TORCHMARK CORPORATION
3rd QUARTER 2007 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: Good morning.

Net operating income for the third quarter was $130 million, or $1.38 per share; a per share increase of 10% from $1.26 from the year-ago quarter. Our return on equity was unchanged from a year ago at 15.8% and our book value per share increased just under 10% to $35.18.

In our life insurance operations, premium revenue grew 3% to $393 million and life underwriting margin increased 9% to $105 million. As a percentage of premium revenue, life underwriting margins were 27% versus 25% for the year-ago quarter. Life insurance net sales were $66 million; up 1% from a year ago and life first-year collected premiums were $49 million; a 5% decline.

In our Direct Response operation, life premiums increased 6% to $121 million, and life underwriting margin grew by 18% to $29 million. Life net sales declined 2% to $28 million, and life first-year collected premiums were also down 2% to $18.7 million.

While net life sales continued to show a slight decline in the third quarter, we expect to see a significant turnaround in the fourth quarter. As I mentioned on the last call, our insert media circulation during the third quarter was 27% greater than a year earlier. As a result, we saw a 24% increase in our insert media responses during the quarter. During the month of September, our gross life sales (which are policies which have been issued but have not yet paid beyond the introductory offer) grew by 19%. We believe these increases will result in double-digit growth in total Direct Response net life sales beginning in the fourth quarter. With insert media circulation scheduled to increase 35% during the fourth quarter, we expect to see continued strong growth in net life sales through at least the first half of 2008.

At American Income, life premiums grew 7% to $111 million for the quarter. Life underwriting margin grew 13% to $36 million. Net life insurance sales rose 10% to $24.4 million with first-year collected premiums showing 2% growth to just under $18.5 million.

At the beginning of July, we implemented an improved compensation plan for new agents at American Income consisting of increased commission advances and reduced bonus thresholds in an attempt to improve retention of new agents. While it is too early to tell whether retention has improved, the change had a positive impact. The number of producing agents at American Income hit an all-time high of 2,616 at the end of the quarter; an increase of 9% in just the past three months. New agent recruiting for the quarter was the highest in four years and the second best recruiting quarter ever.

At Liberty National, life premiums declined 3% to $73 million with life underwriting margin down 9% to $18 million. Life net sales declined 9% to $9 million with life first-year collected premiums down 18% to $7 million.

While the producing agent count grew 6% for the quarter and now exceeds the count from a year ago, the decline of renewal year agents (who have

higher average production) continues to have a negative impact on new sales. Effective October 1st, we have instituted agent compensation changes at Liberty National similar to those we made at American Income last quarter.

On the health insurance side, premium revenue, excluding Part D, was flat for the quarter at $253 million with health underwriting margins up 1% to $45 million. Health net sales declined 4% to $57.5 million and health first-year collected premiums were up 1% to $48 million.

For the Independent Agency operation at United American, health premiums dropped 8% to $93 million and health underwriting margin was down 11% to $15 million. Net health sales fell 9% to $11 million.

On the Branch Office side, health premiums grew 9% to $97 million while underwriting margin declined 1% to $12 million. Net health sales were down 2% for the quarter to $40 million while first-year collected premiums were up 12% to $32 million.

The decline in underwriting margin was primarily due to adjustments we made as a result of our annual review of the amortization of our deferred acquisition costs and the adequacy of our reserves. These adjustments were year-to-date adjustments; meaning that our year-to-date underwriting margins are our best current estimate of what we expect to see going forward.

The decline in health net sales for the quarter was unexpected. Upon further review, it appears the loss of growth was actually caused by our rapid expansion.

Since the end of July 2006, we have increased our branch offices from 110 to 149 (or 35%) and grown our field management from 471 to 662 (which is 41% growth). While it appears that our renewal year agent count has grown 23% in the past twelve months, in fact the growth has been entirely in our management ranks. In the last year, we have promoted over 300 of our best producing agents into management.

While we expect to see improved sales going forward as a result of our expansion efforts, we will have more moderate expansion goals in 2008 allowing our sales growth to catch up with our management growth.

Premium revenue from Medicare Part D was $53 million for the quarter and underwriting margin was $6.4 million. The reconciliation with CMS for 2006 experience should be finalized in the fourth quarter. We have conservatively accounted for monies to be repaid to CMS as a result of favorable experience and expect the final reconciliation to have a positive impact on fourth quarter results.

Administrative expenses were $40 million for the quarter; up $2.5 million from a year ago.

Litigation expenses were up $3.2 million for the quarter, including the Mississippi judgment mentioned in the earnings release. In the third quarter of 2006, litigation expenses were reduced by $1 million for proceeds from a class action lawsuit to which we were a party. Other administrative expenses were in line with our expectations.

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

Gary Coleman: Thanks, Mark.

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

First, investments. Torchmark has $9.2 billion of bonds at amortized cost, which comprise 94% of invested assets. Of our bonds, 91% are corporate bonds and hybrid securities. Less than 1% of our bonds are in mortgage backed securities and none of those are backed by sub-prime mortgages.

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 third quarter, we invested $226 million at an average annual effective yield of 6.84%, an average life to worst call of 22 years and an average rating of A. This compares to the 7.17% yield, 22 year life and BBB+ rating of bonds acquired in the third quarter of last year.

The new money yield has increased in each of the last three quarters, but is still slightly lower than the portfolio yield. At September 30, the average yield on the portfolio was 6.96%, 9 basis points lower than a year ago.

Now, turning to excess investment income. It was $81 million, up 1%; however, on a per share basis, excess investment income increased 8%, which reflects the effect of our share repurchase program.

Excess investment income is net investment income less the interest cost of the net policy liabilities and the financing costs of our debt. As mentioned in the earnings press release, both investment income and interest expense were $6 million higher than usual in the third quarter of 2006 due to the pre-funding of debt that was retired later that year. For the year-over-year comparison of the components of excess investment income, I will exclude the effects of the pre-funding from the third quarter 2006 numbers. With that in mind, the comparison is as follows:

First, net investment income was up $8 million. However, taking into consideration the $256 million of municipal bonds acquired in March and April, total investment income, on a tax equivalent basis, was up $9 million. This represents a 6% increase in income, slightly lower than the 8% increase in average invested assets.

Next, the interest costs on net policy liabilities increased $5 million, or 9%, and that's due primarily to a 7% increase in the average liabilities.

And, finally, financing costs were up $2 million due to the higher average short-term debt outstanding during the quarter.

Now, regarding our share repurchase program. In the quarter, we spent $103 million to buy 1.6 million Torchmark shares. Year-to-date, we have spent $401 million acquiring 6.1 million shares, which is more than the 5.6 million shares purchased in the full year of 2006.

In the past, we have routinely just used the free cash flow at the holding company to fund stock repurchases. As mentioned, we have spent $401 million to date, which is $51 million more than the $350 million of free cash available this year. The additional purchases were made when the stock price declined significantly in August and September, and were funded through short-term borrowings. Since then, our share price has risen, and if it remains at or above the current level, it is unlikely that we will purchase shares in the fourth quarter.

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

Mark McAndrew: Thank you, Gary.

We continue to expect full year 2007 earnings per share to fall within the guidance range

we provided last quarter. We will provide 2008 guidance on our next call.

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

Jimmy Bhullar, J. P. Morgan: Hi, thank you. I just have a couple of questions. The first one is on Liberty National. Mark, if you can discuss your outlook for that channel and you're making some changes on agent comp, it seems like you're going back to how it used to be in terms of lowering productivity requirements. But if you can discuss when these changes will result in an improvement in sales?

And then if Rosemary is there, on Part D, if you can give us an idea on what you expect in terms of enrollment for next year? And that's all I have.

Mark McAndrew: Okay. Jimmy, I wish I could accurately predict what's going to happen at Liberty National in the fourth quarter, and even into the first part of next year. It's very hard to predict. Our agent count continues to grow. Again, the changes we made at American Income, we basically went from 1% growth to 10% growth in the first quarter we made those changes. Will we see similar results at Liberty National? We hope so, but I can't say with a great deal of certainty that we'll see the same results. We obviously hope we do.

Rosemary, you want to take the Part D?

Rosemary Montgomery: Yes. In terms of the enrollment for next year, I really expect to see something of a stable population. We will experience some lapses on our existing population at the end of the year, but we will also write some new business. And so, I would say I expect to see stable numbers there.

We are going to be offering two plans in 2008, and we have allowed for acquisition expense in both of those, which is different than what we had from the prior year.

Jimmy Bhullar: And the other one, the lower premium plan that you were discussing, or is it --

Rosemary Montgomery: It's slightly lower. One of our plans is an enhanced benefit plan, and the other one is really a plan that's equivalent to their standard plan. So, the premium is slightly lower, yes.

Jimmy Bhullar: And then lastly, could you quantify the reimbursement reconciliation you're expecting in Part D in the fourth quarter?

Rosemary Montgomery: Well, we are still working on that, so the numbers are not final. We had, as Mark mentioned, conservatively accounted for what we thought the numbers were going to be. So far, the numbers that we are seeing are going to be favorable to us; but it is not final. But we do expect to see a favorable impact in the fourth quarter because of this.

Jimmy Bhullar: Okay. Thank you.

Steven Schwartz, Raymond James: Thank you. Good morning, everybody. First, I'd like to follow up with Rosemary on Jimmy's question on Part D. Well, first off, Rosemary, could you give us a sense of how many states you've been approved in and how many states that you're approved for dual eligibles? Compare that to last year?

Rosemary Montgomery: We're approved in all regions. However, for dual eligibles we're only going to have one state going forward, or one region, which is Arkansas. And that's actually good news because we lost Wisconsin. But we had experience that

wasn't as favorable in Wisconsin, so that really is quite fine with us.

Steven Schwartz: Okay, great. Now, if I remember correctly, the margin this year looks like it's, at least so far, through the nine months it looks like it's coming in around 10.7, 10.8%. I think, do I remember correctly, you were disappointed in that, weren't you? Wasn't the original goal 15%?

Rosemary Montgomery: Oh, no. No, I don't think our original goal was ever 15%. And actually, I think we've been pleased with the results in Part D. I guess the one issue that we did have was when we priced our business for 2007 originally, and we had to do that based on four months worth of experience. And so, the margin that we thought we had in our 2007 premiums actually didn't turn out to be quite as high as we had hoped. But we re-did our projection at the beginning of the year, and our 2007 experience really all year-long has been in line with that projection. We have had favorable adjustments come through in 2007 that really relate to the 2006 business. And also, as a result of the reconciliation, that will account for most of it in the fourth quarter. We expect to see another favorable result from that.

Steven Schwartz: Okay. And then just on the changes in how you're compensating continuing agents both in American Income, and then looking at Liberty National, will that ultimately have an effect on margins? I don't know if those extra payments, sounded like extra payments, would be DAC'd or not. Presumably if they were DAC'd they would come through eventually in the earnings.

Mark McAndrew: They would, and it's not significant. At American Income, the changes we made there, most of the change is additional commission advances which were basically losing time value of money, which is not significantly going to affect margins. The lower bonus thresholds, we share that cost with the SGAs, and if it is very successful it could result in anywhere from a half to a one-point reduction in our margins. But again, when you look at the margins that we have there, if we can recruit or retain more agents from it, it's a great investment on our part.

Steven Schwartz: Okay, great. That's what I wanted to know. Thank you.

Thomas Gallagher, Credit Suisse: Hi. Just one, first on Part D and then I have a couple of others. I just want to make sure I understand where this is likely to at least come out from a range of outcomes in 4Q. You had a 12% margin in 3Q. Can you just give even a broad range of where that might come out in 4Q? Are we looking at 12% or better?

Rosemary Montgomery: I think we're actually looking at 13.5%. So, yes, I think it's going to come out better than the 12%.

Thomas Gallagher: Okay.

Mark McAndrew: Strictly for that quarter. Rosemary, for 2008 on our pricing, what's our target underwriting margin?

Rosemary Montgomery: 11%.

Mark McAndrew: Okay.

Thomas Gallagher: So, a one-time positive adjustment in 4Q, and then 11% pricing assessment for '08?

Rosemary Montgomery: Right.

Thomas Gallagher: Okay. That's helpful. I guess just overall on the health sales through the Branch, I just want to understand a little bit more what's happening. That really has been a growth driver for you, and if I'm understanding you correctly, that the

decline in sales this quarter is viewed as kind of a one-time hiccup due to this transition of productive sales people into management. Is that fair to say?

Mark McAndrew: That's fair to say. We were very aggressive, particularly in the last six months in opening new offices, promoting new managers, as well as middle managers. And again, if you look at the way it's reported, we put producing agent counts out on our website, but those renewal year agent counts include management. And it shows, if you look at those numbers, it shows a renewal year agent count has grown by 23% in the last year. That's really not the case, because of that 898 renewal year agents, it's -- hold on a second -- 662 of those are in management. So, our renewal year agent count really hasn't grown. And the fact that those agents that we've promoted into management are our best producers; they're averaging over $100,000 a year of production. Well, it hurts short-term sales every time you promote one of those people. Now, it is an investment we're making in longer-term growth. But it just says, we can't grow 35% a year in our Branch offices. That's overly aggressive. About half of that is more manageable growth, and we just allowed our Branch expansion to be a little too aggressive, and we've taken too much individual production out of it. So I'm not concerned about it. I believe that investment in that expansion will pay off going forward. But we're going to have more moderate goals for 2008.

Thomas Gallagher: Okay. And just, Mark, as we think about the way this is likely to play out, you know, again, broad range of expectations, do you think -- are sales likely to be flat to down near term, or do you think you will get a quicker bounce-back, just in terms of the next two, three quarters?

Mark McAndrew: Well, again, I think that it will start back up in the fourth quarter, and it may not be back to double-digit in the fourth quarter, but by first quarter, it definitely should. Again, when we've grown our management staff by 40% in the last year, we sure expect to see strong double-digit growth next year as a result of that.

Thomas Gallagher: Okay. So, as we think about premium growth on the health side, we were roughly flat this quarter. Do you think we've bottomed out at flat and we'll see at least moderate growth next year?

Mark McAndrew: Well, again, it should improve over where it is today. But again, it would be very moderate growth next year, possibly in 3% to 5%, but we haven't done our models yet for 2008. So really I'm not in a position to give you guidance on what I think those premiums will be next year.

Thomas Gallagher: Okay, but you wouldn't see them declining necessarily?

Mark McAndrew: No, I wouldn't.

Thomas Gallagher: Okay, thanks a lot.

Bob Glasspiegel, Langen McAlenney: Good morning. Since you are the first life company I have followed to report, I just want to sort of go through the investment portfolio a little bit more carefully. If we look at page 11 of your handout, the balance sheet, your unrealized gains or losses of $20.6 million were up $3.5 million sequentially. I realize you saw a little bit of gain, so that may overstate the decline in how the portfolio did. But with a portfolio that doesn't have exposure to sub-prime, and the average corporate bond yield went down 10 basis points, I was sort of expecting a slight increase in your total portfolio market-to-market this quarter. Am I missing something, or was there some dynamics in the portfolio where you had a little bit of minor losses?

Gary Coleman: No, Bob, I can't think of anything where there were specific to securities or problems

that would result in losses. It's really not much of a change in the net unrealized loss we had last quarter.

Bob Glasspiegel: Right. So, you think for the life companies we're looking at with similar type portfolios no changes is sort of what we should be thinking in terms of?

Gary Coleman: Well, I don't know the other life companies' portfolios like I do ours, but that seems reasonable.

Bob Glasspiegel: Okay, and where are your statutory earnings running through nine months, just as a guide post of what your free cash flow for next year might be that you'd have available?

Gary Coleman: We don't have the nine months statutory earnings-to-date, so I haven't been able to look at that.

Bob Glasspiegel: Is it your sense they're up, down, sideways? Could there be some unusual items that could swing it?

Gary Coleman: I'm not aware of any unusual items through the six months. I recall that they were up. And, you know, my thought is they will be up for this year. I just don't have the numbers today.

Bob Glasspiegel: Your short-term is down sort of year-over-year. And sequentially, even with the increased funding, are you going to fund that out longer than the buyback?

Gary Coleman: No, I don't think so. As I mentioned, I don't know that we'll buy back much, if any, in the fourth quarter. And then, of course, we'll get into next year, our free cash flow, and even though I don't have the statutory numbers I expect it to be at least $350 million we had this year. So, we'll be content to wait until that money starts coming in to buy back the stock, unless, as I mentioned earlier, if there's a significant decline in the price, then we've got quite a bit of room to our short-term line we could borrow if we needed to. I just don't expect that.

Bob Glasspiegel: I was interested in your answer. I actually had a slightly different question, though. You're comfortable with where your short-term debt is right now? You don't have to extend that?

Gary Coleman: No, $200 million is all in commercial paper. Under our line we could borrow up to $470 million. So, the $200 million is really the lowest at right now and is about the level we normally run at.

Bob Glasspiegel: Okay, thank you very much.

Ed Spehar, Merrill Lynch: Thank you. Good morning, everyone. Mark, I was wondering if you could define "successful," when you talk about the changes you've made in the bonus plans for American Income and now for Liberty National. If there was a half to one-point reduction in margins, how fast would you be growing the top line in those channels?

Mark McAndrew: Oh, American Income is a little easier. I mean, if you look at last quarter, prior to making those changes, Ed, our sales were up 1%; and the first quarter after we made the changes, our sales were up 10%. Well, that's roughly $2 million of additional sales which should translate into roughly that much additional premium going forward. Are we willing to give up a half a point of margin when we're looking at in excess of 30% margins at American Income? To get 10% more business by giving up a half a point margin…that's a great investment as far as I see it. You know, hopefully going forward we'll see that accelerate, but it's kind of early to say what impact we're having on the retention right now. But it sure has increased our recruiting since we made the change.

Ed Spehar: And then, Mark, how about for Liberty National? What would be considered, you know, given that the margins aren't as high there?

Mark McAndrew: True. There we're not -- we're changing the bonus more than increasing the expense. We really don't expect to be giving up any margin at Liberty National. One, our bonuses were being paid monthly. I think one of the big impacts is we've gone to being paid weekly, which seems to have some benefit. But at Liberty National, we're really not giving up any margin there. We're changing the compensation plan and not really increasing the money.

Ed Spehar: Okay, that's very helpful. Then on premium, I'm wondering, it sounds like you're sticking with what you had said about Direct Response this quarter. So, I'm wondering, is there any more clarity in terms of when we see the first-year collected life premiums year-over-year turn positive and maybe, you know, what kind of growth we might see in that number as we head through '08?

Mark McAndrew: Oh, I haven't really put together our models for next year at this point. But right now we're running 2% decline in first-year collected premiums. That should turn around into a positive, I would think, even in the fourth quarter it should stop the decline. Again, if we start seeing double-digit growth, and I think fairly strong double-digit growth in the fourth quarter, it will take a full year for the first-year collected premiums to catch up with that percentage growth in sales. But again, you can start with the 2% decline and where we'll be a year from now, and it would just track quarter by quarter. It would be a gradual increase. For example, if we can improve and get 15% growth each of the next four quarters in our Direct Response sales, I would expect a year from now to see 15% growth in our first-year collected premiums. So, it would be more of about a 4% improvement in each quarter over the next four quarters.

Ed Spehar: And how about just for the total life business, thinking about it? I was trying to get you for '08.

Mark McAndrew: Yes, Ed, I'm going to have to put you off until the next call on that. We just haven't gone through and made our sales projections; our premium projections for next year. It's just impossible for me to say right now what we expect our life insurance premiums to do next year.

Ed Spehar: Okay, then just one last question. You said that the Branch office growth that you've had at United American is -- I think you said 35% -- and that, you know, you think you can do half of that without sort of stretching the system. I guess I mean, does that mean we should assume that Branch offices are flat next year because you sort of have two times the growth in '07?

Mark McAndrew: No, I don't think they'll be flat. I think about half of that -- I think we would still look for somewhere in that 15% to 20% growth in both new offices, as well as our entire management. But we can't sustain 35%, 40%. We just got overly aggressive, and no, I would still expect that we can grow by 15% to 20% our offices next year.

Ed Spehar: Thank you.

Mark Finkelstein, FPK, Cochran, Caronia, Waller: Hi, a couple of questions. I guess, just to confirm, based on your comments on your comfort level with the short-term, can we infer that the higher buyback is additive and not borrowing in any way against 2008 excess cash flow?

Mark McAndrew: Gary, you want to take that?

Gary Coleman: Yes. Mark, I'm not sure I understood the question. Can you repeat that?

Mark Finkelstein: I am just saying that you kind of levered up to buyback more stock, and I guess what I'm trying to make sure of is that the additional buyback in 2007 doesn't essentially go against what, you know, your excess cash flow would be for 2008 based on statutory earnings.

Gary Coleman: Oh, no, it won't. Again, at $200 million short-term debt, that is, if you go back over the last several years, that's what we've averaged at the end of each quarter. So we actually are a little low. We were around $170 million coming into the year in short-term debt, so we haven't increased it that much. Now, if for some reason the stock fell and we borrowed more money in the fourth quarter, the way I would look at that is that we would be pre-funding purchases with cash flow from the prior year -- I mean, for 2008. But, again, I don't anticipate that happening. But that's the way we would look at it, is we're just simply pre-funding our 2008 purchases.

Mark Finkelstein: Okay, thanks. And then, Mark, just going back to a comment you made on the second quarter. I think gross sales in Direct Response were up about 7%. This quarter, net sales in Direct Response were probably down 2%, I guess. Can you just talk about that dynamic and how tightly correlated, you know, the gross sales and net sales have been historically in terms of thinking about that 19% growth that you talked about in September, and how that should trend into the fourth quarter sales number at Direct Response?

Mark McAndrew: Well, and I don't have it in front of me exactly what I said last quarter….hold on a second. But they typically trend very closely. In fact, it's interesting that our third quarter gross sales were up 19% in Direct Response, and through the first three quarters, or the first three weeks of October, we're running 16% ahead of net sales. We feel very comfortable that the growth and gross sales that we saw in the third quarter will equate to something very close to that in the fourth.

Mark Finkelstein: Okay. And then I guess, I mean, the numbers are a little bit smaller. But one thing that I noticed was, looking at life sales at the UA branch, they've actually sequentially gone up pretty significantly -- I think a million and a half for the third quarter. Is there a higher emphasis on selling life out of the UA branch, or is there any different product or anything going on there, and how do you expect that to trend going forward?

Mark McAndrew: Well, yes, we have tried to encourage more life sales in the Branch. And actually, we made it easier for them to do it. One of the biggest things we did was, now they can apply for both the health and the life in one application. So, we've significantly reduced the paperwork. Plus it reminds the agent every time he's in that house selling a health policy (most of these people, if they don't have health insurance they also have no life insurance) just a reminder to that agent that "Oh, I need to ask about life insurance," and we are seeing additional life sales made at the same time of our health sale. And going forward, I think that will continue to improve.

Mark Finkelstein: Okay. Great. Thank you.

Eric Berg, Lehman Brothers: Thanks very much. Gary or Mark, I have a sort of a high-level question regarding the share repurchase program, and it is this: It looks like this year, basically reflecting the aggressive share repurchase program, the equity base, the shareholder's equity, didn't grow. It actually fell a little bit. You're actually -- no, it's probably about the same -- roughly the same. It fell modestly from where it was in summary at the start of the year. And my question is: If you continue to expand the size of

this company with a growing asset base, and accordingly a growing liability base, a growing base of insurance liabilities, will you be able to continue to buyback stock, or is it possible that you will run afoul of rating agencies and regulators? Don't you have to have, just in general terms, don't you have to have, if you have a growing insurance company, and growing risk on the books, a growing equity base?

Mark McAndrew: Well, I'll make a few comments, Gary, and I'll let you have it. One, regulators are concerned primarily about our statutory equity, which all we are dividending up to be used in share repurchase is our current year of statutory earnings. So, our statutory equity is staying at least at the level it has been, which does not appear to be a problem with regulators. Gary, you want --

Eric Berg: Why wouldn't it be a problem, Mark, in the sense that if you're keeping your equity flat, as you grow your business you're going to have a declining ratio, or a rising ratio of liabilities, insurance liabilities to your statutory surplus? So, I would think that eventually you would sort of bump up against the wall, but, you know, I am eager to hear.

Mark McAndrew: Eventually, that may well be true, but I don't see anything like that happening in the short-term.

Gary Coleman: No, Eric, I agree with Mark. The one thing that you have to remember is that the type of products that we sell have fairly low risk based capital requirements. As Mark said, the surplus pretty much stays the same. But also our capital requirements have not grown a great deal, either, and that's what has allowed us to be able each year to take out the earnings. And I agree with Mark, theoretically, at some point we can't do that, but I don't see that anywhere in the near future. And as Mark mentioned, too, when rating agencies take a look at us, they're looking at our cash flow, not only statutory income but just the cash generated by our products versus the cash required by them. And I can tell you that where we're rated, we're in a higher range in terms of our capital that we have for our rating. So, I think we're in pretty good shape.

Eric Berg: My second question, my final question, relates to Direct Response. Remind us when you took control of the Long Island company that does the media sort of thing

Mark McAndrew: It was in January of this year, Eric.

Eric Berg: In January of this year. So, do you feel like -- we're now into September, rather, we've just completed the September quarter -- do you feel like you are where you wanted to be? Are things developing consistent with or not consistent with your expectations?

Mark McAndrew: Well, my initial expectations were probably a little aggressive, but they are exactly where I should have expected them to be. Because, again, you need to think back. In January, at the time we made that acquisition, if we had not made it, we were looking at a 30% decline in insert media circulation this year. Well, we still saw an 11% decline in the first quarter, and we got it up to roughly flat in the second quarter. Now, in the third and fourth, we've been able to go in and find areas that we can increase that circulation. So, within six months after the acquisition we're increasing that circulation by 27% in the third quarter; 35% in the fourth quarter. I'm pleased with that. The only place that my expectations (and they were unreasonable expectations) that sales growth would occur too quickly. It's because now we fund some lag studies and it's really -- there is a much longer tail to it. I can even give you an example, Eric. We increased the circulation in July. In July, 0% of our net sales from that circulation come in in July. And only 1.8% come in in August, and another 15%, we start to see it in

September. But it's really, we get 18% in October, 17% more in November, and 14% in December. 10% won't come in until January. So, it has a very long tail to it. But I'm pleased with the circulation numbers and the response cards that we're getting back from that circulation are tracking exactly where they should be. We had a 27% increase in circulation. And actually, the last four weeks our increase in response cards is 27%. It was 24% for the full quarter. So, it's tracking exactly where we think it should be. I just had unreasonable expectations on when those net sales would hit.

Eric Berg: And to just finish up here, one more. At the beginning of your prepared remarks you cited three statistics -- a 24% increase in responses year-over-year in the quarter, and then you went on to cite a statistic of 19% and 35%. Could we go over what those percentages were and what they sort of speak to in terms of the future?

Mark McAndrew: Sure. Okay. Again, just looking at the insert media side, which is a little over half of our total sales, it's a two-step process -- meaning, we put an insert in; first we get a response card back. We then, for the next three months, we send them six product packages. Then we continue to mail them once a month for the next nine months. So, they are receiving product mailings from us over the next year. The reply cards, the response cards that we get in, come in very quickly. Just, for example, for July circulation we have 85% of those reply cards back in by the end of August. So, those come in very quickly. They're a very quick measure of what's happening. Now, then when we've done these follow-up mailings with applications and product information, and we get those applications in, we issue a policy. We don't treat it as a sale. We don't count it as a sale at that time because of the introductory offer; which is one month for an adult policy and it's three months for a juvenile policy. But now, we're seeing that -- okay, that's what we call gross sales. These are policies issued that have not yet paid beyond the introductory offer. We are saying those sales were up 19%. It's just they haven't had time to be billed and pay the first full premium. So, we feel very comfortable the responses -- first off, the circulation, which is the number of inserts we're putting in, was up 27% in the third quarter and 35% in the fourth. We're already seeing the reply cards, the responses, up 24% in the third quarter. In fact, in the last four weeks they're up 27%. We're seeing the gross issues, the policies that we are issuing, they're up 19% in the third quarter. We feel very comfortable that the net sales will track that in the fourth quarter, and into the first and second quarters of next year.

Eric Berg: Thank you very much.

Mark McAndrew: Okay.

Colin Devine, Citigroup: Thanks very much. Mark, I was going to ask about if we're looking at the insert media on Direct Response, when does that start to turn into sales? But to follow up on that, you know, Direct Response clearly is your big division today. How sensitive is that business, and perhaps overall for Torchmark, to a downturn in the U.S. economy, contagion off the decline in the housing market, thinking particularly of your customer base?

Mark McAndrew: You know, Colin, I've been closely involved in Direct Response since 1985, and I've yet to see any significant impact on the direct mail side. The economy does not appear to impact our persistency. On the insert media side, it is somewhat -- I mean, there's -- I think a couple of -- gee, it's been a year or so ago, actually prior to the time we acquired DMAD, they were seeing their response rates go down. And what they were telling me was that it was because of the economy. I don't have any facts to support that, but could it possibly impact it? I guess that's possible, but I just really don't have any hard statistics on the insert media side. We've never

seen any impact of the economy on the direct mail side.

<u>Colin Devine</u>: Okay. And then just to understand on Direct Response this quarter. If I think of net sales, okay, down about 2.2% year-over-year, but now you've got the insert piece. So, if we split it up, if we're really comparing apples-to-apples, how much was it down? If we take out the insert media net sales for this quarter so we can compare really what was going on there for third quarter this year to third quarter last year, because third quarter last year you didn't have the insert.

<u>Mark McAndrew</u>: No, we still had the insert media sales. It's just they were being produced by an outside party. We still had those sales and counted those sales.

<u>Colin Devine</u>: Okay. I just wanted to be clear.

<u>Mark McAndrew</u>: Yes, we're apples-to-apples.

<u>Colin Devine</u>: All right, thank you.

<u>Mark McAndrew</u>: Yes.

<u>Operator</u>: At this time, there are no further questions. Mr. McAndrew, I will turn the conference back over to you for closing comments.

<u>Mark McAndrew</u>: Well, I want to thank everyone for joining us this morning, and we'll talk to you next quarter. Have a great day.