TORCHMARK CORPORATION
2nd QUARTER 2008 CONFERENCE CALL
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Corporation Participants
Mark McAndrew, Chairman and CEO
Gary L. Coleman, EVP and CFO
Larry Hutchison, EVP & General Counsel
Rosemary Montgomery, EVP and Chief Actuary
Mike Majors, VP of Investor Relations

Mark McAndrew: Thank you. Good morning everyone. Joining me this morning is Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; Rosemary Montgomery, our Chief Actuary; and Mike Majors, Vice President of Investor Relations.

Some of my comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2007 10-K, which is on file with the SEC.

Net operating income for the second quarter was $131 million, or $1.44 per share – a per share increase of 7% from a year ago. Our return on equity was 15.6% for the quarter, and our book value per share was $37.93, up 11% from a year ago.

In our life insurance operations, premium revenue grew by 4% to $406.5 million and our life underwriting margins increased 3% to $104 million. Life insurance net sales were $76 million – up 13% from the second quarter of 2007.

At American Income, life premiums grew 9% to $119 million. Life underwriting margin was up 11% to $38 million. Life net sales increased 21% to $28 million with first-year collected life premiums growing 11% to $21 million. The agent count at American Income was up 17% from a year ago to 2,805.

Sales growth at American Income continued to accelerate in the second quarter – a result of increased recruiting and improved retention of new agents. I am very pleased with the results at American Income and remain very optimistic in regards to both our short and long-term growth prospects.

In our Direct Response operation, life premiums were up 7% to $129 million and life underwriting margin grew 2% to $30 million. Life net sales again increased 8% to $32 million and were in line with our expectations. We expect to continue to see sales growth in the 5% to 10% range for the balance of this year.

At Liberty National, life premiums declined 3% to $72 million and life underwriting margin was also down 3% to $16 million. Life net sales jumped 34% from a year ago to $12 million. Our producing agents grew to 3,189, up 64% in the past year.

The sales growth at Liberty National is significantly exceeding my expectations. The bonus compensation programs we have put in place are working well and a new needs-based laptop sales presentation has been very well received by both our agents as well as our consumers. We believe we will continue to see sales growth at Liberty National in excess of 30% for the second half of this year.

On the health side, premium revenue, excluding Part D, declined 6% to $242 million and health underwriting margin declined 5% to $44 million. Health net sales dropped 41% to $38 million.

The decline in health sales was again primarily attributable to the United American Branch Office operation where health net sales were down

53%. On the last call, I expressed an expectation that our agent count would flatten during the second quarter, but I was wrong and the decline continued.

The health insurance market at United American is the only market we serve that is highly competitive. As a result of this competition, we have seen huge swings in our sales results for more than twenty years. The non-Medicare health business at United American is also the least persistent, highest risk, and least profitable business we write.

Going forward, we are going to focus our efforts on shifting this distribution system to other product lines which have better persistency, less risk, and higher profit margins. We have now begun introducing Liberty National life and worksite supplemental health products to the Branch Office operation. While we will continue to offer our current product portfolio – in fact, we are filing a new underage 65 health product this quarter – the majority of our financial incentives will be used to encourage sales of the Liberty National product line.

Premium revenue from Medicare Part D was down 19% for the quarter to $44.5 million and the underwriting margin declined 9% to $5.4 million. Due to a renegotiated contract with our Pharmacy Benefits Manager, we expect underwriting margins on this block of business to increase roughly $1 million per quarter for the balance of this year.

Administrative expenses increased 3% for the quarter to $38 million, primarily the result of increased pension expense. We continue to expect an increase in administrative expenses for the full year 2008 of roughly 1%.

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

Gary Coleman: Thanks, Mark.

I want to spend a few minutes discussing investments, excess investment income, and share repurchases.

First, our investments. We have $9.5 billion of bonds at amortized cost, which comprise 95% of invested assets. Of those bonds, 92% are corporate bonds and hybrid securities. Less than 1% are in residential or commercial mortgage-backed securities, and none of those are backed by sub-prime or Alt -A mortgages. Below investment grade bonds, as a percentage of invested assets, declined to 6.2%, the lowest percentage since the second quarter of 2000.

Overall, the total portfolio is rated A-, same as a year ago.

Regarding new investments. We invest almost exclusively in investment grade corporate bonds and hybrid securities. In the second quarter, we invested $241 million at an average annual effective yield of 7.04%, an average rating of A+ and an average life, depending on future calls, of between 23 and 32 years. This compares to the 6.77% yield, A rating, and 20 to 33 year average life of bonds acquired in the second quarter of last year.

This is the third consecutive quarter that the new money yield exceeded 7%, and also exceeded the portfolio yield. The average yield on the portfolio in the second quarter was 6.98%, 2 basis points higher than the second quarter of 2007, and virtually the same as it has been for the last four sequential quarters.

Now, turning to excess investment income. It was $84 million, up 5%, or $4 million. However, on a per share basis, excess investment income increased 12%, which reflects the effect of our share repurchase program.

Excess investment income, of course, is the net investment income less the interest cost of the net policy liabilities and the financing costs of our debt. The year-over-year comparison of each component is as follows:

- First, net investment income was up $7 million. This represents a 4.4% increase in income, just slightly lower than the 4.8% increase in average invested assets;

- Next, the interest costs of the net policy liabilities increased $5 million, or 8%, due primarily to a 7% increase in the average liabilities, and

- Lastly, the financing costs were down $2 million due to the lower short-term borrowing amounts and also lower interest rates.

Now, regarding our share repurchase program. In the quarter, we spent $89 million to buy 1.5 million Torchmark shares. For the year, we've used $235 million to buy just under 4 million shares. This is comparable to the $298 million used to buy 4.5 million shares in the first half of 2007.

As we said before, we use the free cash flow at the holding company to fund our stock repurchases. In 2008, we expect that free cash flow to be around $350 million. With our debt at an appropriate level, and again given the lower interest rate environment, we feel that the best use of our free cash would be a strategic acquisition. Absent an acquisition, share repurchases will be the best use of our available cash.

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

Mark McAndrew: Thank you, Gary.

For second quarter, we missed the consensus estimate of our earnings per share by $.03 and we missed our own estimates by about $.015 due to higher than expected life claims paid during the quarter. We expect these claims to return to more normalized levels for the balance of the year. And with the additional monies being contributed by the new Part D Pharmacy Benefits Manager contract, we continue to expect our full year earnings per share to be in the range we stated last quarter.

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

Jimmy Bhullar, J. P. Morgan: Hi, good morning. Thank you. I just have a couple of questions. The first one is on your outlook for producing agent growth at American Income and Liberal National. I think sequentially you were up almost 10% in those channels. What sort of growth rate do you expect in that going forward?

And then secondly, on M&A, you've talked about wanting to do a deal for a while but haven't found anything. Do you see any opportunities in the market whether it's the distressed sales or just companies selling non-core businesses?

Mark McAndrew: Okay. Well, Jimmy, I'm very encouraged at both American Income and Liberty National. Again, we had over 20% growth in sales at American Income for the quarter. I think the compensation programs we have in place and the direction we're heading, I expect to see at least that balance this year. And into next year, I think we've got some other things, some other plans that will continue to allow that type of growth to continue.

Liberty National, I think is going to surprise people. They had 34% growth this quarter. Although it's just gotten us back to where we were before we made the major changes two years ago, the

momentum we have there is extremely good. Again, this new software we put together for the new laptop presentation, it's improved our closing rates. It's really been received well. When I say I expect 30% or more growth there the second half this year, I think that's on the conservative side. I think we can continue that type of growth. I think over the next year Liberty National is going to surprise people.

On the M&A activity, Jimmy, I really can't comment about any specific activity. We continue to think there's opportunities out there, but I can't really comment beyond that.

Jimmy Bhullar: And just one follow-up on the health side. Do you see a turnaround any time soon in either the agent count or just you returning to flat sales or sales growth at least over the next two to three quarters or not?

Mark McAndrew: We expect them to level out again. But right now, our projections, in the Branch Office we're still expecting about another additional 10% off of where we were this quarter, and it start to come back in the fourth. But again, we really are going to use this opportunity to try to shift that into another marketplace. Again, the volatility of those sales, it is extremely competitive, highly regulated, and it is the least profitable business we have. And it is a good opportunity for us to really make an effort to shift that production into more persistent profitable business.

Jimmy Bhullar: Thank you.

Ed Spehar, Merrill Lynch: Thank you. Good morning. I have a couple of questions. First, Mark, on the sales strength in the life business. When you think about the health business being less persistent and the sales being down much more than what you were thinking, is the strength – the better-than-expected life sales – in your eyes enough to offset sort of the weakness in the health that we're thinking about kind of earnings over the next…you know, beyond this year? Just generally?

Mark McAndrew: I'm glad you asked that, Ed. Actually, in fact, if you can try to follow these numbers, I want to go through a little example. If we compare the American Income life insurance to the Branch Office health, if you look at our financials, the life business at American Income has a 32% underwriting margin versus 13% in the Branch health. Now if we just assume 6% administrative expenses, that says we have 26% underwriting profit at American Income on their life business versus 7% in the underage health business. That means that for every dollar of premium we collect, the American Income business is almost four times as profitable. But beyond that, the average life of the business at American Income is more than double what it is in the United American underage health sales. So for every dollar of new sales, a dollar of new life sales at American Income is worth almost – well, actually over $8 worth of health sales in the Branch Office. So the additional $5 million of sales we picked up at American Income would be roughly equivalent to $40 million of underage health sales in the Branch Office.

So will it offset? Yes. In fact, if I look at the additional $5 million we picked up there, plus Liberty National's life business is about five times as profitable per dollar of new sales, so the additional $3 million of sales we picked up there more than offsets. In fact, it would offset if all of our health sales at United American disappeared. The growth in sales we are seeing at American Income and Liberty National would offset all of the lost profitability. You follow that?

Ed Spehar: Yes, that's extremely helpful.

I guess the second thing I wanted to ask is on the unusual number of claims in a few different distribution channels. I think a few pennies off of a

consensus number for a financial services company is probably not considered a big deal in most instances these days, but when you look at your company and the stability of earnings, this was kind of a bigger miss than what you would normally see. And so I'm wondering if you can give additional color on why we should be comfortable that this has just been an aberration, a bad mortality quarter, and maybe give us some color on where the claims were coming from. Is it old books versus new books? Is it any different types of products versus what you have historically sold? Anything, I think, would be helpful on that.

Mark McAndrew: I'll turn it over to Rosemary in a minute. Although, I would say, Ed, we did miss consensus by $0.03. But if I compare it to our estimates that we used in our guidance, we were about $.015 less. But I will let Rosemary talk more about the claims. Rosemary?

Rosemary Montgomery: Okay. We did have higher claims than expected, and it was actually in three different lines, and I would say that the reasons actually are different for those three lines. As far as Direct Response is concerned, in terms of the analysis that we've been able to do so far, we really have not seen any kind of a trend emerging that would cause us to think that our underlying mortality assumptions are off. So we really do anticipate that the level going forward for underwriting income will be about what it was in the first quarter of this year.

As far as the next line would be Liberty National where we had higher claims than anticipated and we've always had variance among the quarters in terms of what our underwriting income profits are for that line. Last year we saw more of a variance than what we had been used to seeing and we really hadn't anticipated that would actually continue for 2008. But what we're seeing now for 2008 really is pretty close to the pattern that we saw in 2007 for Liberty National. So we're actually anticipating that the remainder of 2008 is going to really mimic more of 2007 and so the underwriting income will actually come up in the second two quarters there.

Mark McAndrew: Rosemary, I also know the July paid claims at Liberty National have come back in line.

Rosemary Montgomery: Yes. Actually, I was going to mention that, too. Actually, in all of the lines I think the July claims based on what we have so far really are looking better. They're lower than what they had been before.

The third line where we had higher claims than what we were anticipating is in the "Other" category. That actually is coming from United Investors. United Investors has a much higher average size, so it really doesn't take much of a fluctuation in the number of claims for the dollars to fluctuate. But if you look at that line and you compare the first six months of 2008 to the first six months of 2007, we're actually in about the same place even though the individual quarters have fluctuated more. So we're anticipating really that we're going to finish the year in that "Other" category as consistent with what we saw in 2007.

Ed Spehar: Just, Rosemary, back on Liberty National. I mean I understand that the 2Q was elevated last year as well, but what does that – I mean is there something going on that suggests that this is going to be an annual event, or what makes you comfortable that there isn't something else happening in the mortality in Liberty National?

Rosemary Montgomery: Well, as I said, in terms of the analysis we've done so far, we just really haven't seen any trends emerge. There's no one product that's really emerging that looks like it's a problem, and Liberty National has always had variation among the quarters.

Mark McAndrew: In fact, for the last several years we've seen prior paid claims in the first half of the year than we have in the second half.

Rosemary Montgomery: Right. This is just a little more pronounced than what it had been, but it really is tracking with what 2007 did.

Ed Spehar: Okay. Thank you.

Bob Glasspiegel, Langen McAlenney: Good morning, everyone. You guys are not the type of company that goes and hires Mackenzie Consultants and does strategic reviews and announces like major changes in strategy, which I sort of find refreshing actually compared to most of the other companies that we follow. But Mark, I'm just trying to see whether your comment on switching health emphasis to worksite from individual is sort of a major long-term change or just a time-out pause. We can't make much money in health because the metrics on margins and persistency on life versus health are not new numbers. I mean, those are numbers that have been around for as long as I've been following the Company. But it sounds like you guys have made a pretty significant change in strategy that may be more than just a one-quarter response to market competition.

Mark McAndrew: Well, I would agree with that Bob. Is it a quick fix? No. It will take some time to do it. Actually, one of the things is we are very encouraged with the model we put together at Liberty National – the compensation, the products, the sales presentation. We are seeing extremely good results there. So much of our sales come from new agents. In all of our distributions, roughly half of our sales come from agents really in their first six months. So by focusing even just on our new hires and training them and using this sales presentation, these products, we can see over the next year to two years a significant movement. Why haven't we done it before now?

One, when sales are growing by 50%, it's kind of hard to rock the boat too much. And also, if I look back a year ago – two years ago – our life distribution systems were not performing, at least to my satisfaction. It is a good opportunity to do this, and we've battled that health market. Were not going to abandon it; but it has just seen huge fluctuations over the last twenty years and it is highly competitive, and it is highly regulated. So I just think now is the time to do it. And the thought was over the next year we were going to merge the two entities, and we still have plans to do that. And it's a good time for the United American agents to begin getting comfortable with Liberty National products although we will continue to allow them to offer the products they currently have.

Bob Glasspiegel: You need any other products that you don't manufacture in this worksite to broaden it out, or do you think you have the full arsenal of products?

Mark McAndrew: At Liberty National, we offer a couple of outside products, but the vast majority of the sales come from products that we manufacture.

Bob Glasspiegel: Okay. Last question, just on the acquisition front. It was a quarter or two ago that you said you might do a deal that would take you out of share repurchase for a year or two but you charged ahead at a little slower than last year's pace. Is there a read that there's sort of a big acquisition that would take you out of cash flow needs for buy back? Has it been there that you thought might have been there?

Mark McAndrew: Well, Bob, again, I can't comment on our acquisition activity. We're being more selective this year. Last year, we did heavily weigh our stock repurchase in the first half of the year. With

the volatility we're seeing in the market and in our stock price, we're being a little more selective at what price we're buying it at. So we're spreading it out a little more and we are not going to stop our share repurchase unless we do find a good acquisition, so we're continuing to repurchase shares.

Bob Glasspiegel: Thank you very much, Mark.

Steven Schwartz, Raymond James: I just wanted to follow up on what Bob asked in the restructuring of Branch. Is there, you know -- Mark, put this in the right way – you are going to be increasing the incentives on the life side. Is that correct, to try to get these guys over to the L&L products?

Mark McAndrew: Well, we already at Liberty National…

Steven Schwartz: I am talking about all Branch going to Liberty National products.

Mark McAndrew: I am just saying, at Liberty National we have put together some very strong bonus incentives there which is part of the reason we're seeing the growth that we're seeing at Liberty National. We will put those same incentives in for the United American agents, which the opportunity for them to make a very good living selling life insurance is definitely there. The compensation per sale we feel good about. So we are going to continue to really try to direct those sales in that direction.

Steven Schwartz: Okay. Let me ask you this – because I would imagine, you know, an independent sales guy who specializes in health wants to continue specializing in health, he would just take his business elsewhere. These are obviously Branch agents. Is there something in the Branch, some kind of deal or something like that, if they're not happy with the way things are going that would still keep them with you?

Mark McAndrew: Well, again, we're not – the veteran agents that we have, we're not taking products away from them. In fact, as I mentioned, we're actually filing a new health product this quarter that we will probably have out in the fourth quarter. We're not trying to run those people off and don't intend to. We will continue to provide them with products to write. But for newly hired agents, we're sure going to try to move them into writing the Liberty National product line. And again, within six months, a substantial portion of our sales come from agents that have been recruited in the past six months.

Steven Schwartz: That's true. Is there going to be any changes on the under 65 health side in commissions?

Mark McAndrew: I don't think there's – we are looking at that, but there's no definitive decision being made there.

Steven Schwartz: Okay. All right. Thank you.

Eric Berg, Lehman Brothers: Thanks. With respect to the incentives, Mark, that you mentioned to encourage new agents hired at United American to sell Liberty products, are you talking about Liberty life products or health products?

Mark McAndrew: Well, both. We're putting out basically the Liberty National portfolio. Again, we're trying to encourage both individual life sales as well as worksite sales. About 40% of Liberty National sales are worksite; both supplemental health as well as life, and so all of the entire product line is being introduced. But again, the needs-based sales presentation that Andy King has put together for the Liberty National agents has made the training and the closing rates that we're seeing at Liberty National are far superior to what we have seen in the past, and we think it's going to be much easier to recruit and train

and make agents successful in the United American Branch Office as a result of that sales tool also.

Eric Berg: Do you think that the health insurance business can – I mean, I'm still trying to get a sense of the outlook for the health business at United American; and in particular, with the making of available to the United American agents of Liberty health products. Do you think that will make a difference?

Mark McAndrew: Well, yes, I hope it makes a difference. But I don't know that the United American health sales – we had roughly $20 million of health sales at United American this quarter. Our expectation right now is that's going to drop to about $18 million next quarter and then be back up in the $20 million range in the fourth quarter. So we won't see much additional drop-off. But we hope to add to that with writing a substantial amount of the Liberty National product.

Eric Berg: Okay.

Rosemary Montgomery: Eric, I've got an additional comment. I think really what we're trying to do is also improve the persistency because that really is going to make a huge difference. And if we can structure the agent compensation so that it is dependent on that good persistency, I think that's what really will make a big difference with this.

Mark McAndrew: That is part of the incentive compensation.

Eric Berg: Okay. The other question – the final question I had relates to the mortality issues that were referenced in earlier questions, and by you, Mark. When I look at your financials here, you call it your financial supplement, and I look at the underwriting results, it's not apparent to me that there was adverse mortality in the sense that if you look at, for example, at Liberty and at the Direct Response operation and then you just look at the, say, the ratio of net policy obligations to premiums, which is all shown on page 8 of your financials, it doesn't look like there was really much of a change indeed for the entire life business. The underwriting margin was essentially the same this year as last. So if the disappointment was related to adverse mortality, why don't we see it in these numbers?

Rosemary Montgomery: I think what we were saying is that it – for one thing, the deviation or difference from what we expected wasn't a large dollar amount, but we compare our numbers pretty closely. If we have any deviation at all we're going to look at it to see what the differences really are.

Mark McAndrew: And also, you know, in comparison to what Rosemary said earlier, the second quarter of last year at Liberty National, we had the highest paid claim quarter that we've had in three years. So we are comparing to a quarter last year that had very high claims. What Rosemary has said is that we were not anticipating that same pattern this year. We were expecting more of a level pattern, but we have seen again higher claims in the second quarter than what we anticipated. The actual paid claims in the second quarter this year were less at Liberty National than they were the second quarter of last year, but they were still higher than what we had projected.

Eric Berg: Thank you.

Mark Finkelstein, Fox-Pitt Kelton: Hi. Just a couple more quick questions on the health restructuring. I guess just hearing you and talking about the merging of the stack companies and kind of getting a little bit closer tie to L&L, is the end game to essentially merge these distributions so we do not see a separate L&L and UA Branch distribution?

Mark McAndrew: Yes. I think that is where we will end up really within the next year; that the United American offices will become Liberty offices, and they will basically offer the same product portfolio with the same compensation systems.

Mark Finkelstein: Okay. And then I guess the only other question I was going to ask is, I mean, are they largely in the same markets, and is there any risks of channel conflicts and maybe any concerns on the L&L side about this transition?

Mark McAndrew: Very little. Again, Liberty National is so concentrated in the Southeast, particularly in Alabama, where we have no branch offices. United American doesn't have a branch office in Alabama.

Mark Finkelstein: Right.

Mark McAndrew: And the United American branch offices are spread out over 36 states, and there's very little conflict there. I don't think that's a problem.

Mark Finkelstein: Okay, thank you.

Jeff Schuman, Keefe, Bruyette, Woods: Good morning. You talked a fair bit about the underage 65 health strategy. I was wondering if you can just kind of give us an update on how you're thinking about the Part D business? It has turned out to be a profitable business certainly, but at this point the premiums are declining. I mean, is the plan from here just to kind of manage that for whatever growth you can get, or is there some kind of strategic rethink you can do to actually turn that into a growth vehicle?

Mark McAndrew: It's such a small part of our business, and I think the first option is where we're at. We will manage it, and we will try to maximize our profits on that, but I don't want to expend a lot of effort, and I don't see the potential to try to really focus our efforts on growing that business.

Jeff Schuman: Is this a franchise that might have some value to another party, or not?

Mark McAndrew: Oh, possibly. But just like most of our businesses, we've never been able to find people that will pay us what we believe it's worth. So it might have some value, but I don't know that it would have more value than what it has us.

Jeff Schuman: Okay. Thank you.

Steven Schwartz, Raymond James: To follow up on Part D, I'm just wondering, Mark, with the PBM fees change, I think your margin is going to get north of 15%. Do you think that's sustainable in '09?

Mark McAndrew: Rosemary, you want to comment?

Rosemary Montgomery: Mark, if you don't mind, I think I can answer that question. We expect to see, as you say, about 15.5% margin for the remainder of this year. But we expect for 2009, that's going to go back to 11%.

Steven Schwartz: Back to 11?

Rosemary Montgomery: Yes.

Steven Schwartz: Okay. I am glad I asked. And Rosemary, going back a little bit to the adverse mortality, the tiny bit that you have – I'm just wondering about the timing of it and maybe there was a lag in reporting from the first quarter. I mean, the entire industry had poor mortality pretty much in the first quarter. You guys did not. And then suddenly you see a little bit, so I'm wondering if maybe what we're seeing here is a lag from what the industry saw in the first quarter?

Rosemary Montgomery: I think that there were some, as you say, lags in our reporting and how we

viewed it. And so it's probably true that some of the claims that we're dealing with being paid now might have actually been incurred in 2007. That's just always a real hard number to try to guess or not – sorry, that's a bad word – but try to estimate. Yes, I think we did see some changes in our lag patterns that impacted that number.

Steven Schwartz: From 2007 or from first quarter '08?

Rosemary Montgomery: Well, I would put more of it in 2007, I think.

Steven Schwartz: Oh, okay. All-right. That's interesting. Thanks.

Eric Berg, Lehman: Thanks. It seems like the Independent side of United American health business is enjoying a level of production that while not increasing is not deteriorating to nearly the same degree that your Branch Office is. Why is that?

Mark McAndrew: I don't know that I have an answer for you on that, Eric.

Eric Berg: Must be a good question then, right?

Mark McAndrew: It is a good question. It's – you know, we have kind of a core group of long-term, independent agents that produce – we still write some Medicare business that have continued to produce for us over the years. And again, we're still out recruiting new independent agents, but it hasn't been impacted as much by the competition; again, because there have been companies out there specifically going after our branch office managers, agents, and recruiting them away from us.

Eric Berg: Okay. Thank you.

Mark McAndrew: All right. Well, thanks for joining us this morning, everyone and we'll talk to you again next quarter.