette & Woods: Good morning. A couple questions about marketing. Let me start first with Direct Response. I guess as I look back over time, I'm kind of fascinated with the ebbs and flows of your sales momentum on the juvenile and parenting market. You've been in that market for a long, long time. It's a very simple product. I would think at some point you sort of would have cracked the code, and with a steady state, and now you're seeing tremendous sales momentum. Did you see that sometimes in the past and then it slowed down other times. Does that market change a lot or your approach to it change? What drives all that volatility?

Mark McAndrew: Well, it's a constant challenge. It's really not a stable marketplace. You're right; we have been doing that since 1964. But again, I like to point out to people – if we do the same product at the same rates with the same packages and mail to the same people, this year versus last year, we'll see a 15% decline in those sales. We have to constantly find ways to improve the package, the product, get better at targeting the people we're trying to get to. Obviously, there's new children born every year so it's an ever-changing marketplace. But that's why every quarter we're doing a multitude of tests to find ways to be better. And if you look at our long-term track record, we've been very successful in doing that. We don't hit a home run every year, but we continue to test and test, and we do continue to find ways to be better.

In 2000, we basically changed the product for the first time since 1964 because actually prior to 2000, we were seeing those sales on the decline. Changing the product in 2000 drove those sales up for the next two to three years. And now, since we've had access to this credit data, and actually some of the packages that we've come out with lately have performed significantly better. And even we've made a little change in the product which surprised us, that really increased our response rate and the number of policies that we had paying the full premium went up significantly. I'm sometimes surprised by what works and what doesn't work, but it's just a matter of constant testing to constantly improve.

Jeffrey Schuman: That's helpful. And moving on to Liberty National. Sales down this year; expect some recovery next year. Sort of a step back. Sales being down and up doesn't really move the needle very much on total premiums which are flat there. You seem, your company and others, have tried to grow in that market segment for many years which has always been a challenge. If we look out sort of longer term, should we think of this as a business that can start to grow, or is it a matter of kind of keeping it stable but enjoying better margins, or what's kind of the bigger picture there?

Mark McAndrew: That's our hope. You're right, and Liberty National has been around for 106 years and never grown beyond the six states. And the home service has not been a growth business and I don't know of anyone who's grown a home service operation. So really what we've tried to do this year is really change the entire (I hate to say culture) culture of that company and getting it away from that home service operation and turning it into more of an, I guess, a more modern life insurance company. We have done away with the service salaries and getting it to a straight commission basis. By doing that, we hope to be able to go forward and move beyond those six states. We've started that process, but we do believe we can grow that company going forward which we haven't been able to do in the last 25 years. If it stays level, the margins will improve. The actual acquisition expenses there are down significantly. That will be reflected in upcoming quarters, but the real goal is we believe we can grow that company and grow it much better than it's grown in the past.

Jeffrey Schuman: And geographic expansion might be a key to that. Is that correct?

Mark McAndrew: That will be one of the keys, yes. We have ample room to grow, but we'd like to grow internally. So it's going to take some time to develop the people to promote internally as we are in the United American. We continue to open – we have opened 27 branch offices, 22 branch offices in the past year. We've gone from 93 to 115, but we've been able to promote those people internally. We will get there with Liberty National. It may take us a year to where we can really start moving forward with the geographic expansion, but we will get there.

Jeffrey Schuman: Okay. Thank you very much.

Robert Glasspiegel, Langen McAlenney: Just to make sure I understand the accounting on the rebate for Part D. You assume, you booked the guaranteed, yet you budgeted more than that, or you forecasted more than that. What would be the unknown at this point? It seems like we're almost 10 months through the year – it's as if utilization all of a sudden declined sharply, or if the drug manufacturers don't honor contracts. Where is the greatest unknown?

Mark McAndrew: Well, again, it's the manner in which those rebates are paid. We just now received our rebate payment for the first quarter of 2006. They are paid six months after the end of a calendar quarter. Again, we've just now gotten our first rebate payment in and we really haven't had time to analyze it to see is it coming closer to the guaranteed, or to the projected. Right now, again, the loss ratio that we're showing year-to-date is assuming we're only going to get the guarantees.

Robert Glasspiegel: Is it a cash accrual system?

Mark McAndrew: We do, we do, well, Rosemary, you can probably --

Rosemary Montgomery: Well, what we have in there is we've accrued for the guaranteed rebate.

Robert Glasspiegel: Right.

Rosemary Montgomery: And according to the contract, we would receive that within six months after the end of the quarter, but it takes even longer to receive any amount that might be due us over the guarantee. So that's something that can string out even longer before we'd see how much we actually get for that.

Robert Glasspiegel: Your computer should tell you how much of each drug has been used, right? I mean --

Rosemary Montgomery: No, no.

Robert Glasspiegel: It doesn't, oh, because you don't have that, you don't have access to that. Okay, I got it. You are out of the loop on utilization.

Rosemary Montgomery: Yes.

Mark McAndrew: That is something that is auditable and is something that we will be auditing.

Robert Glasspiegel: Right.

Mark McAndrew: No, we don't have. We are using a PBM, a pharmacy benefits manager.

Robert Glasspiegel: Okay. But they should know, right?

Mark McAndrew: They would have access to that data. We don't have access to it.

Robert Glasspiegel: Okay. They just haven't bothered to send you what's going on?

Rosemary Montgomery: Well, that's confidential to them.

Robert Glasspiegel: I got it. That's very helpful. Thank you.

Ed Spehar, Merrill Lynch: Yes, thank you. I just wanted to clarify something. The 2.5 points on the loss ratio that you suggested could relate to the rebates. Is that a full year?

Rosemary Montgomery: Yes.

Ed Spehar: So, if that actually came in and the margin could be very high, I would assume, in the fourth quarter because you would have to true up for a full year.

Rosemary Montgomery: Well, but we wouldn't know that by the end of the fourth quarter because it takes, it will probably take at least another six to nine months to get the actual estimated, or get the total rebates in house. So it would be quite a period of time before we would know what we got; what the level of rebates really turned out to be.

Ed Spehar: And the assumption that you're making about the level of rebates on business that you will write for '07, is it the same as what it was for '06 – or people you enroll, I should say, I guess?

Rosemary Montgomery: When we had to come up with our 2007 rates pretty early on in the process and at that point we not only had to make an estimate as to how much improvement we thought there would be over 2006, but we also had to come in with an estimate as to where we thought the rebates would fall. So we really had an estimate in there that was over the guaranteed, but not – as I said, we're just going to have to wait and see as to how close the estimated rebates really come out to be based on what the PBM is telling us what they think they'll be.

Ed Spehar: So you may have factored some better experience in for next year?

Rosemary Montgomery: Yes.

Ed Spehar: But not the full amount. I mean, if this happens to work out in your favor, the actual level of rebates versus expected, this is something that could be a positive for margins for numerous quarters?

Rosemary Montgomery: It could translate into a positive, certainly in 2007, but we really did try to be realistic in terms of the experience that we expected to see in 2007, and also what the rebates would be. I don't really think it's going to come in better than what we anticipated.

Ed Spehar: Okay, thank you.

Mark McAndrew: Well, those are our comments for today. I want to thank everybody for joining us, and we will talk to you again in three months. Thank you.