TORCHMARK CORPORATION
3rd QUARTER 2009 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 2008 10-K and any subsequent forms 10-Q on file with the SEC.

Net operating income for the quarter was $122 million, or $1.48 per share – a per share decrease of 2% from a year ago. Net income was $101 million, or $1.22 per share.

Excluding FAS 115, our return on equity was 14.6% and our book value per share was $42.82, a 13% increase from a year ago. On a GAAP reported basis, with fixed maturity investments carried at market value, book value was $39.92 per share.

In our life insurance operations, premium revenue grew 2% to $414 million and life underwriting margins increased 3% to $111 million. Life insurance net sales were $82 million – up 9% from a year ago.

At American Income, life premiums were up 6% to $128 million and life underwriting margin was up 9% to $43 million. Net life sales increased 14% to $32 million. Producing agents at American Income grew to 3,929 – up 36% from a year ago.

Through the first three quarters of this year, life sales at American Income have grown 16%. I believe it is on a very good growth track and has good momentum, and expect to see similar sales growth to continue throughout 2010.

In our Direct Response operation, life premiums were up 5% to $133 million and life underwriting margin grew 12% to $33 million. Net life sales increased 10% to $33 million.

Sales results in Direct Response were somewhat better than expected. Through nine months, our Direct Response life sales are up 10% while achieving a $15 million reduction in our acquisition expenses. We currently expect to see comparable sales growth for 2010 while keeping expense close to the 2009 level.

Life premiums at Liberty National declined 2% to $75 million and life underwriting margin was down 23% to $14 million. Net life sales for the Liberty National offices declined 12% to $11.4 million and the producing agent count was down to 2,693. Net life sales for the UA Branch offices grew 84% to $2.7 million for the quarter.

Significant changes were made during the third quarter to address the persistency and profitability of the business being written at Liberty National. These changes have improved the quality of the new business, but we anticipate a continued decline in our sales and producing agent count during the fourth quarter. We expect this decline to reverse in the first quarter of 2010 and we expect to achieve double-digit growth in life sales at Liberty National during 2010.

On the health side, premium revenue, excluding Part D, declined 13% to $200 million and health underwriting margin was down 15% to $36 million. Health net sales declined 39% to $18 million.

We believe the level of our health sales is close to bottoming out and currently expect 2010 health sales of around $70 million. With the announced disenrollments of over 600,000 Medicare Advantage participants, we expect to see an improvement in our new Medicare Supplement sales, as well as Part D, although it is too early to predict how much improvement we will see.

Premium revenue from Medicare Part D was $48 million for the quarter, a 15% increase, while underwriting margin declined 11% to $6 million. Through nine months, Part D sales have grown 29% to $16 million.

The underwriting margin from our annuity business was $1.2 million for the quarter versus $300 thousand a year ago.

Administrative expenses were $37.4 million for the quarter, down 2%. Year-to-date, our administrative expenses are up less than 1%. For 2010, we anticipate administrative expenses to grow in the 1% to 2% range.

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

Gary Coleman: Thanks, Mark.

I want to spend a few minutes discussing our investment portfolio, and liquidity and capital.

First, there were several positive developments in the third quarter.

- Net unrealized losses in the fixed maturity portfolio are $396 million, a decline of $1.8 billion from the peak of the $2.2 billion at March 31, 2009 and the lowest level since year end 2007.

- In addition, we improved the overall quality of the bond portfolio by reducing below investment grade bonds by 23% to $946 million; and

- We bolstered the capital at the insurance companies by contributing $125 million of cash from the parent company to the subs.

The first two items, the reduction of the unrealized losses and the reduction of below investment grade bonds, are interrelated. In previous quarters, we chose not to sell below investment grade bonds because we generally buy and hold, and the valuations were such that we felt that we would receive a better risk-adjusted-return by holding them. Due to the significant improvement in valuations in the third quarter, we determined that for certain below investment grade bonds we would get a better risk-adjusted-return by selling them.

Thus, late in the quarter, we sold $315 million of below investment grade bonds. To offset the tax losses from these sales, we sold $443 million of investment grade, NAIC Class 2 bonds. Because the sales occurred so late in September, very little of the proceeds were reinvested as of September 30th. On the balance sheet, these proceeds are included in Cash, Short-term Investments and Receivables from the Sale of Securities. We are currently in the process of investing these funds in investment grade securities.

I will include the impact of this portfolio repositioning in my comments on the investment portfolio, liquidity and capital.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of September 30, 2009. They are included under "Supplemental Financial Information" in the "Financial Reports and Other Financial Information" section of the Investor Relations page.

As indicated on these schedules, invested assets are $10.1 billion, including $9.4 billion of fixed maturities at amortized cost. Combined, equities, mortgage loans and real estate are $33 million, less than 1% of invested assets.

Of the $9.4 billion of fixed maturities, $8.5 billion are investment grade with an average rating of A–. Below investment grade bonds are $946 million, and once all the sales proceeds from the portfolio repositioning are invested, will be 9% of fixed maturities. This compares to the $1.2 billion of below investment grade bonds and 13.1% of fixed maturities at June 30, 2009. In addition, the ratio of below investment grade assets to equity, excluding FAS 115, is 27% compared to 36% at June 30th.

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

During the quarter, we charged realized capital losses for Other-Than-Temporary Impairments on five bonds. The total charge was $51 million pre-tax, or $31 million after-tax. Including the net gains on asset sales, net realized capital losses for the quarter were $25 million, after-tax.

Year-to-date, realized capital losses are $78 million, after-tax. For further information regarding impairments, see the schedule on our website entitled "Summary of Net Realized Investment Losses."

Now, I would like to discuss the asset types within our fixed maturity portfolio.

75% of the portfolio is in corporate bonds and another 15% is in redeemable preferred stocks. All of the $1.4 billion of redeemable preferreds have a stated maturity date and other characteristics that make them more like debt securities. And to date, all scheduled interest payments have been received. None of these securities are perpetual preferreds.

The remaining 10% of the portfolio consists primarily of municipals and government related securities. Our CDO exposure is down to $61 million in two securities where the underlying collateral is primarily bank and insurance company trust preferreds.

Now, to conclude the discussion on investments, I will cover investment yield.

At June 30, 2009, we had $625 million of cash in short-term investments in the insurance companies. We had accumulated the cash in the second quarter because of the uncertainty regarding the commercial paper and long-term debt markets. With the $300 million of debt issuance in June and the stabilization of the CP market, we invested this excess cash in the third quarter along with our operating cash flow.

In the third quarter, we invested $957 million in investment grade fixed maturities, primarily in the municipal and industrial sectors. We invested at an average annual effective yield of 6.4%, an average rating of A and an average life of 13 to 19 years. This compares to the 7.3% yield, A– rating and 21 year average life of the bonds acquired in the first six months of 2009. The lower third quarter yield was due to us relaxing the tenor of our investments in order to have a larger supply of bonds to invest in.

Although we invested the excess cash from June 30th, we ended the third quarter with excess cash due primarily to the portfolio repositioning. At September 30th, we had approximately $1.1 billion in cash, short-term investments and receivables from the sale of securities; $940 million in the insurance companies and the remaining $150 million in the parent company.

We are in the process of investing the extra cash at the insurance companies, but will probably not have it all invested by year end because of the already limited supply of bonds currently available and the usual slow down in the approaching holiday season. Since September 30, we have invested $282 million at an average yield of around 6%, average life of 14 to 22 years and an average rating of A.

For the entire portfolio, the third quarter yield was 6.97%, the same as it has been for the last eight quarters. However, the portfolio repositioning in late September has reduced the portfolio yield because the $758 million of bonds sold had an average yield of 7.23%. As a result, the overall yield on the portfolio is now about 6.88%, and once the excess cash is invested, we expect the portfolio yield to be around 6.85%.

Now, regarding risk-based capital.

As previously indicated, we intend to maintain our RBC ratio at around the 300% level that we have held in the past. This ratio is lower than some peer companies, but is sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities and our ratings.

Entering 2009, our consolidated RBC ratio was 329%. By June 30th, the ratio had fallen to 245% due to bond impairments and downgrades and a disproportionate share of dividends to the parent company during the first half of the year. In the third quarter, we took steps to improve the RBC ratio.

- We increased the capital of the insurance companies by having the parent company contribute $125 million of cash, and have committed to contribute another $50 million in the fourth quarter; and

- We reduced required capital by approximately $27 million by selling below investment grade bonds as a part of the portfolio repositioning.

An additional benefit of the repositioning is that our class 3 – 6 bonds are well below the regulatory limitations, both in total and by individual class.

With these enhancements, and assuming no impairments or downgrades in the fourth quarter, we estimate the year end RBC to be around 313% which means we would have approximately $55 million of capital over that that is required for a 300% ratio.

We performed a stress test assuming the following in the fourth quarter:

- Impairments of $30 million, after-tax; and

- Assumed downgrades on our bonds that are on negative watch and outlook that result in downgrades equal to the quarterly average during the first six months of the year, even though downgrades in the third quarter had an immaterial impact on the required capital.

Under this severe scenario, RBC would be approximately 290%, and we would need to put an additional $50 million into the insurance companies to reach the 300% level. We don't expect to have this level of realized losses and downgrades in the fourth quarter, but if we did we have more than sufficient liquidity at the holding company to maintain the 300% ratio.

Regarding liquidity.

At September 30th, the parent company had $150 million of cash. Free cash flow for the fourth quarter will add another $50 million. But as mentioned, the parent will use $50 million to purchase surplus notes from the insurance companies in the fourth quarter. As a result, we expect the parent company cash to remain at $150 million at year end. In addition, we estimate that free cash flow for 2010 will add another $210 to $230 million to parent company cash.

In addition to the cash at the parent company, we have other sources of liquidity such as debt issuance, increased credit facilities and intercompany financing that could provide up to another $1.2 billion of cash.

Still, based on the results of our stress testing, the cash held at the parent company, and other liquidity sources, we believe the parent company has more than sufficient liquidity to offset the impact of further realized losses and downgrades on the statutory capital of our insurance companies.

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

Mark McAndrew: Thank you, Gary.

As a result of the bond sales in the third quarter which Gary mentioned, we are revising our guidance for 2009 to a range of $5.90 to $5.95 per share. For 2010, we currently anticipate operating earnings per share to be between $6.05 and $6.25 assuming we do not reinstate any share repurchase.

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

Robert Glasspiegel, Langen McAlenney: Good afternoon, everyone.

You guys are good poker players. You never sound excited or nervous. But the body language, I assume is that you feel a lot better about your capital position than you did 6/30 given the financial markets in the third quarter. Is that a fair assessment?

Mark McAndrew: I think that is a fair assessment versus where we were six months ago when our unrealized losses have come down $1.8 billion. We have to feel pretty good about that.

Robert Glasspiegel: Okay. You throw the share repurchase, as you're ignoring it which sort of means that you think it's at least a theoretical possibility in 2010. What are the benchmarks that we should be looking for that would make you feel comfortable to resume your share repurchase program? To put it another way, if you execute your plan and impairments or downgrades are in line with what you're thinking, when would the soonest you could consider buying back stock?

Mark McAndrew: Well, we are not in a position to make any commitment there, yet, Bob. It is something that we will continue to monitor each quarter and discuss at our board meetings. But it is a little premature to try to set a date. Obviously, things that will impact it will be what future impairments and downgrades are, (although we believe the worst of that is over) and other potential uses for the cash. So I just can't predict right now when that might occur.

Robert Glasspiegel: Okay. Direct Response coming in above where you thought it was. Is that anything related to the economy not being as bad as you feared or something from an execution point of view?

Mark McAndrew: Well, it's a little bit of both. Actually, we have started to see some of our response rates increase, which I think has a little something to do with the economy. That was the only segment that we felt like the economy had some impact on. But overall, a number of the tests that we performed earlier in the year, we were able to roll out with and the results have been good. And I am very optimistic about where we are headed next year.

Robert Glasspiegel: Thank you very much.

Jeffrey Schuman, Keefe, Bruyette & Wood: Thank you. Good afternoon.

Mark, you touched a little bit on some of the things at Liberty. But I guess I didn't quite come away with an understanding of what's happening there in terms of why you are still challenged and what sort of compensation and other changes you made there. So could you kind of give us a little…?

Mark McAndrew: Sure. Well, as I mentioned last quarter, we saw some significant deterioration in the persistency of the new business being written at Liberty National over the last year. And it very closely tied in to when we went to electronic application and laptop sales presentation. Part of the problem there was, as we went to the electronic application we no longer required the agent to collect the initial premium on these sales. And we didn't have adequate controls in place to really guarantee the quality of the business we were writing. So we have made some changes, and we have tied management's compensation much more closely to the overall persistency of the business being written. We have delayed paying agents until after that first premium payment clears the bank so we know that we have a good bank account and there is money in the account. So we have made some changes. We anticipated when we made though that some of the agents and some of the managers who had quality issues that were below our standard that we would see some turnover there and we have. Again, it was planned on, and we will continue to see a little bit of that in the fourth quarter. But we think we made the changes necessary to improve the profitability of the business and we believe by the first quarter of next year we will be in a position to start seeing some good growth there again.

Jeffrey Schuman: Okay. That's helpful. And next for Gary.

Gary, you gave us a lot of information around things sort of impacting portfolio yield. I guess the answer to my question may be embedded in what you have already given us, but maybe you can help me out. If you want to think specifically about the kind of the costs of the portfolio repositioning, either in terms of yield or dollars, can you kind of isolate what the cost of that is expected to be essentially?

Gary Coleman: Well, Jeff, I think, again, our portfolio yield has been for the last several quarters 6.97. And now just a snapshot of the portfolio as it is, it is down around 6.88. So it costs us 10, 11 basis points.

Jeffrey Schuman: Okay. Thank you.

And then lastly -- Gary, as Mark said, it is hard to know when you get back to share repurchase mode. But when you kind of clear the credit crisis a little further and you kind of get back in that mode, are you likely to kind of get back to the fairly straightforward way that you kind of managed capital and cash historically? I know historically you pretty much pulled the regular dividend, serviced the holding company, and bought back stock; and it was pretty straightforward. Are you likely at some point to kind of get back to that kind of technique or are you likely to need to kind of manage the holding company a little differently going forward based on what was experienced in this cycle?

Mark McAndrew: Well, Jeff, we want to make efficient use of our excess cash. Although it is something that we are more open now to looking at potential acquisitions, and as the credit markets continue to improve and open up that's a possible use for that excess cash too. So it's really impossible to say right at this point just how we will use our excess cash next year. But we will try to use it as efficiently as possible.

Jeffrey Schuman: Well, I guess part of my question was about the holding company. Historically, you didn't carry a lot of cash at the holding company. As we get beyond this crisis, can you get back to that mode or out of prudence will you kind of now carry a different level there going forward?

Gary Coleman: Jeff, I think we can get back to that. Maybe we leave a little more cushion there, although we came into the year at 329% RBC. We will be a little more careful from that standpoint. I think one difference you may see is that that the cash may not come up to the holding company as quickly. You know, in the past we never managed RBC ratios for particular quarters. And that's become more of an issue. So you may see more of a spreading of the cash out through the year as opposed to bringing it out more in the first half than the second half.

Mark McAndrew: And, Jeff, short-term, as far as 2010 I would have to say we will be a little more prudent as far as holding some cushion at the holding company level.

Jeffrey Schuman: Great. Okay. Thanks a lot, guys.

Ed Spehar, BAS-ML (Banc of America Securities-Merrill Lynch): Thank you. Good afternoon.

I wanted to follow-up on free cash flow for 2010. Gary, I think you said $210 to $230, which is a lower number than what I would think is a normal free cash flow number. So can you explain that a little bit more? Does part of that reflect, you know, holding more of a cushion at the holding company, or what's going on there?

Gary Coleman: Well, Ed, part of it is, again, going to be this year's earnings and the impairments that we had this year are holding down the earnings for this year. And, you know, the increased new business that we had at Liberty is going to hold their earnings down a little bit. But we will hold a little extra cash. We are just not sure how much. That's why I am giving you a range. And it's really kind of early to give a range because I haven't even seen our third quarter numbers so I tried to be conservative with that. We will have a better idea of free cash flow when we get into the fourth quarter.

Mark McAndrew: But the single biggest factor, Ed, was the impairments that we had during the year.

Gary Coleman: Right.

Ed Spehar: Can I follow up on that? Because there seems to be some -- it seems unusual to hear about statutory dividend capability capacity being limited by impairments. Because, you know, I think statutory dividends are a function of prior-year operating gain or 10% of surplus. And it's either greater-than or less-than I think when you look at the states. So why, you know, there is some confusion, I think, about this net earnings limitation which I'm not sure. I mean, there are sort of different opinions on this related to sort of the Nebraska regulation. I'm wondering if you could maybe give us a little bit more on that?

Gary Coleman: Well, from a Nebraska standpoint, what's different than say, Delaware? Nebraska requires that you take your operating earnings less any loss. If you have losses, then you have to reduce the losses from it. And that's different. In Delaware, it is operating earnings, and in Nebraska it is operating earnings, and if you had realized losses you have to deduct that.

Ed Spehar: Okay. And then I guess maybe I will follow-up with you on that because I want to talk a little bit more about the specifics. Because it seems it is unclear to me that that's the approach that makes sense given that you are a life company. I know there is some controversy about this Nebraska wording.

But I wanted to ask you about the guidance for 2010, and I'm sorry if I missed this. But the wider range, you know -- little bit wider range -- is it just because we are early on here or is it specifically related to sort of uncertainty about how quickly you reinvest cash -- or share buy-back I don't think is included in that number? But can you give us a little bit about why the range is wide?

Mark McAndrew: Well, that is typically what we have done the last couple of years, anyway, Ed. We start out the year with a little wider range and then we narrow it as the year goes along. Although, there is still some uncertainty there and I would have to say there is some conservatism built in there, as far as particularly on both the investment income side as well as the underwriting margin side. But, you know, Gary, on the investment side we have assumed that we are basically investing funds at 6% for the entire year?

Gary Coleman: Yes, that's correct.

Mark McAndrew: But it's kind of a normal -- this is typical of what we've done the last couple of years, Ed.

Ed Spehar: Okay. Thank you.

Mark Finkelstein, Fox-Pitt Kelton Cochran Caronia Waller: Hi, couple of quick questions here.

I guess just firstly, why the rationale of issuing a surplus note rather than just doing what you're doing with $125, and just putting another $50 in the stat company?

Gary Coleman: Well, I think it gives us a little more flexibility. Also, it helps us from a tax standpoint. We need non-insurance company income. And so this helps from that standpoint. And it gives a little flexibility in terms of that many could be paid back, you know, at certain points in time.

Mark Finkelstein: Okay. And I guess just thinking about 2010 and even beyond 2010 into 2011. I mean obviously the primary health block is essentially in run-off -- you know, the inforce is down to $129. How much do you estimate the earnings impact from that business essentially from here going to zero in terms of whether it is operating earnings or EPS, or what have you?

Mark McAndrew: Well, Mark, I guess that is another way you can look at that. The inforce on that hospital/surgical block is down to $129 million and, Rosemary, our profit margin on that business?

Rosemary Montgomery: The underwriting margin on that business is probably around, I would say 6% to 7%, and assuming that there is no further persistency deterioration we would expect that to hold.

Mark McAndrew: And that is pre-tax?

Rosemary Montgomery: Yes.

Mark McAndrew: So you can kind of see the potential impact there if that's in a run-off mode. Although, again, that is 16% of our total health inforce premium. One of the things on the Medicare supplement side, we still have $457 million of Medicare supplement premium on the books which is 55% of our total and it declined by just over 1% in the quarter. And I think with the Medicare Advantage disenrollments and the potential for -- there is going to be two new standardized Medicare supplement plans coming out next year, and I'm cautiously optimistic that we can start seeing some growth in the Medicare supplement side.

Mark Finkelstein: Okay.

I guess just one final question on the run-off of the primary health block. I mean, is it 6% to 7% goes to zero and no additional overhead expenses go to the other businesses therefore the margin on the other businesses get hit because of a lower premium margin, or can it literally just go to zero and there is really no change in the margin in the Med supp and the other health businesses?

Rosemary Montgomery: Are you asking me if they are independent? Because I think I would say the answer is yes. But if that block entirely runs off then I would expect the Medicare supplement profits that we are still seeing would hold.

Mark Finkelstein: Okay.

And then just one final question on capital. I understand that you're going to kind of hold to kind of a more normalized, you know, year-end RBC throughout the year. But is that number going to be called at 300% or are you actually going to target a little bit above that at the stat company?

Mark McAndrew: Oh, I think we will have a little bit of a cushion there. It is going to be close. We are not going to go up to 400%. It's going to be closer to 300%, but we will try to maintain a cushion.

Mark Finkelstein: At the stat company?

Gary Coleman: Yes.

Mark Finkelstein: All right. Thank you.

Steven Schwartz, Raymond James: Hey. Good afternoon.

Mark, if we could, can we revisit your discussion that you just had with Jeff on LNL just so I understand what is going on here? The problem was, as you moved to laptops, agents no longer collected the initial premium. How were you getting the initial -- well, presumably you got it by hand the first time around -- but how were you getting it after this change? Or how were you supposed to be getting it? Wire transfer?

Mark McAndrew: Well, yes. For a number of years the primary payment mode has been automatic withdrawal from people's bank accounts on a monthly basis. So when we were dealing with paper applications, the customer wrote a check for the first month's premium. So we knew we had the first premium payment, as well as from the check we knew we had good bank account information.

Now, when we went to electronic application, we were drafting out of the people's bank account the first premium payment; and a lot of it was just incorrect bank account numbers. We would have to go back and forth. But, one, a big change was just making sure that that first premium payment clears the bank before we advance commissions or pay bonuses, and that had an immediate impact.

Steven Schwartz: Is the issue -- I mean, you said wrong numbers -- but is part of the issue some type of buyer's remorse? They would hand in an app or send in an app, you'd pay them and the transfer would just never be made because the purchaser had remorse?

Mark McAndrew: Well, I'm sure there was some of that. It is impossible to quantify why the initial premium payments weren't clearing. We just know we saw a significant deterioration coincide with the time we moved to electronic application.

Steven Schwartz: You said that you are not going to pay until the check clears, I guess, or until the wire transfer is made and you have tied the management to bonuses and pay to persistency. Any steps to make sure that that first payment comes in?

Mark McAndrew: Yes. We, again, now with the electronic application because it is electronic funds transfer, we are processing that within 24 hours from the time the application is transmitted to us. So we only have to delay payment for a few days. But, no, we are now making sure that if the initial payment does not clear the bank, the agent is not paid for it.

Steven Schwartz: Okay. Very good.

If I could, you mentioned Medicare disenrollment. I couldn't quite hear the number. Was that 600,000 people?

Mark McAndrew: It's just over 600,000. I think 630,000, or somewhere in that range.

Steven Schwartz: And then maybe, Rosemary, or somebody, can you comment on how the Part D bidding went for you guys this time around?

Rosemary Montgomery: The Part D bidding was fine. Our plans were approved. Our bids were accepted. We are going to generally be selling the same type of plans next year that we had in 2009. The premium is going up a little bit by -- oh, I would say approximately $3 a month. We also made some changes in our co-pays. But it is basically business as usual there -- same profit margin that we would have anticipated going into next year as we had for this year.

Steven Schwartz: Okay. Enrollment you would guess would be about the same or do you pick up some LIS maybe?

Rosemary Montgomery: Well, we really picked up a real small region -- Delaware, DC -- and so I think that will probably be about the same. We kept the region we had.

Mark McAndrew: Although, on the individual side, I would expect to see some improvement there just because of the 630,000 Medicare Advantage disenrollees. Almost all of those people also have their Part D coverage with a Medicare Advantage plan. So again, we know where those disenrollees are occurring and we have already developed mailings and print ads to target those areas. So hopefully we will pick up some of that business also.

Steven Schwartz: Okay. Good point. Thank you, guys.

Randy Binner, Friedman, Billings, Ramsey Group: Hey. Thanks.

Just a question on investment yields. I think in a conversation here you were talking about targeting 6% new money yields in 2010 with kind of the money that needs to be reinvested. Did I hear that right?

Gary Coleman: Yes, Randy, you did. And the reason we used the 6% is that is what we have invested in so far this quarter. We actually think the rates may be higher than that -- at least maybe toward the end of the year -- but we settled on 6% because that is what we are investing in now.

Mark McAndrew: It is not so much that we're targeting 6%, Randy, it's just that is what we have used in our projection. We hope to beat the 6%.

Randy Binner: And what's the mix of assets that's generating that kind of yield on a, you know, current basis?

Gary Coleman: When you say mix of assets, you mean as far as…

Randy Binner: You know, as far as credit type, investment-grade corporate, high-yield corporate. You know, are you doing any other structured stuff?

Gary Coleman: No, no structured stuff. It is going to be in corporate, investment-grade corporates. We'll confine it to that. What may change, Randy, is, you know, our policies liabilities are very long-term. We like to invest long to match those liabilities. What we have seen though right now there is limited supply of bonds available. For some reason we are not seeing long bonds at the yields we like. So for right now we are investing a little bit shorter. And if we don't get the 6.5% over the long-term basis that we are looking for, then we will probably shorten up a little bit. But we expect that we will get back to the investment grade corporates and generally 20 year maturities. Right now it is little bit less than that but we expect to get back to that at some point.

Randy Binner: Great.

And just one more if I could. As far as thinking about how to model the overall investment yield for the Company, as there's a, you know, newer piece coming in, what would you expect that to kind of have downward progression into second or third quarter of 2010, or would it be flatter? Some timing of when you think that the overall yield might trough would be helpful for getting to the guidance number in 2010.

Gary Coleman: Well, I think we'll end the year our portfolio yield will be around 6.85. If we invest at 6% next year -- we have quite a bit of money to invest -- that could get down to around 6.70 by the end of the year. So the average would be the beginning and the ending. The difference is, though, if we invest at 6.5, just 50 basis points more, you don't see that much of a decline in the yield. So it's going to -- again, at 6% we would go from around 6.85 to 6.70. If we invest at 6.5%; then maybe 6.85 to 6.80 or a little above.

Randy Binner: Okay. And so one more…

Gary Coleman: Those last numbers I gave you, the 6.70, that is what the portfolio yield would be at the end of the year. So for the year it would be the average of the 6.85 and the 6.70.

Randy Binner: Right. Got it.

And so if -- just one more question. So there's a range, obviously, on 2010, and earlier, Mark, you said there was combination of underwriting and investment yield conservatism. But wouldn't it be mostly investment yield conservatism between kind of the 6 and the 6.5 or better?

Mark McAndrew: That is a big part of it, yes.

Randy Binner: All right. Fair enough. Thank you very much.

Mark McAndrew: Yes.

Eric Berg, Barclays Capital: Thanks very much. Good morning to everybody in Texas.

So you announced to the world that essentially nobody is going to get paid any longer until the check clears; and that's very clear and it makes complete sense to me. But is it possible that that alone is leading to this very significant drop in first year agents at Liberty? And then I have a follow-up, or are there other factors that we need to be sensitive to?

Mark McAndrew: No, that is basically the change. The change is in the compensation that we made. That's really the cause of the current decline there. But, again, we expect that to be basically a run out here in the fourth quarter and turnaround in the first quarter.

Eric Berg: Next question also relates to agent count. It looks like there has been a big drop as well in the agent count at the UA Branch really continuing. Can you remind us why that is happening and what is being done to address that -- if you want to -- if, in fact, that is a problem? I shouldn't presuppose it is a problem. But what is behind that and what is being done to correct it if, in fact, that's your goal?

Mark McAndrew: Well, the cause of it is still -- it's very difficult to move agents who have traditionally written health insurance into writing life insurance. And as we continue to convert more of those offices, we've continued to see a decline. Now, for example, I'll just say at the end of the second quarter we had converted 44 of 78 UA offices to the Liberty National products and basically transitioned them to write more life and supplemental health. During the quarter, we moved 11 more offices over, and as we continue we are down to only 18 UA offices that have not been converted. So we'll continue to see some drop-off there as those offices are converted to Liberty National. It is difficult to teach agents a new market place.

So the trick is, we have got to hire more new agents and train them how to write life insurance in the supplemental worksite products. And we're continuing to push that and try to incentivize the recruitment of new agents. So that should be completed here in the next couple of quarters.

Eric Berg: Last question.

Mark, this is purposely meant to be broad and I'll preface by saying I understand that your answer to my question is going to be necessarily -- will have to be heavily caveated. But realizing that there are so many changes taking place in the healthcare industry, I would like to know what do you think two to three years from now, or whatever, look into the distance and make your best guess what the complexion of your health business is going to be? Is it going to be a Medicare supplement business? Is it going to be a limited benefit business? Where is this business from the 30,000 foot level, where is this business headed? Where will it settle down three years from now in terms of its complexion?

Mark McAndrew: Okay. My feelings about where health insurance is headed is you are going to see a few large players basically take over the individual health insurance marketplace. I think as far as agents are concerned, I think you are going to see standardized plans with minimum benefits with significantly higher minimum loss ratios than what we see today. And those higher minimum loss ratios are going to make it very difficult for an agent to make a living selling individual health insurance, at least the broad benefit major medical type products. I think you are going to see it become more of a commodity.

But on a bright note, I think a lot of those agents that are in that marketplace are going to be looking for a different marketplace to get into. I think right now, I think you will see a significant number of those agents move back into a Medicare supplement marketplace; because I think the Medicare Advantage plans, I think the 600,000 disenrollees this year is just the first of several years' worth of disenrollees. And with the new Medicare supplement plans coming out mid-part of next year, I think there will be a renewed interest in the Medicare supplement world.

But as far as agents are concerned, I don't see a long-term future in the major medical business. And I think a number of agencies who have been in that marketplace are seeing the same thing.

Eric Berg: I guess just one clarification and then I'd like to re-queue if necessary so that others can ask a question.

Why would the high loss ratios, or higher loss ratios that you foresee -- mandated loss ratios -- could you clarify why would that make for an agent to make money? His commission is a function of selling the policy; not how profitable it is at the company level?

Mark McAndrew: Well, but it is driven by -- for example, Eric, if we've got a 60% minimum loss ratio that allows us 40% of the premium for profit and commission, acquisition expense, if they raise that to 90% minimum loss ratio that only allows 10 points for profit administration and compensation. It may not go to 90%, but I would be surprised if it doesn't go to at least 80%. You take that from 60% to 80%, that basically squeezes out any compensation that's available because the Company still needs to make a profit and pay for their administrative costs.

Eric Berg: I've got it now. Thanks very much.

Mike Grondahl, Northland Securities: Yes.

Mark, could you talk a little bit about your sales outlook for American Income and Direct Response as you are kind of looking at '10 and kind of the strategies you are going to employ there?

Mark McAndrew: Well, again, at American Income, we feel like we have made the changes over the last two or three years necessary to really put us in a position for growth. And we have seen double-digit growth now for at least six quarters in a row. I feel very good about the track it's on. I don't see any major changes necessary there.

To continue the type of growth that we have been seeing: One, we're starting to look at trying to continue to move beyond just the labor union marketplace, and still writing middle income working-class Americans. And we have got some people in our Direct Response operation trying to assist there to try to continue to grow that company even outside the union marketplace. But it is on a very good track right now and I expect to continue to see strong double-digit growth for the foreseeable future at American Income.

The Direct Response -- I'm pleased with where we are at and we have had a number of tests that we've done this year on product pricing, packaging, that have been very successful. Going into next year we already feel pretty good about at least high single-digit if not low double-digit growth. And that's assuming that none of the additional tests we do during the course of the year really come through and deliver better results. So we are entering the year feeling pretty good about where it's at. But it is still a constant challenge in Direct Response. We have to constantly find better ways to do things to continue that growth. But I feel very good about where we are going into the year.

Mike Grondahl: Okay. Great. Thank you.

John Nadel, Sterne, Agee: Good afternoon, everybody.

Couple of quick questions. To go through risk based capital just a little bit more, and the free cash flow commentary. Just to make sure I've got this straight. So, at year-end '08, the 329% RBC was roughly $1.3 billion of total adjusted capital and about $390 million of required capital. Gary, I think you mentioned it falling to around 245% or 250% as of June. Can you give us the comparable -- what the numerator and denominator sort of in a range were? Was the vast majority of that drop driven by the denominator rising?

Gary Coleman: Well, where we were at 12/31/08 was $1.281 billion of capital and $389 of required capital. And where we were at June, we saw a decline in capital due to impairments and the biggest impact was the increase in the RBC, and it was up a little over $50 million.

John Nadel: Okay. So the denominator was up about $50 million. The numerator would make up about the rest.

Gary Coleman: Right.

John Nadel: Okay.

And then, so as you sit here and look forward under your scenario on the December year end '09, getting back to that sort of, I think you mentioned 313% was your internal estimate based on some of these movements and expectations. What's the composition then, like if we take that forward from June to December? I guess I would have to imagine that the vast majority of the improvement there is actually coming from the increase in the numerator with the injections down?

Gary Coleman: Well, that is the greater part, but we have also reduced the denominator as I mentioned.

John Nadel: Right, right, with the sales.

Gary Coleman: Right, with the sales.

John Nadel: Okay.

Gary Coleman: And, of course, we are going to have investments in the fourth quarter. We factored that in. But we are reducing the required capital -- or the risk based capital. But really the bigger impact is $175 million of cash that we put in.

John Nadel: That's going in on the numerator. Okay. Okay.

And then, how about retention of earnings? Is that playing a major role here? Are you still dividending under your normal scheme up to the holding company?

Gary Coleman: Yes, it's the normal. We haven't changed anything there.

Mark McAndrew: Although, next year, Gary, as we talked about -- as you mentioned -- we will probably spread the dividends out more evenly during the year just to maintain that RBC during the course of the year.

Gary Coleman: Yes, that's for next year. John, I thought you were talking about what we had done this year.

John Nadel: I appreciate the commentary about next year. That is helpful. Okay.

And I want to come back to -- Ed was pushing back on you a little bit on the $210 to $230 million free cash flow to the parent in 2010. That's definitely below your normal historical level. You know, I understand earnings you are being a little more conservative or pressured a bit by net investment income, but I mean, is that $210 to $230, is that purely driven by the level of statutory earnings in calendar year 2010? Or is some of that carryover from 2009?

Gary Coleman: No, actually it's the dividends that we will take from the insurance companies in 2010 based on 2009 statutory earnings.

John Nadel: Yes.

Gary Coleman: Okay. We are also going to see a little bit of an increase in our interest expense because we issued that $300 million debt back in June.

John Nadel: Got it.

Gary Coleman: But, really I caution you on the free cash number. Again, I don't have our third quarter statutory yet, and it's really…

John Nadel: It's just an early estimate.

Gary Coleman: …an early estimate. I think it will be at least that much. And really my point in giving that number is that we feel like we will have $150 million of cash at year end '09. And then we think, call it $230 of free cash next year, that gets us to $380 million of cash.

John Nadel: Okay.

Gary Coleman: In addition to that, John, within the companies, assuming no impairments, we are going to generate about an extra $100 million of earnings over what we take out in dividends.

John Nadel: That stays down in the life companies, right?

Gary Coleman: That stays down in the life companies to support the growth. So there's an extra $100 million that is going to be generated within the companies, you know, that goes to capital. And if there are impairments it can come out of that first before we ever even have to take any of the $380 million.

John Nadel: Got it. Back down.

Gary Coleman: Yes. So I think we are in a very good position and I think we have got a lot of good things going for us there.

John Nadel: Okay.

And the other question is more on the business. Looking at the life insurance results, and just watching sort of the trend of commissions and acquisition expenses -- you know, obviously realizing that in a couple of cases sales have been doing pretty well -- but are commission levels in sort of absolute terms or maybe as a percentage of premium, percentage of new sales, are commission levels higher than they were maybe a year or two ago to the agent?

Mark McAndrew: Well, at American Income they are the same basically as they have been for 10 years.

John Nadel: Okay.

Mark McAndrew: In the Direct Response side, commissions, acquisition expenses that I've mentioned in 2009 will be significantly less than what they ran last year. At Liberty National they are up, but they are up because the persistency of the business deteriorated. So we are deferring that over a shorter period of time over less premiums.

John Nadel: Okay.

Mark McAndrew: So it's not that we have raised commissions; it is because the persistency of the business deteriorated we have to amortize that quicker.

John Nadel: Okay.

And then just one quick follow-up on the issue at LNL with respect to the -- I appreciated your openness and your commentary about the controls over those sales. Have you been able to recapture any of those commissions?

Mark McAndrew: I don't have a number. Some, yes. But the agents who are writing the poor quality business are really the agents that we have seen turn over.

John Nadel: Yes, okay. Okay. So just get rid of them. And it's a cost; but it is a cost and we're done.

Mark McAndrew: Yes.

John Nadel: Okay. Understood. Thank you.

Colin Devine, Citigroup: Hopefully two final ones for you.

First, you have talked a lot about keeping a little more capital or cash in the insurance operations; a little more cash liquidity at the holding company. What does that mean for your long-term ROE expectations? Are those going to be a little lower in the future than perhaps we have seen in the past?

And then the second question. When do you think we're going to start to see, you know, the sales growth you have had the last six or seven quarters in life start to flow through to moving the level of the inforce up a little faster?

Mark McAndrew: You want to address that ROE, Gary?

Gary Coleman: Yes. Colin, first of all, we have already seen a little bit of decline in ROE this year from holding of cash. Again, the great bulk of that cash is down at the insurance companies and we are now going to get that invested. Remember I said we were holding cash at the end of June and we got that invested in the third quarter; and then all of a sudden we did the portfolio repositioning and we ended up with another $700 million extra cash.

But we are going to get that invested and so we'll still have the cash at the holding company. And, you know, if we hold that, that will have an impact on the ROE. One thing to remember -- out of that 14.6 ROE that we were reporting, almost nine points of that come from the insurance operations. So we are going to have that. And I think the ROE will stabilize and I don't think you're going to see much of a decline from where we are now.

Colin Devine: So it's stabilizing more in a 14, 15 range, than say the 15, 16, you enjoyed in the past?

Gary Coleman: Well, I think it can be between where we are now and 15. Because, again, it has dropped down to 14.6 because we haven't gotten that money invested. We'll get that invested, and we'll see the impact of that.

Mark McAndrew: On the life premiums, we have been running roughly 2% growth in life premiums. With the sales projections we made for last year, for next year we expect life premiums to grow some where around 4% to 5% next year. So we will start to see improvement in our life premiums next year with the continued growth of sales.

Colin Devine: What does that mean, then, for your thoughts about the sort of long-term nominal earnings growth rate for Torchmark?

Mark McAndrew: Well, that is where we have got to continue to obviously grow sales. If we are continuing to grow sales double-digits, the growth and life premiums will continue to accelerate. Now it would take us to get it to say 10% growth in top gross premiums, that would take us a couple more years, obviously, to accelerate it from 4 to 5 up into that kind of range. But as long as we can continue to grow sales double-digits each year that percentage growth and premiums should improve by a couple of percentage points.

Colin Devine: Okay. So we should expect perhaps a little lower ROE, which reflects reality today, but perhaps somewhat faster or stronger organic growth. Is that a fair take-away for your outlook?

Mark McAndrew: Yes. That's our hope.

Colin Devine: Thank you.

Edward Spehar - BAS-ML (Banc of America Securities - Merrill Lynch): Thanks, just one quick follow-up to John's question.

Gary, when you said that these numbers, assume you're going to keep -- I think you said $110 million of statutory earnings down at the life company. Does that mean that when we are talking about this free cash flow number that it's not the full dividend you would historically take up? It is not 100% of prior year's earnings? It is two-thirds or something?

Gary Coleman: No, Ed, what I meant by that is that our earnings next year within the insurance companies will be greater than what we are dividending out. Remember, what we are dividending out is coming from 2009 earnings. The earnings will be adding…

Ed Spehar: Right, I got it. Okay, I got it.

Gary Coleman: That in itself will be greater. We think around $100 million. So therefore, capital will go up just for that reason alone.

Ed Spehar: Right. In terms of operating earnings, or statutory operating earnings, don't they sort of run at like about $100 million a quarter?

Gary Coleman: Yes. Well, we are projecting they will be around $360 million for next year.

Ed Spehar: On an operating basis?

Gary Coleman: On an operating basis.

Ed Spehar: Okay. Thank you.

Operator: It appears there are no further questions at this time. I would like to turn the conference back over to you for any additional closing remarks.

Mark McAndrew: I'd just like to thank everyone for joining us this morning and we will visit with you again next quarter.