TORCHMARK CORPORATION
1st QUARTER 2006 CONFERENCE CALL
April 20, 2006

Corporation Participants

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

Mark McAndrew: Thank you. Good morning, everyone. Joining me this morning are Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; and Joyce Lane, our 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 2004 10-K, which is on file with the SEC.

Operating income for the quarter, before stock option expense, was $125 million, or $1.21 per share, an 8% increase compared to the $1.12 for the year-ago quarter. Net operating income after stock option expense was $1.20 per share. Our return on equity for the quarter was 15.9%.

In our life insurance operations, premium revenue increased 5% to $381 million and underwriting margins grew 7% to $99 million. Life first-year premiums declined 5% to $54 million while life insurance net sales declined 2% to $68 million.

In our Direct Response operation, life premiums grew 11% to $116 million and life underwriting margins both grew 8% to $29 million. First year premiums and net life sales both grew 4% for the quarter – an improvement over the 1% growth in net life sales we saw in 2005 and slightly better than we projected. We continue to expect double-digit growth in net life sales for 2006 in Direct Response with most of the growth showing up in the third and fourth quarters.

At American Income, life premiums grew 8% to $99 million, with life underwriting margins growing 12% to $31 million. First year collected premiums declined 5% for the quarter while net life sales showed a 1% increase from a year ago.

I am more encouraged today about American Income than I was on the last conference call. The reason I am encouraged is the fact that we grew the agent count at American Income by 230, or 11%, during the first quarter as a result of a 19% increase in our new agent recruiting for the quarter. Assuming these positive trends continue, we should be in position to see significant growth in net life sales during the second half of 2006 at American Income.

At Liberty National, life premiums declined 1% to $76 million and underwriting margins declined 2% to $19 million. Life first year premiums and net sales both declined 2% for the quarter. The producing agent count stood at 1,694 at the end of the quarter – 5% less than at year-end.

During the second quarter, Liberty National will see probably the biggest change in its 106 year history as we completely overhaul our agency compensation. Salaries, which currently comprise roughly 30% of all agency compensation, are being eliminated with the savings being divided between enhanced commissions and an allowance for lead generation. Agency management commissions are also being changed to pay higher commissions on newly hired agents vs. veteran agents.

I am confident that these changes being implemented at Liberty National will be beneficial to its long-term growth. But due to the magnitude of the changes, it is impossible for me to predict short-term results. We will have a better feel for this by our next conference call.

In our Military operation, life premiums grew 3% to $51 million and underwriting margins grew by 4% to $11 million. First year life premiums declined 37% to

$4 million with life net sales down 32% to $3 million. Claims attributable to the hostilities in Iraq were $1,115,000 for the quarter.

On the health side, premiums, excluding Part D, were down 3% from a year ago to $258 million with underwriting margins up 2% to $46 million.

First year health premiums, again excluding Part D, grew 6% to $40 million while net health sales grew 34% to $55 million.

The United American Branch Office carried the load on the health side with a 37% increase in first year health premiums and an 83% increase in net health sales for the quarter. The Branch Office producing agent count increased 10% during the quarter and is up 35% from a year ago. We opened 9 new branch offices during the quarter and we now have a total of 105.

For the Medicare Part D program, we had 153,000 active, confirmed enrollees as of April 17. The level of new enrollments since our last conference call has slowed significantly as we cut back our marketing efforts in February and March. We are beginning to see an upturn in new enrollments as we renew our marketing efforts throughout the rest of the time – throughout the May 15th deadline.

While the number of enrollments may end up a little less than our prior guidance, the revenue per enrollee is greater than we previously projected. As a result, we continue to expect 2006 revenues in the $175 to $225 million range.

In our operating summary, we have accounted for the Part D line of business in the same manner as our other lines of business – with premiums of $39 million for the quarter and an underwriting margin of $3.6 million. The 80% of premium, $31.2 million that we are showing for policy obligations, is our conservative estimate of our loss ratio for the full year of 2006 based upon our pricing assumptions. Our actual claims experience to date has been somewhat better than what we used in our pricing assumptions.

Administrative expenses were $40 million for the quarter – an increase of 11%. The bulk of this increase is attributable to Medicare Part D expenses and an increase in our litigation expenses. We expect both of these expenses to decline in subsequent quarters and we currently project a 5% increase in administrative expenses for the year of 2006.

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 then to comment on our share repurchases.

First, in our investments:

Torchmark has $8.6 billion of bonds at amortized cost, which comprise 95% of invested assets. These assets are carried on the balance sheet at their market value, which reflects net unrealized gains of $179 million.

Investment grade bonds total $7.9 billion and have an average rating of A-. Below investment grade bonds are $656 million, and have an average rating of BB-. The percentage of below investment grade bonds to total invested assets is 7.3%, the lowest it has been since the third quarter of 2001.

Overall, the total portfolio is rated BBB+, same as a year ago.

Now, regarding new investments:

We continue to invest long term when we can find bonds of a quality issuer with yields in excess of 6½%; otherwise we invest in short maturities. In the first quarter, we invested $136 million in short term bonds yielding 5.6% and having an average maturity of 5 years, and $152 million in long bonds yielding 6.6%. In total, we invested $288 million in bonds with an average yield of 6.1%, and an average life just under 15 years and an average rating of A. This compares to the 6.5% yield, and 25 year life of bonds purchases in the first quarter of 2005.

I would like to point out that the $152 million of long bonds purchased in the first quarter accounted for just over 50% of new investments. Just two quarters ago, long bonds comprised only 15% of new purchases. The shift to longer term bonds is due to the increase in long-

term rates which has resulted in a larger supply of bonds with yields of 6½% for us to choose from.

However, even though rates are up, the low investment yields continue to negatively impact the portfolio. The first quarter marks the twelfth consecutive quarter that we have invested new money at lower than the portfolio yield which now stands at 693 basis points; 14 basis points lower than it was a year ago. However, despite the declining portfolio yield, we have no plans at this time to change our investment strategy. We will continue to buy investment grade corporate bonds, in a combination of long and short maturities dictated in large part by the shape of the yield curve.

Now, I'll make a few comments about excess investment income, which is our net investment income less the costs associated with the interest bearing net policy liabilities and debt.

Excess investment income was $80 million in the first quarter, $2 million less than a year ago. On a per share basis, excess investment income increased 1%, which reflects the effect of our stock repurchase program.

In looking at the components of excess investment income, net investment income was up $4 million, or 3%; but lower than the 5% increase in the average invested assets due to the lower yields on new investments.

Offsetting that $4 million increase in investment income was the $7 million increase in the costs of our interest bearing liabilities.

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

The remaining $4 million increase in the interest bearing liabilities costs was due to higher financing costs. Of that, $2.5 million was the result of reduced benefits from the interest rate swaps, and $1.3 million resulted from higher rates paid on short-term debt.

Regarding the swaps:

Due to rising short-term interest rates, the benefits from the swaps have declined steadily in the last couple of years. As late as the second quarter of 2005, we had 4 swaps with a combined notional amount, or face amount, at $530 million. In the third quarter, we terminated 2 swaps with a combined face amount of $200 million due to the likelihood that their semi-annual cash payments would become negative in 2006. Currently, we have 2 swaps with a combined face amount of $330 million; and one of those will expire in late 2006, at which time we will likely have just the 1 remaining swap of $150 million. Based on current rates and the reduced face amount, it appears that the pre-tax benefits from the swaps in 2006 will be around $700 thousand, which is $6.7 million less than we received in 2005. For more information on the terms of the swaps, please see the related schedule in the financial reports section of our website.

Overall, the lower long-term interest rates and the flat yield curve continue to restrict our excess investment income. Although slight, we are encouraged by the uptick in long rates. With the strong and growing cash flow from our insurance operations, higher long-term rates would provide the quickest way to reverse the trend of declining excess investment income.

Finally, I would like to make a few comments regarding our share repurchase program. In the third quarter, we spent $168 million to buy 3 million Torchmark shares. This is comparable to the $171 million used to buy 3.2 million shares in the first quarter of 2005.

We use our excess cash flow at the holding company to fund stock repurchases. Excess cash flow is the previous year's statutory earnings of our subsidiaries dividended up to the holding company less the dividends we paid our shareholders and less our financing costs. In 2005, our excess cash flow was $300 million, and was used to repurchase 5.6 million shares. In 2006, we expect free cash flow to be at least $320 million. With our debt at an appropriate level, and as long as the stock is valued such that repurchases provide a superior return over other investment alternatives, we expect that the stock repurchases will once again be the best use of our excess cash flow.

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

Mark McAndrew: Thank you, Gary. Well, for the most part, we are very close to where we expected to be at our last conference call. As a result, we are not changing our 2006 earnings per share guidance. We continue to believe that our 2006 earnings per share will be in the range of $4.90 to $5.00 per share excluding a .04 per share stock option expense.

Candice, with that I will open it up for questions.

Jimmy Bhullar, J. P. Morgan: Hi. I just have a couple of questions. First, on American Income. You mentioned the agent count is up. The agent count was up in the third quarter of last year also, and then it declined and it also didn't result in much of an improvement in sales. What is different this time, and why do you think sales will improve from here? And then second, I just had a question on accounting treatment for Part D. Why is it that you chose to account for this the way you did? And second, what do you think the chances are or how much of a margin of safety is there in your assumption that the earnings will be even throughout the quarters, because you are obviously making assumptions about usage for the plan throughout the year? That's it.

Mark McAndrew: Okay, first on the American Income. If I look back at third quarter last year their agent count grew by 14, which was fairly insignificant compared to the 230 that we grew in the first quarter of this year. So no, I wouldn't have expected a growth of 14 agents in the third quarter of last year to have done much as far as new sales. You know it is….

Jimmy Bhullar: My point was more that it actually declined from the third quarter and the fourth quarter so…

Mark McAndrew: And it's impossible to say at this point. I think we do have – again, our recruiting is at all-time high levels, which it wasn't back in 2005. So I am more encouraged. It is not to say that it can't. It's what happened at Liberty National last year. We had very good growth in the first half last year and then it turned around very sharply. I don't think that's going to happen at American Income, but there is no guarantee. So I am encouraged there, and also the trends we are starting to see in our lead generation. We had 10% increase in our leads that we generated in March, and April is looking to be very strong in our lead generation there. So I am encouraged, but that's about all I can say about that. We will just have to wait and see what happens in the second and third quarters.

As far as the accounting on Part D – again, we are accounting for Part D in our operating summary the same way we account for all of our other lines of business. Going in, in our pricing assumptions, if we look at for the full year, we are expecting a 79.8% loss ratio, but the way that will trend is we are expecting 138% in the first quarter followed by 102 in the second, 60 in the third, and 41% loss ratio in the fourth. We are…but for the year, again that is 79.8%. We are using – basically we are going in assuming an 80%. Our actual paid claims loss ratio is running significantly ahead of what our pricing assumptions were. So we feel like we are being pretty conservative on our accounting on the Part D at this point. But to account for it any other way just didn't make any sense to us. Gary, is there anything you want to add to that?

Gary Coleman: Other than the fact, Jimmy, just the design of the product, the claims were higher at the beginning of the year. That is expected. But the contract period that the clients are evaluated on with the CMS, the contract period is for the entire year. So just like in our Medicare claims and some of our other lines of business claims were higher at different points of the year. What we are doing here is just reflecting – we are matching, better matching the premium, or the claims with the premiums that we're receiving. And so as we get toward the latter part of the year we think that our policy obligation percentage at 79.8% is conservative. If that changes we will reflect that change as we go through the year.

Jimmy Bhullar: Okay, thank you.

Tamara Kravec, Banc of America: Hi. Good morning. Just some follow-up questions on the Liberty National changes that you are making. I just wanted to get some detail on whether, you know, the changes have been well communicated and how….I know it is hard to expect what agent count will do, but if you can just give us a sense of how much the agents know about the changes and the magnitude of them are pretty steep, so, if you have a sense of whether agent count will be down significantly or just a little from the changes that you're making and how you are making them?

Mark McAndrew: Okay. Well, they have been communicated now. All of the changes at all levels, they are pretty significant. The thing about the agents who produce above average – again these changes will help those people. So they will be actually making more money than they would have under their current compensation. Again, these changes are going in May 1st at all levels. The other thing we are doing, which I didn't mention again, was we are raising the minimum production standards effective May 1st. And they are still – I think we still have about 140 agents that fall below that and are subject to termination here in two weeks. So we will see a drop in the agent count from that. But it will be fairly insignificant as far as sales because, again, those people are producing at such a small level. So actually, I haven't really visited with any agents, but at the district manager level the changes seem to be received pretty well. There are more incentives now to produce more business. Obviously the low producing both agents and managers will be the most affected. But it is impossible to predict just exactly what the fallout will be from it. We will know this next quarter.

Tamara Kravec: Okay, so the potential is you could lose 140 agents, but then you might actually over the longer term do better just because commissions are going to be a better way to compensate?

Mark McAndrew: Yes, I believe that will be true. I expect to lose roughly 140 agents in this next quarter as a result of just raising the minimum standards. But again, those agents wouldn't represent 2% to 3% of our total sales. So going forward we will see our average production per agent come up, and it will be a good move going forward.

Tamara Kravec: So the minimum production standards that you have, are those going to be achievable for the rest of the agency force? I mean are they a lot higher than where you say your average agent producing…?

Mark McAndrew: No, no. They are well under what the average agent – again, if you go back to the last conference call, we set it at a level – actually we had 25% of our agents at the beginning of the year that were under the level we were setting this at. We are now down to about 12% of the agents we still have appointed are subject to termination here in two weeks. We have moved some people up, and we have lost some people who were below the standard, but there are still roughly 140 there that are subject to termination here in the next couple of weeks. And I think most of the people that have made the decision to increase their production probably already have. So that is about how many I would expect to lose.

Tamara Kravec: Okay, great. Thank you so much.

Ed Spehar, Merrill Lynch: Good morning. I had a few questions. Mark, you gave us a lot of information on the sales on the life side and I was wondering if you could maybe sum it up for us a little bit in terms of with what you are looking at. In Direct Response, I think you said – did you say double-digit growth for the year?

Mark McAndrew: Yes.

Ed Spehar: But waited to the second half?

Mark McAndrew: Right.

Ed Spehar: You're more optimistic about American Income. It sounds like Liberty National there will be – there is going to be a challenge for sales as there is this transition and change in the Agency force and the Military is still sort of a challenge. If you put it altogether, how should we think about the progression of sales? And then the time it takes to translate that to collected premium. I mean, can we assume that this quarter, for example, is sort of the low point for first-year collected premium do you think?

Mark McAndrew: I would. You know, I would have to look a little closer. In fact, I think – hold on just a second, Ed – what was our first year collected premium last quarter? First year premiums were $53 versus – so they were actually up a million over what they were last quarter, so I would hope that would be true. I haven't really modeled that out. I have it here somewhere, Ed. I will just have to get back to you after the call on that. We have some projections that we've done, but I just don't have them here in front of me.

Ed Spehar: Okay, but in terms of just sort of the, you know, it sounds like the American Income is obviously better from your comments this quarter versus last. And if I go on the Direct Response, you sounded optimistic last quarter, and I am just wondering this quarter have things played out in line with better than you thought, or how do we think about Direct Response? Because we really won't see any of the success of that until next quarter. Correct?

Mark McAndrew: That's right. Well, we saw a little bit. Again, our new sales last year were up 1%; they were up 4% in the first quarter which I really didn't expect. I really still expected to see fairly flat in the first quarter. We should see a little more in the second. But it will really be the third and fourth where we should see pretty strong double-digit growth there. But again, the reason for that is we are now only reporting sales after that introductory offer. So again, particularly on our juvenile policies where we have a three month introductory offer, you have to wait three months until the people pay the first full premium before we are reporting that sale. That is the main reason for the lag. So things are playing out exactly the way we thought they would three months ago.

Ed Spehar: I am sorry, what did you say?

Mark McAndrew: The Direct Response is really exactly where we thought it would be three months ago. It's coming along just fine.

Ed Spehar: Okay, and then, Gary, on the new money yield, given the fact that the ten year treasury yield is up about 40 basis points from the average in the first quarter, are we to the point now where it is possible that you could be looking at close to 100% of new money investments in longer term bonds?

Gary Coleman: Well, yes, I think – I don't know 100%. I don't know how quickly we can get to that. But as I mentioned, over 50% this quarter and we are seeing even in this quarter, so far we are seeing a larger supply of bonds out there. There are still not – the spread over long over short as it was a year or so ago, but it has improved. And we are seeing rates now above the 6.5% and some up to 7%. I think you will see that percentage continue to grow. I am not sure when it gets to 100%.

Ed Spehar: And then just one last question on excess investment income. If we look at the financing costs, the combination of the interest on debt and the interest rate swaps, with short-term interest rates where they are today, is that – when you're talking about looking for the next three quarters how much of an impact would we see on that if we had 50 basis points up in rates or 25 basis points up in rates? Is it fairly straightforward that the calculation, or when do the swaps reset if we have another tightening?

Gary Coleman: Okay, we have $180 million swap that resets in June and that is the one that expires at the end

of this year. So it is going to reset one more time again in June. And then the other swap that we have resets quarterly, and the next reset for it is in May. So there we are subject to a change each quarter. And then on our short-term, the combination of those two is $330 million. Then our short-term debt, even though we ended the quarter at $290, that was kind of a timing thing. We averaged $200 to $220 million of short-term debt during the quarter. And, of course, we are subject on that almost immediately because that short-term debt is in commercial paper, which turns over pretty quickly.

Ed Spehar: Okay, thank you very much.

Vanessa Wilson, Deutsche Bank: Thank you. Back on the Part D and maybe I didn't hear this correctly; the $175 to $225 million, was that a revenue number just for Part D for the year?

Mark McAndrew: Yes.

Vanessa Wilson: Okay. So you are expecting that growth to speed up?

Mark McAndrew: Well, again, we had $39 million of revenue in the first quarter, but a lot of those people were not enrolled in January. We had 121,000, I think, at the end of January, but I think we only had slightly under 100 [,000] that were enrolled in January. So we expect to see higher revenue in the second and third quarters and in the fourth than what we saw in the first.

Vanessa Wilson: Okay, and I took just the loss ratios you gave us 138, 102, 60 and 40, and just thought if you didn't grow at all if you just had 39 million a quarter, and it is over a twelve month period, and maybe I am just not understanding the reserving here, but it seems to me that each new vintage you get in will have that initial strain. And so whereas the first quarter vintage of 39 million will trend to an 80% loss ratio by year end. You are growing very fast, and you're getting new vintages in and I just don't understand – we reserve each vintage even though the twelve month period would actually lag into 2007?

Mark McAndrew: No. We are reserving each one individually. But January effective dates will trend down to a 75% loss ratio by year end. The February will trend down to a 78.9% loss ratio by year end. The March will be 84%, and so on. So no, actually the people that sign up later, that's why we really don't want to go beyond May 15th because we don't believe we can make any money enrolling people beyond May 15th because of the design of the benefit.

So no, when I give the 79.8% as our expected for the year, that is assuming different loss ratios based upon when people enrolled.

Vanessa Wilson: So the 175 to 225 is through May?

Mark McAndrew: Well, enrollments end May 15th, is the current law.

Vanessa Wilson: Okay. Maybe you could just give us a little more sort of man-on-the-street explanation of how the claims work. As soon as somebody signs up, do they give you a bunch of claims immediately, and then they stop giving you claims after six months?

Mark McAndrew: Well, the way the benefits are designed, our benefits, there is no deductible. So yes, people that enrolled November 15th and had their coverage effective January 1st they could go to a pharmacy January 1st and just pay a co-payment and the claim was paid, or we incurred the claim at point-of-sale. We incurred that claim January 1st. But the way the benefit is designed is they reach a point, and I should have that in front of me but I don't – where what they call doughnut hole, where once they have incurred so much in claims, the next $2,250 – that is where they reach the doughnut hole. Gary?

Gary Coleman: Right, and that goes up to $3,600.

Mark McAndrew: So the next $1,400 they have to pay out of their own pocket, is that right?

Gary Coleman: Yes.

Mark McAndrew: Okay, so that doughnut hole is – most everyone reaches that doughnut hole. So we see our claims come down when they have to start paying for those claims out of their own pocket. And that tends to happen in the third and fourth quarter.

Vanessa Wilson: Okay, and I guess my original question, just going back to it, is this whole vintage concept. As you are adding newer and newer customers, they are less and less profitable, right?

Mark McAndrew: That would be – for this year that would be true – that we, well, I say that, although I really do believe we will find that the people who enrolled early were less healthy, and the people that enroll later in the program will be more healthy, but that is just my opinion at this point. We don't have anything to back that up. But I think the people who had the bulk, the highest amount of prescriptions, probably did enroll early. So we will just have to wait and see.

Vanessa Wilson: Okay, thanks very much.

Tom Gallagher, Credit Suisse: Good morning. Just a follow-up on Part D first. So if I understand this correctly, there is going to be a ramp-up of revenues here. Will your – you know, in just looking at the numbers you gave, it would imply let's say on average $54 million a quarter for the next three quarters. Should we assume the margin is going to stay at 9%? In other words, would your underwriting income from Part D be about $5 million a quarter?

Mark McAndrew: If our claims follow our expectations, that would be true. If they continue to track better than in subsequent quarters, we would see an improved margin. But we will just have to track the claims and compare them to what our expectations are.

Tom Gallagher: And when we think about potentially adjusting reserves, is it – because this is new, are you likely to do that on a pay-as-you-go basis, or do you think we might see an adjustment maybe in the fourth quarter? Like do you need more experience before you start reestimating, like let's say if your claims do keep trending better?

Mark McAndrew: Well again, I think every quarter we're going to have more comfort. Three months from now we will have more comfort than we do today, but obviously nine months from now we will have a lot more comfort. So I don't think it will be let's wait until the fourth quarter to make any adjustments. If we continue to see a favorable trend we will start to recognize it in the next quarter.

Tom Gallagher: Okay, another question on Part D. Just in terms of the – I think you had a fairly sizable amount of upfront costs in starting the business up, and I think most of those were deferred – can you just tell us what the total number of or total amount of deferred expenses have been to date and how those are getting amortized over what period of time?

Mark McAndrew: The last number I heard was we intended to spend right at $20 million. Gary, do you have any more exact number on that?

Gary Coleman: Well, I think we've spent around $18 million, and we are amortizing over what we think the lives of the premium – the premium paying life, which I think is a little over three years.

Tom Gallagher: Over three years?
Gary Coleman: Right.

Tom Gallagher: Okay, and then one last question on Part D, and then I just have one more. You had mentioned after May 15th you won't make money if customers sign up. I presume that is just won't make money this year, and if they renew for the following year – there is I guess a reason why you would still accept customers beyond that date, probably would be looking out to the future. But are you – is there going to be any disincentive for selling products beyond then, or I presume you are still going to accept new sales beyond then?

Mark McAndrew: As far as the enrollment period ends May 15th, now people can switch plans once a year. So we may see some of that. And we can also enroll people that are turning 65. But unless Congress changes the law, the enrollment ends May 15th. People that have not enrolled by May 15th cannot enroll until November unless they are turning 65. So there will be – even on people that are changing plans, particularly we may see some of that in our Agency operations, but we are going to have to – where we're paying some commission today, we will probably eliminate that commission after May 15th. We just can't afford to pay it.

Tom Gallagher: Got it. And last question, have you now with interest rates having moved back up you are getting, you know, at least closer to your old targeted yield of 7% or better. But it doesn't sound like we are quite there yet at least in aggregate. And I believe you had talked about potentially repricing some of your policies because the embedded interest rate guarantee on your life policy was 5.3% or 5.4%. Have in fact you repriced any of those products? And do you intend to do so?

Mark McAndrew: Well, most of our life products, anything with cash values, we are having to reprice anyway because of some changes in mortality tables. So it is something we're looking at, and there are isolated products, as we file, we are filing a little more margin in there. Now whether that is underwriting margin or higher interest rate, it is six and one-half dozen of the other. So we are doing some repricing just out of necessity because of the change in the mortality tables.

Tom Gallagher: Okay, but if I assume – if I were to have a some kind of table going through the embedded interest rate assumption on new sales, would it have budged meaningfully from the 5.3% level?

Mark McAndrew: No, I can't see it. I don't see a significant change in that going forward.

Tom Gallagher: Okay, thanks a lot.

Andy Pinnhaupt, Clovis Capital: Yes, I just had a question on the marketing expense for Part D. You said that the slowdown in the enrollment was due to slowdown in the marketing expense. Just the thought process behind that and, you know, how you think about the marketing expenses in the program.

Mark McAndrew: Okay, well again, we look at them basically the same way as we look at our marketing expenses in any of our other lines of business, that we are going to match them with the expected revenues. But we started October 15th, which was when we were legally able to start advertising, running TV, radio, direct-mail campaigns for Part D. And we very closely, as we do in all of our Direct Response operations, we monitored our response rates. And we were gradually becoming smaller and smaller, our marketing efforts, because we saw our response rates declining, particularly after January 1st. So as we saw our responses declining we suspended most all of our TV. And really I don't think between January and the first of April, I don't think we have done much in the way of any direct-mail campaigns. But now with the deadline coming near we are doing some additional marketing because we believe that the response rates will come back up. So it is strictly a matter of economics, that the response rates were getting to the point that we were spending more than we felt like we could spend to generate the business, and so we

suspended our marketing operations. Does that answer your question?

Andy Pinnhaupt: Yes. Thank you.

Steven Schwartz, Raymond James: Good morning. I do want to follow up on Part D just to make sure I'm understanding what you are saying, Mark. I guess what I am missing is why would you care if you were to sell business after May 15th if Congress was to change the laws on an operating basis, because you're going to smooth that out anyway? Isn't that correct?

Mark McAndrew: We're not going to smooth it out for more than the current year.

Steven Schwartz: Oh, I see.

Mark McAndrew: It is really not smoothed out. We are just trying to match it better. So no, it is not a – by the end of this year it will all be a wash. And on any calendar year basis it will all be a wash. So no, you would lose money. Again, for the people that enroll in May, we are expecting a 90% loss ratio. Well, if they extend that into June, that will just continue to be higher and higher. Now over the life of the business we may well make money, but it is still – we will wait and try to get those people at the beginning of next year. I hope they keep the May 15th deadline, actually.

Steven Schwarz: Okay, so you will actually smooth for however long the policy is on the books for the year but not treat everything at 80% as you would expect it would be for a full year term of policy, if I got that right. Is that correct?

Mark McAndrew: I am not sure I understood. We will each quarter adjust our loss ratio to what we expect the full year loss ratio to be.

Steven Schwartz: For the full calendar…

Mark McAndrew: For the balance of the year loss ratio.

Steven Schwartz: Okay, bingo. And then could you just discuss maybe what's going on in the Med Supp markets, competition wise?

Mark McAndrew: I don't know of anyone in the Medicare supplement market that is doing particularly well. I think the managed care and the private fee-for-service Medicare Advantage plan seem to be dominating that market right now. So I think the Humana's of the world are being very aggressive and seem to be gaining a lot of market share. Although I did see that the average reimbursement next year for the managed care plans is only supposed to be about 1% even though inflation was supposed to be significantly higher than that. So I think the excess reimbursements are starting to come down. But we'll just have to wait and see what happens to that in the future.

Steven Schwartz: Yeah, I think that number is actually 3%. All right, that is what I wanted to hear about. Just for what it's worth if anybody is listening, United Healthcare also kind of reported in the same manner that you did, with a GAAP and a kind of operating or normalized…

Mark McAndrew: We had seen that prior to making our decision, and we happen to use the same public accounting firm. So that did have some bearing on our decision.

Steven Schwartz: Okay, great. Thanks.

Joan Zief, Goldman Sachs: Thank you. Good morning. I just wanted to talk about not just the sale side of the business, as you basically do your agent restructuring, but also the lapse rates. Are you seeing any change in the lapse rates of your book of business? Would you expect to see any change as your number of agents goes down because those with low productivity

are being let go? And could that have any implication to earnings?

Mark McAndrew: I assume you're talking specifically about Liberty? I wouldn't expect to see any change in our lapse rates there. Actually, our persistency there over the last three years has improved pretty significantly. And again, most of these non-producing agents really have had very few customers that they've written personally. So I would be very surprised to see any significant change in our persistency at Liberty National. So I am really not concerned about it, Joan.

Joan Zief: Okay, now on the agent retention, you've got a lot of recruiting going on. Have you seen any shifts in agent retention? Are you comfortable with the quality of the new people you're putting on the books and your ability to train them and get them out on the street?

Mark McAndrew: Well I am. Obviously, at United American I am very comfortable with it. I think we've got a system in place for recruiting and training and it is starting to really show up in our results. We have done a lot at American Income in the last year to provide more training resources, and we've also increased our number of middle managers who are mostly involved in the training. So I feel a lot better there than I did six months ago; that we are in a good position to grow. Liberty National is a big question mark right now because of all these changes. I'll really have a much better feel for all levels, both agents as well as management, where we're going to be going forward in ninety days.

Joan Zief: All right, and again on United American, I mean at American Income, the retention – your agent retention, has that stayed pretty stable?

Mark McAndrew: Yes, we haven't seen any deterioration in either of those in our agent retention. We obviously will at Liberty National here because of the change in the minimum standards. But no, the other two companies we haven't seen any significant changes.

Joan Zief: Okay, thank you.

Mark Finkelstein, Cochran, Coronia Securities: Good morning. One follow-up question on Part D. The cash loss ratio for the quarter of 139%, how does that compare to your original expectations for the first quarter knowing the seasonality of this business on a GAAP basis?

Mark McAndrew: Well again, what we set up was what our pricing assumptions were. Our actual cash loss ratio was, is trending – well, significantly better than that. We did expect to see 138% loss ratio in the first quarter based on our pricing assumptions.

Mark Finkelstein: So you did expect to see that around 138%?

Mark McAndrew: Yes.

Mark Finkelstein: Okay, and just on UA Branch, you added 9 new branch offices in the first quarter it looks like. How many do you anticipate adding for all of 2006?

Mark McAndrew: I didn't get that. I know we've got another 5 we are opening in the next two weeks. I don't really have a number there. It really just depends on how many qualified people we have to promote. We promote from within. We have no shortage of places to open but I do not really have a goal there. Obviously, we would love to continue about that level that we did in the first quarter for the next three. So that would be a good goal.

Mark Finkelstein: And I guess just kind of the purpose of my question, you added 12 in '05 and 9 in the first quarter, and you kind of grew about 83% this quarter. I am trying to translate between, or correlate between, kind of the growth in branches and overall growth. How productive are these new branches? How much did that meaningfully contribute to growth in the first quarter?

Mark McAndrew: Okay, I don't have a specific number. I can get you some numbers on that. They actually become productive very quickly. We can get you some numbers if you would like to see of the offices we opened last year; how much in sales they contributed in the first quarter. We sure have that available. I just don't have it in front of me.

Mark Finkelstein: Okay, I'll follow up.

Heather Hunt, Citigroup: Thank you and good morning. I just want to go back to Joan's question a little bit on persistency. Specifically over in the health business it looks like without Part D the total inforce has gone down about $5 million from the year-ago quarter, and a lot of that comes from Liberty National which you mentioned. But there is also some noise in United American. I just wondered if you can kind of – do you think this is going to continue or is it mostly a function of the agent count issues? Is it also a function of the competitive marketplace?

Mark McAndrew: Well, again, at United American we have both a General Agency as well as a Branch Office. The Branch Office is seeing nice growth. Right now the Independent Agency side is offsetting that growth. In fact, actually more than offsetting it. That will change. In fact, if I look in our Branch Office our inforce was up roughly $13 million from a year ago. Oh I am sorry; I am looking at an old number. It will continue in the general agency side of United American probably for the balance of this year, but it should be in the next – really in the next quarter or two that the Branch Office growth will more than offset the decline in the Independent Agency side.

Heather Hunt: Is that because the new agents are more willing to sell the plan F product and the older agents are not really buying into it still?

Mark McAndrew: No, I don't – no, it is just that the growth we're seeing in the Branch Office will just continue to accelerate. The growth in first-year premiums as well as total premiums. And actually, our sales on the general agency side, the decline is slowing, so the decline in the inforce will continue to slow. And it is just the function of the Branch is going to grow faster than the Independent Agency side is going to decline. But there is no real change; we haven't seen any real change in our persistency.

Heather Hunt: Alright, and is that affecting your margins? I mean, how is that – your margins are generally improving a little bit, but are you going to have some DAC issues?

Mark McAndrew: No, there is no – the persistency on both sides is tracking what is expected. We haven't seen any significant change in persistency on either side, so we don't have – we are not concerned about any DAC issues.

Heather Hunt: Okay, great. Thank you.

Eric Berg, Lehman Brothers: Thanks very much and good morning to everyone. Mark, the salaries that are going to be ended May 1st, they are going to go into funding a – you reference this and I am hoping you can go over this – increased commitments, special commissions. Exactly how is that going to work?

Mark McAndrew: Okay, well there is two pieces to that, Eric. One, we will see better margins at Liberty National the second half of this year. Because, again, the people that are being terminated is for low production, not meeting minimum standards. I think I said at the last conference call, that was roughly $4 to $5 million of salaries and benefits that will be eliminated. And those will basically flow into the bottom line at Liberty National. Now the other salaries of the people who were above minimum standards, we are eliminating salaries for

agents as well as middle managers and district managers, and we are taking that money, which was roughly $22 million last year of salaries that were paid out, we are moving that into commissions and an allowance for lead generation. So we don't expect at our current level of sales, we don't expect to save that. We are just moving it into incentive based compensation where we had people who were guaranteed these salaries and benefits, regardless of their production. It is now going to straight commission as all of our other distribution systems are. They are straight commission contracts.

Eric Berg: I don't understand your disinclination to forecast because it does seem genuinely a huge deal; a truly tumultuous event what is happening at this company. Isn't there a risk, though, that – and I have some questions about the other companies but I do want to ask a follow-up about Liberty – isn't there a risk that with respect to new agents and managers who have been performing satisfactorily who received a salary that they will be very unhappy about your decision to take away their salary? After all, they have been in my example satisfactory performers and quit?

Mark McAndrew: There is always some risk, Eric, but again, anyone, and part of this is the explanation you have to go through, but they can pretty easily put a pencil to. When they look at the commissions that we have put out there versus the salaries, anyone who is producing above average, or anywhere close to average, will be at least as well-off as they were under the current contract with a salary. So in that regard I don't expect to lose anyone who is an average or an above-average producer. The only people who are going to be upset with me over this are the people that are producing below the minimum or near the minimums. So I don't expect to see a lot of fall-out from this. I do expect to see higher margins there as a result of losing some of these non-producing people. But I think going forward we will see the production per agent come up, and we may – it's possible we could end up with a few less offices than we have today. But that would be okay, too, if they are not profitable offices.

Eric Berg: Okay, if I can switch to your Waco company. My sense of things is that at the center of the problems has been the – I will call it the lock that the state general agents have had on what you call the public relations people. That is my premise that that is a big part of the problem and that it has hamstrung you in the sense that it has limited your ability to introduce competition into the distribution system. My two part question – do I have that right? And if I do have it right, have you begun to fix the problem?

Mark McAndrew: Well, okay, there is no doubt that the current, as I mentioned I think on the last conference call, what we were doing where we only had one SGA in a territory that controlled the public relations and the lead generation did not allow us to put multiple SGA's in a given area, was a hindrance to our growth. And we did start last year in New York and then in Los Angeles where we took control of the lead generation. And subsequently, now in New York we have three SGA's versus one a year ago. And in Los Angeles we now have four SGA's where we had one a year ago. I am very pleased with the results we're seeing as far as taking over the public relations and the lead generation. In fact, it looks in Los Angeles, for example, we expect in April to generate almost six times the number of leads that we generated on average a year ago. In New York in April we will generate almost as many leads as we generated the full year of 2005. So that program is going very well. We are moving forward with Boston and doing that, and we have identified some other areas that we will continue that progress during the course of the year. But again, it will be a several year project to do that nationally.

Eric Berg: Last question and it sort of harps back to one that was asked by Heather. It is striking to me – it has been striking to me the difference in the performance in your health business between your own people and the

third parties between the Branch and Independent agents. How should we think about the outlook for the next few years for the independent system? Is it going to stabilize? Will it continue to – I certainly understand this offset concept that you articulated with your own people doing extremely well, 83% sales growth, but if we look at just your Independent system which is larger than your Branch system, will it continue to decline, or do you expect it to stabilize?

Mark McAndrew: Well, again, as far as new sales it's still is larger in total premiums, but it is actually far smaller now in total sales. But again, the problem there has stemmed with one large agency. If I look beyond that one large agency, new sales in the independent channel were up 9% for the first quarter. They were just offset again by continued decline in one large agency. Eventually the growth that we are seeing from our other independent agents will more than offset the decline at that agency. Well, I still hope that that one agency actually turns around, but we just haven't seen it yet. So I am still optimistic that the Independent Agency will see growth. In fact, we have seen growth now for the last year in that distribution system other than one large agency. So we're not giving up on that by any means. We still see that as viable and we expect it to grow in the future.

Eric Berg: I got it and thank you, Mark.

Ed Spehar: Thank you. Mark, I had wanted to follow-up on the comments you made about selective repricing and related to changes in mortality tables. I guess I would think that any repricing that would be driven by updated mortality tables would actually be lower prices, not higher.

Mark McAndrew: Well, if you are just looking at that piece of it that would be true, Ed. With the new mortality tables people are living longer, and if you kept the same premium rates you would have a higher profit margin. There is also another regulation that says we have to discount. Well, in fact, can we get back to you on this after the call, Ed, because I would really want our chief actuary to be involved in this discussion? But it is, we are having to reprice, and we are looking and there are selective places where we are adding to our margins, but not across the board. But overall there is two changes. One is mortality and one is an interest rate change that are about a wash as far as the rates go and the repricing.

Ed Spehar: Okay, so in terms of the margin you expect on your business, it is unchanged from what you have been achieving to date with better margin or lower prices for the mortality piece offset by higher prices for the interest rate?

Mark McAndrew: Right. Overall we don't anticipate any significant change in our underwriting margins, on either life or health.

Ed Spehar: Okay, thanks.

Joan Zief: Thank you. My follow-up question is about the health sales. Can you talk about what product is being sold and where you're having the greatest success? Just a little description of the product and who you think your competitors are?

Mark McAndrew: Obviously, the growth in our health sales is primarily from a product we really introduced toward the beginning of 2005. It is a pretty straight-forward product. It has a lot of flexibility to it but it is defined benefit under age 65 health product. You can purchase up to – again we could send you an exact brochure – but I know you can buy up to $3,000 per day of coverage while you're in the hospital. It also will pay so much on a scheduled benefit for surgeries. And it pays additional if you're in intensive care and so on. It has a number of benefits to it. They are defined benefits. The design of the product protects us from gouging is what I would call on the part of providers. We do have some control over inflation and unreasonable pricing. It's

a product we feel very comfortable with, but – and we are selling it primarily to uninsured. Again, I think the last time I saw it was 46 million people without health insurance and this is a product that is affordable, much more affordable than is a major medical. Plus the ability to find an individual major medical is very difficult today. As far as competition, there is some competition out there. They are not some of the bigger companies that you would think of. I would have to get you some names, Joan. I can't think of them off the top of my head, actually.

Joan Zief: That's fine. Can you just give me an idea – you say it is affordable; it's for the uninsured. If I just got a base plan, what is the annual premium?

Mark McAndrew: I would have to get you some numbers there, too, Joan. I think our average premium is somewhere in the $2,000 a year range. But I could get you some numbers. Again, if you would like some more information on the product, we would be happy to send it to you, showing the rates as well as the benefits.

Joan Zief: That's great. Okay, I'll follow-up. Thank you.

Mark McAndrew: Thank everyone for joining us this morning and we will talk to you again in three months. Thanks. Bye.