TORCHMARK CORPORATION
4th QUARTER 2008 CONFERENCE CALL
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Corporation Participants
Mark McAndrew, Chairman and CEO
Gary L. Coleman, EVP and CFO
Larry Hutchison, EVP & General Counsel
Rosemary Montgomery, EVP and Chief Actuary
Mike Majors, VP of Investor Relations

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

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

Net operating income for the fourth quarter was $119 million, or $1.40 per share – a per share decline of less than 1% from a year ago. Net income was $137 million, or $1.61 per share - an increase of 14% from a year ago on a per share basis.

For the year, net operating income was $5.80 per share - an increase of 6%, while net income per share declined 7% to $5.11. Net operating income for the year was less than our previous guidance as a result of three significant variances:

- First, there was .05 attributable to higher than expected losses on our variable annuity business;
- .02 was attributable to lower than expected investment income as a result of management's decision to increase our holdings of cash and short-term investments;
- .03 was attributable to higher than expected administrative expenses during the quarter.

Excluding FAS 115, our return on equity was 15.3% for the quarter and our book value per share was $39.17, up 8% from a year ago. On a GAAP reported basis, with fixed maturity investments carried at market value, book value was $26.24 per share.

In our life insurance operations, premium revenue grew 2% to $401 million for the quarter and life underwriting margins increased 3% to $112 million. Life insurance net sales were $77 million for the quarter - up 13% from a year ago.

At American Income, life premiums grew 5% to $119 million and life underwriting margin was up 13% to $40 million. Net life sales increased 17% to $28 million with first-year collected life premiums growing 11% to $21 million. The agent count at American Income was up 21% from a year ago to 3,085.

American Income continues to show very positive growth in net sales and underwriting margins. Premium revenue was roughly $3 million less than expected in the quarter due to weakness in the Canadian dollar. For 2009 we expect to see continued double-digit growth in net sales at American Income.

In our Direct Response operation, life premiums were up 5% to $126 million and life underwriting margin grew 7% to $31 million. Net life sales increased 8% to $31 million.

Despite the difficult economy, we expect continued growth in Direct Response net sales in the

5% to 10% range for 2009 while maintaining our current underwriting margins.

At Liberty National, life premiums declined 1% to $71 million and life underwriting margin was down 13% to $18 million. Net life sales grew 29% to $13 million, and the agent count was 3,778, up 53% from a year ago.

For 2009, we expect net life sales to continue to grow in excess of 20% continuing momentum we had in 2008.

On the health side, premium revenue, excluding Part D, declined 11% to $225 million and health underwriting margin was down 9% to $42 million. Health net sales declined 49% from a year ago to $30 million, but grew 4% from the third quarter of 2008.

The Branch Office and Independent Agency channels at United American continue to experience significant declines in net sales and premium revenues. While these distribution systems combined contributed 26% of our premium revenue for the quarter, they account for only 14% of our insurance underwriting income after administrative expenses and 8% of our net operating income.

While we intend to continue to produce sales in our current health insurance markets, we will continue our focus on selling more life and supplemental health products which have higher margins and better persistency.

Premium revenue from Medicare Part D was down 18% to $43 million while underwriting margin declined 25% to $5 million. Net Part D sales for the quarter increased 95% to $16 million.

While not currently marketed, we do have a relatively small block of variable annuity business on our books. At the end of the third quarter, these assets totaled $890 million, but declined to $676 million by year end. $167 million of this decline was attributable to changes in the market value of the assets held.

As a result, we experienced a larger than anticipated underwriting loss of $8.8 million on this business in the fourth quarter compared to a $1.6 million gain a year ago.

Administrative expenses were $43 million in the quarter, up 11% from a year ago and almost $4 million higher than our previous projection. The increase is due primarily to some timing differences and higher than expected litigation expense as the result of settlement of two lawsuits during the quarter.

For 2009, we expect administrative expenses to increase in the 7% to 8% range as a result of a $9 million increase in our pension expense this year.

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

Gary Coleman: Thanks, Mark.

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

First, regarding the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of December 31, 2008. 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 $10.2 billion, including $9.6 billion of fixed maturities at amortized cost. Combined, equities, mortgage loans and real estate are $36 million, less than 1% of the invested assets. We have no counterparty risk as we hold no credit default swaps or other derivatives. In addition, we do not operate a securities lending program.

Of the $9.6 billion of fixed maturities, $8.9 billion are investment grade with an average rating of A-. Below investment grade bonds are $712 million with an average rating of B+, and are 7.4% of fixed maturities compared to 8.1% a year ago.

Overall, the total portfolio is rated BBB+, compared to A- a year ago.

Net unrealized losses in the fixed maturity portfolio are $1.8 billion, up from the $1.4 billion at the end of the third quarter, but lower than the $2.2 billion at October 31st. By sector, the largest losses are in the financials which comprise 41% of the portfolio at 56% of the total net unrealized losses. From the third quarter, net unrealized losses on bank securities declined $76 million, but that was offset by a $170 million increase in net unrealized losses on the fixed maturities in the insurance sector. Of the $357 million increase in net unrealized losses during the quarter, 94% of the increase related to bonds for which there was no downgrade in their ratings. Accordingly, we feel that most of the unrealized losses reflect the current illiquid market that has contributed to a significant spread widening on the bonds that we feel are likely to be money good. Obviously, this is not a market for us to sell bonds. However, due to the strong and stable positive cash flow generated by our insurance products, we not only have the intent to hold the bonds to maturity, but more important, we have the ability to do so.

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

As to asset type, 78% of the portfolio is in corporate bonds and another 15% is in redeemable preferred stocks. All of the $1.4 billion of redeemable preferreds are considered hybrid securities because they contain characteristics of both debt and equity securities. However, all of our hybrids have a stated maturity date and other characteristics that make them more like debt securities. None of them are perpetual preferreds.

The remaining 7% of the portfolio consists primarily of municipals and government related securities. There is no direct exposure to sub prime or Alt-A. We have only $40 million in RMBS and CMBS securities, all rated AAA. Our CDO exposure is $131 million in which the underlying collateral is primarily bank and insurance trust preferreds. The average rating of these securities is A-, with none rated less than BBB.

Regarding the sectors, as I mentioned, the financial sector comprises $4 billion, or 41%, of the portfolio. Within financials, the life/health/property casualty insurance sector is $1.8 billion and banks are $1.7 billion. Financial guarantors and mortgage insurers total $180 million, less than 2% of the portfolio. The next largest sector is utilities which account for $1.1 billion, or 12%, of the portfolio. The remaining $4.6 billion of fixed maturities is spread among 242 issuers in a broad range of sectors.

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

In the fourth quarter, we invested $157 million in investment grade fixed maturities, primarily in the industrial and utility sectors. We invested at an average annual effective yield of 7.8%, an average rating of A, and an average life, depending on future

calls, of between 22 and 23 years. This compares to the 7.1% yield, A- rating and 18 to 38 year average life of bonds acquired in the fourth quarter of last year.

This is the fourth consecutive quarter that the new money yield was 7% or higher, and the 7.8% yield is the highest we've achieved since the first quarter of 2002. The average yield on the portfolio in the fourth quarter was 6.97%, virtually the same as it has been for the last four sequential quarters.

Now, regarding liquidity and capital.

Our insurance companies primarily sell basic protection life and supplemental health insurance which generate strong and stable cash flows. In the fourth quarter, only $3 million, or .5%, of premium revenue came from asset accumulation products where revenue and underwriting margins are subject to changes in equity markets.

Regulatory capital remains sufficient to support our current operations and ratings. The RBC ratio at year end 2008 was 329%. At that level, we have approximately $110 million more capital than required to achieve our targeted RBC ratio of 300%.

At the holding company level, free cash flow remains strong. It was $343 million in 2008, the fourth consecutive year that free cash flow has been at least $300 million. Due to the $68 million of bond impairments in 2008, at which 70% related to Lehman bonds, the amount of dividends that the insurance subsidiaries can pay up to the holding company in 2009 will be less than in 2008. In spite of this, we expect 2009 free cash flow to be in excess of $300 million, probably in the range of $320 to $330 million.

Now, there are several potential uses for the 2009 free cash flow. One possible use is a strategic acquisition, but given the current state of the debt and equity markets, such a transaction in the near term is unlikely. In August, we have a $100 million debt issue that matures and we will set aside cash to fund that maturity, if necessary. Our preference would be to refinance, either through an issuance of debt in the public market or issuance of commercial paper. But if financing terms aren't favorable, then we will have $100 million available to retire the debt.

Given current economic conditions, we expect that the likely use of our available cash will be the possible retirement of the maturing debt issue along with share repurchases, and to a lesser extent, to the reduction of short-term debt.

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

Mark McAndrew: Thank you, Gary.

With so many unknowns in our current economy, it is much more difficult for us to provide accurate guidance. Our best estimates project 2009 net operating income per share to be in a range of $6.05 to $6.25 per share, an increase of somewhere between 4% and 8% for the year.

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

John Nadel, Sterne, Agee & Leach: Good morning, everybody. A couple of quick ones for you. Just what's the average duration of your outstanding commercial paper currently?

Gary Coleman: The average duration now is about 60 days. All of our paper is now under the commercial paper -- or the federal program.

John Nadel: Yeah, and the max there is 90 days, if I understand correctly.

Gary Coleman: Right.

John Nadel: Okay. So, you know, you guys know where I've been on this issue. I guess I would like to understand, you know, what's your backup plan? I mean, obviously, the risk-based capital ratio is very strong, probably enough to continue to support the ratings. But S&P and Fitch are out there with their negative outlooks, and S&P just yesterday said they're taking a stress test, an incremental stress test view on life and health companies. So who knows what that means. But obviously if there's a negative move on your rating, you know, the CPFF access is very limited at that point, if available at all. I guess I would like to understand, you know, from your perspective what the backup plan is to deal with the potential loss of access to that program.

Gary Coleman: Well, we could go out into the market. People are placing commercial paper in the market, and we've talked to our bankers. We're not anticipating a downgrade, but we've talked to them. In fact, if we did have a downgrade, would we be able to issue commercial paper, and they told us we can do that.

John Nadel: A2-P2?

Gary Coleman: Yes, that's the scenario that we presented to them. So we can do that. If for some reason that was closed off, we can still -- we could take down our bank line, and that runs through August of 2011. So that's another source of liquidity there.

John Nadel: Okay. And -- okay. The question for you on impairments, I certainly appreciate the stability of your business and the whole maturity approach. Probably one of the most stable books of business in the space. But I guess my question is, you know, especially given the focus and exposure in BBB and below corporates, as well as preferreds -- I guess I'm wondering how, when we're seeing the kind of impairment and investment loss activity that we're seeing in very similar names, in very similar credits across the industry, how you feel comfortable that, you know, everything you own is money good.

Gary Coleman: Well, first of all I can't speak to what other people, what judgments they're making regarding similar bonds. I can just say that we look at the OTTI issue; we look at the accounting literature; we look at the length of time in which bonds below market value has been below book; we look at the financial condition; we look at the prospects of the issuer. But we look it at each one of these on a bond-by-bond basis, and we make a determination as of today, and we made the determination that we think these bonds are going to be money good. Now that could change in the future. But, you know, conditions change, either with the issuer or in the general economy. But again, we feel like that bonds are money good or we would have taken OTTI.

John Nadel: Okay. And then just to get a sense for the assumptions underlying the $6.05 to $6.25 guidance for 2009, understanding that it's a really difficult environment to give sort of any real predictions. But just wanted to get a sense for what's embedded in your assumptions around capital management activities. Does it assume, Gary, as you sort of pointed out, the idea of repaying the $100 million that matures in August '09 with cash on hand? How much in buybacks is sort of assumed in that $6.05 to $6.25?

Gary Coleman: Well, there's various levels of buybacks, ranging from minimal to up to $300 million with a buyback. I will say this. If we spent the $300 million, it would be weighted such that a third of it might be spent through the first half of the year, and so that we have $100 million available. Actually, we have $200 million the rest of the year. That way we know we have $100 million available if we have to pay down that maturity in cash. But as far as our projection, we did it both ways. If we paid it down, or

if we refinanced it, and that's all that's built into the range.

John Nadel: Okay, understood. Thank you very much.

Steven Schwartz, Raymond James: Hey, good morning, everybody. You know, looking at Torchmark, the numbers have always been good. It's stable, everybody knows that. But one of the thoughts that I've been having watching the economy roll itself out in the way it is, is the effect on your customer base and your customer target market. We all know that's very different from a lot of the other companies that are public and we all track.

I'm interested if you are seeing any increase in lapsation? And the reason why I ask is that it looks like the annualized premium in force at year end for the life insurance business slightly decreased from the third quarter's. I've got numbers going back to 2002 in my model, and I haven't seen that before.

Mark McAndrew: Steven, I'll address that. A couple of things. First off, at American Income. As I mentioned in my comments, the premium growth there, both collected as well as the in force, was less than what we anticipated it would be because of the Canadian dollar. We have a little over $60 million of Canadian premiums in force, and if I recall, the Canadian dollar went from $0.96 to $0.82 in the quarter. Which instead of having something in excess of 10% growth in our Canadian premiums, we actually saw over a 10% decline in our Canadian in force premiums during the quarter. We have not seen any noticeable difference in our renewal year persistency.

As I mentioned in prior calls, Direct Response, we did see some small declines in our first year persistency on a segment of that business, which was primarily what we call our insert media. Those changes we've now reversed as a result of some rate testing that we did, and actually for 2009 we'll see our first year persistency improve in that marketplace.

At Liberty National, we have seen some declines. And again, in our first year persistency, not really on the basis of the economy, but when we switched to a laptop sales presentation and electronic application, we stopped collecting the initial premium with those applications. And as a result of that, we have seen some deterioration in our first year persistency at Liberty National. We are taking steps to turn that around. I really don't think that has anything to do with the economy. I think that has more to do with the change we made last summer in the electronic application and not collecting the initial premium with the application.

Steven Schwartz: Okay, I appreciate that. I heard you say about the Canada thing but I did not put two and two together. Thank you.

Randy Binner, FBR Capital Market: Hi. Thank you. On the variable annuity piece, obviously there was an outsize loss there. Do you hedge that exposure, and how can we think about what might happen there from a loss perspective if we continue to see downside in the S&P 500?

Mark McAndrew: Gary, you want to --

Gary Coleman: First of all, we don't hedge that exposure there. And I think what we've looked at in our guidance, in various S&P 500 levels that the loss for next year could be somewhere between $2 and $9 million.

Mark McAndrew: And, Gary, at the $2 -- at the $9 million loss, we're assuming the S&P is at what level?

Rosemary Montgomery: We're assuming it's 875, and at the $2 million loss we would be assuming it's a 1,000.

Randy Binner: Okay. And so obviously that's implicit in the guidance that you have provided?

Gary Coleman: Right.

Randy Binner: And then beyond that, any plans for that segment in light of its unhedged position and kind of not a fit with the rest of the stability of the business?

Mark McAndrew: Well, again, it's a declining book of business and has been a declining book of business for a number of years. We had looked at trying to sell it in the past. Again, we think it will continue to run off. When the market does turn around, we would expect the profitability of a turn around. We will look into the possibility of hedging it, but at this point, there's no immediate plans to do so.

Randy Binner: Right. Okay. Fair enough. And then just one more, if I may with Gary? Can you discuss the notching impact or the additional capital call requirement that would happen as BBB -- or if BBB credits get downgraded to below investment grade? Is there a rule of thumb we can use to think about the additional capital requirement that that kind of rating move would have?

Gary Coleman: Randy, I don't have the -- as far as the individual charges, as they move down the ratings. We did a stress test, though, regarding our BBBs, and we have $4.6 billion of BBBs, and $1.2 billion BBB-, $2 billion BB of that. In our stress test, the entire $1.2 billion BBB-, plus $900 million of the $2 billion of the BBBs, could all move down to below investment grade and we would still be above 300% on RBC. So that gives you an idea of how much movement we could have downward and still maintain the capital at 300%.

Randy Binner: So, just to clarify, of the $1.2 billion of, you said, BB, all that would move to below -- I'm sorry -- can you just run through that again?

Gary Coleman: Let me run through that again. We have $4.6 billion in total of all BBBs. Of that amount, $1.2 billion are BBB-, and $2 billion are BBB, with the remaining $1.5 being BBB+. What I was saying is, the entire $1.2 billion of the BBB-, plus about $900 million of the $2 billion of BBBs all could move down to below investment grade. They could all be downgraded, and we would still be at 300% RBC.

Randy Binner: Excellent. That's very helpful. Thank you.

Colin Devine, Citigroup: A couple of questions. If we look at life premiums this quarter, I think it's about the lowest growth we've seen in about 10 years, year-over-year, in total at 2%. Are we starting just to see the impact of the economy come through here? And as you are looking out for '09, is that the sort of level we should start to be thinking about? That's question one.

Question two. If you could talk about agent recruiting trends, since I thought in the tougher economy it's generally helpful to you that way.

And then lastly, on excess investment income. The required interest for policy liabilities, that was the biggest jump again in, I think, the last 10 years, up 11%. Is there something going on there, or is that just some year end reserve trueing up?

Gary Coleman: Colin, I will take that one. That was a trueing up. In that $7 million increase that we had, $1.6 million was a catch-up adjustment for the year.

Colin Devine: Gotcha.

Mark McAndrew: Let's see -- on

Colin Devine: Premiums and agent recruiting.

Mark McAndrew: On the agent recruiting, our agent recruiting is very strong. Liberty, American Income continues to be very good. We continue to expect to see the same type of growth we've seen this year going forward in that. So I'm not sure if the economy is really helping us, but it's definitely not hurting us. As far as life premiums, again we would have been at 3%, or closer to 3% if not for the decline in the Canadian dollar, but in fact, I was just looking to see what our -- in our projection for next year I think we're still just assuming somewhere in that 2% to 3% growth range for next year. Again, with we're assuming that the Canadian dollar and our expectations does not improve significantly. In fact, on the low side we're expecting that it continues to go down somewhat from its current level. So I think that's about where we're at right now.

Colin Devine: So maybe slowing just a little bit, but not much. And really what we saw this quarter then was just currency coming through?

Mark McAndrew: We would have had better growth this quarter without the Canadian -- again, there's over $60 million of life premium in force there that dropped substantially during the quarter.

Colin Devine: Thank you. That's very helpful. Thanks.

Eric Berg, Barclays Capital: Good morning to everyone in Texas. I have a few questions starting with the investment portfolio. With respect to the BBB portfolio, could you give me a ballpark sense of where it is trading and your judgment relative to amortized costs?

Gary Coleman: Well, at year end it was about $0.80 on the dollar.

Eric Berg: That would be across the BBB+, BBB and BBB-?

Gary Coleman: Well, the BBB+ would be at $0.81, and probably true of the BBB. And the BBB- is more around $0.70.

Eric Berg, Barclays Capital: And am I correct when I say that you recorded a realized capital gain in the quarter, and I did not see any reference to OTTI at all. Am I right when I say that you have not recorded really any OTTI on the BBB portfolio?

Gary Coleman: No. First of all that gain, the realized gain we had in the fourth quarter, we took an impairment loss in the third quarter of about $70 million, which I mentioned before was primarily our investment in your former employer, Lehman. We had to set up the valuation allowance at that time for accounting purposes because we didn't have unrealized gains enough to support the tax benefit -- unrealized gains and bonds that had unrealized gains and the portfolio increased enough that we were able to reverse that valuation allowance in the fourth quarter, and that was $10 million of the $11 million of gains. So essentially there was no gains or losses for the quarter.

Now, the impairments that we have taken this year, the biggest is the one I mentioned in the third quarter. Lehman was rated A at the time it was impaired. The other impairment -- we had some smaller impairments earlier in the year, and I think those were rated below investment grade. So to answer your question, in 2008 we did not take any impairments that I'm aware of but BBBs.

Eric Berg: So essentially, as things now stand, the BBB portfolio's amortized costs, putting aside amortization of premium and discount, it sounds like the current cost basis of the current amortized cost of the BBB portfolio is unchanged from what it was when you acquired these securities. They have not been written down at all.

Gary Coleman: Yes, I think that's correct.

Eric Berg: Great. My final question. I was just hoping we could go over in a little bit more detail than we were provided, the pension issue. Mark referenced the pension issue. From a technical point of view, what's happening? Is this a discount rate issue? Is it an issue of actual returns falling short of expected returns? What exactly is happening that will lead to higher pension expense in 2009 than would otherwise have been the case? Thank you.

Gary Coleman: Well, Eric, you are right in both instances. It's both the discount rate and recognizing losses in the portfolio. But primarily, the discount rate is a minor change. But the biggest change is due to the poor performance of the portfolio. We're having to amortize those losses under accounting rules, and the amortization of those losses make up -- I think it's $8 million of the $9 million that pension plan expense will be up this year.

Eric Berg: Thank you.

Thomas Gallagher, Credit Suisse: Hi, just had a broad question on thoughts on risk management and cash flow. I guess to go back to John Nadel's earlier question. Knowing that there is a risk, and I don't know how you define it -- high, low, medium -- that you potentially could get bumped out of the government CP program, and then also just considering looking at some of the perpetuals you have on your balance sheet -- names like SunTrust, Fifth Third, Regions Financial -- you know, the common equity of which is trading below, between $1 and $4 per share, why would you even consider buying back stock right now? It seems that the environment is sort of crumbling to some extent and I understand your cash flow is holding up better than others, but when I think about potential sources and uses of cash, it would seem to me that buying back stock doesn't make a whole heck of a lot of sense right now. So just curious what you think about that.

Gary Coleman: Well, first of all, let's talk about why we would buy back stocks. Excluding other issues, we're selling at the lowest multiple I can remember that we're selling at, and we still think our business is strong and so that's a compelling reason to buy the stock. We're going to be careful, as I mentioned, in our projections. We're showing using only a third of our free cash flow in the first half of the year. I don't know how much of that will be buybacks versus maybe paying down short-term debt or other things. We'll just have to see as we go. One thing to keep in mind, as I mentioned, we have $100 million of excess capital at the statutory level. We have got $320 million to $330 million of free cash flow at the holding company. And if necessary, we could direct some of that money back into the insurance companies if we needed. That's over $400 million of funds that are available.

We've done some stress testing on the portfolio, and we went back and looked at default rates back to 1900 and picked the worst year that we could find. I think it was 1933. We applied those default rates to our portfolio and came up with losses of $200 million. We could suffer $200 million of losses, not put any money back into the insurance companies, and still be at 300% RBC. If it exceeded that we could redirect some of that money back down there.

Mark McAndrew: But also, Tom, we have been conservative. I think in January, Gary, we purchased 200,000 shares?

Gary Coleman: Yes.

Mark McAndrew: So we have significantly slowed down our share repurchase at this point. But we expect to pick it back up here as the year progresses. But we're going to make sure that we have plenty of cash on hand to pay our debts and to run our business.

Thomas Gallagher: Okay.

Gary Coleman: Tom, the only thing I would add to that is, you know, there's maybe some timing impact there. But we're going to generate -- the $330 million of cash isn't a one-time thing. As I mentioned, 2008 was the fourth consecutive year it was in excess of $300 million. That cash is going to replenish as we go forward. So I agree with what Mark said. I'm just saying that I think we could withstand some pretty high impairment losses with the cash position that we have.

Thomas Gallagher: Got it. I guess my only thought on the matter would be, it seems like the only real issue here is that short-term $300 million, and beyond that there's not a lot of sensitivity to Torchmark. So just given that that's kind of a looming issue out there, is there any way to consider taking care of that in a more proactive manner as opposed to having to react? And the reason I say that is we've seen a laundry list of other financial companies that have talked about tapping their backup credit facility as a backup plan, and anyone that actually does it sees their stock get taken out to the woodshed.

Gary Coleman: Well, but I will say this. One reason we went to $300 million -- it wasn't just buying the stock. That was what we qualified under the federal program. The max was $300 million, so that's why we went to $300 million. And as we mentioned earlier in the call, we held some of that cash, but we wanted to make sure we could get to the maximum there in the program. But, again, as I mentioned in my opening comments, that's one of the uses of cash -- maybe to reduce that debt. As we said in the fourth quarter, when we were buying the stock we might be pre-funding purchases for 2009. And that 2009 cash flow could go toward reducing that short-term debt. I know what you're saying. We don't want to draw on that bank line, either. That is a fall-back. But we do think the market out there, other than the federal program, is open. I think there is a fall-back, but I agree with you that we want to keep as much flexibility as we can, and if that means reducing short-term debt, then we will.

Thomas Gallagher: Okay, thanks.

Jeffrey Talbert, Wesley Capital Management: Hi, good morning. Thanks for taking my question. One piece of information you provided in your third quarter Q were supplemental marks for the portfolio as of the end of October, which I thought was quite helpful. Could you give us some indication of what the net unrealized loss of the portfolio would be as of the end of January, please?

Gary Coleman: I don't have that number. I was looking at -

Jeffrey Talbert: I don't think in particular the spreads on BBB financials have widened out quite a bit just since 12/31, there's been a pretty significant movement.

Gary Coleman: What I was going to say, I've seen the spreads, not necessarily in BBBs, but in looking at financials the spreads have widened a little bit since year end and so I would expect it to be a little bit higher. I don't have that number, though.

Jeffrey Talbert: Got it. Is that something you can get back to us on, either off-line, or in some other way? It would be a very helpful thing for us to get.

Gary Coleman: Yes.

Jeffrey Talbert: Okay, great. Thank you very much.

Seth Glasser, Barclays Capital: Good morning, gentlemen. Thanks for taking my call. I was wondering if could please speak a bit more about your preferred portfolio, particularly since the end of the year to now? This is obviously an asset class where valuations have fallen significantly over the past four weeks, and I think that's been the case even for non-perps. So I was just wondering if there's a risk of more significant impairments in Q1, and if you can comment about the potential downside to book value or pressure on your credit ratings if we do see increased impairments. It is a pretty significant percentage of your tangible book, and we've obviously all seen what's happened to AFLAC around this issue.

Gary Coleman: Well, we have a different issue than AFLAC. First of all, these aren't perpetual preferreds. They're more like bonds. As far as our tolerance for impairments, I think I mentioned earlier, the stress testing that we've done. The redeemable preferreds are, again, weighted toward the banks and insurance companies, and I really can't comment on impairments. Again, at 12/31 we didn't feel they were impaired and we'll just have to wait and see.

Seth Glasser: Okay. I guess not to beat the liquidity issue too much more, but I'm wondering if you have a target for cash or total liquidity either at the holdco or companywide. I guess I would echo the sentiments that have been voiced already on the call, which is that if you were unable to roll your CP using the federal program, actually on the debt side, and I think it would be a it lot harder than you are indicating to issue A2-P2 paper into the private market. So if you did have to draw that bank line, you know, I think that draw, coupled with any LOC capacity that you had used up on the line, as well as the $100 million August maturity and share buybacks could start to leave you with a much tighter liquidity position. And I think as we've already discussed on the call, that's tended to be looked at pretty unfavorably. So, you know, I wonder if you have specific sort of enterprise liquidity or cash number that you are going to shoot to maintain as this year goes on?

Gary Coleman: We don't have a specific cash number targeted that we're going to keep, but as I mentioned, we will definitely have $100 million of cash on hand the day that that August maturity occurs.

Mark McAndrew: But also, Gary, at the insurance company level, we also have very strong cash flows. We generate, Gary, its somewhere around $1 billion dollars of free cash at the insurance company level, so close to $100 million of free cash at the insurance company level each month.

Gary Coleman: Yes, I was just getting ready to mention, the next thing I was going to say, at the insurance company level, we are generating just under $1 billion dollars a year of new cash, and that's not including maturities. That's just cash from operations. So we're constantly having cash come in. And if we invest that cash in bonds, but if we need to hold back some of that cash we can do that. But the liquidity at our insurance companies is extremely strong. It's been consistently at that level, so there's no reason to expect that -- there's nothing going to change there.

Seth Glasser: But the CP is at the holdco, correct? Given that there's sort of limited cash -- not that it's a small number, but it is, you know, a limited number

that you could get up to the holdco, you know, with potentially some significant cash calls at that entity. So I won't beat this to death but I do think it's an that issue should be thought about with, you know, a lot of care as we go into the next few quarters because the market on the debt side is a lot more volatile than I think you may be giving it credit for.

Gary Coleman: Well, you know, again, as far as whether we could borrow as an A2-P2, we've explored that. We feel maybe there's more of an opening there than you think. But we're just beginning the year. We are going to work through this and as conditions change, the good thing is we've got the cash coming in that we can hold. We've got $300 million coming in. If we used all of it to pay down the $100 million maturing, and use the rest of it to pay down short-term debt, and if we went a year without buying stock, that's not the end of the world. Our earnings would still increase. And then starting again in 2010 we start over and we've got another $300 plus million of free cash flow coming in.

As Mark mentioned earlier, we are going to make sure that we pay our debts and that we don't get ourselves strapped for liquidity. But we have great liquidity in our insurance companies and we've got flexibility with what we can do at the holding company.

Seth Glasser: What you are saying is fair. I appreciate your time on the call today.

Gary Coleman: Okay.

Dan Johnson, Citadel Investment Group: Thank you very much. I wanted to follow up on a couple things you have mentioned in the call -- one around the BBB downgrade scenario. Can I assume that on RBC, obviously there's a numerator and a denominator. The impact you are talking about with still holding a 300 RBC is ticking up the increased capital charge from the higher amount of BBBs, but is it also assuming a commensurate decline, maybe on an OTTI basis that would result from an environment that would see that amount of your BBBs put into below investment grade?

Gary Coleman: You are right. We were just affecting the denominator. We weren't assuming that they were impaired. We really did look at the possibility of downgrades. And as I mentioned earlier, we looked at the effect of impairments, but we didn't combine the two there.

Dan Johnson: Right. I guess to really feel comfortable about that sort of scenario, shouldn't we be doing both?

Gary Coleman: Well, yes. I think we could look at that. I mean, I guess we could look at the impairment issue. If they get downgraded and some of them get impaired, that's dollar for dollar, we could look at that. I don't know -- again, as I mentioned earlier, doing the stress testing we came up with a $200 million as kind of what's the worst case default rates over the years, and I'm saying we can tolerate almost two times that much. So knowing that, we didn't really feel it's necessary to expand the test of the downgrades and some of them being impaired.

Dan Johnson: The $200 million, and I'm assuming that's after-tax losses in your 1933 or 1934 scenario?

Gary Coleman: No, there's no tax benefit to that. We also didn't assume any liquidation value.

Dan Johnson: Okay. So $200 -- so basically, or roughly about a 2% hit to the bond portfolio is what would have happened back in 1933 or '34?

Gary Coleman: Right.

Dan Johnson: Okay. I'll have to go and take a look at that. I wasn't around.

Gary Coleman: And if you assume a 10% liquidation value, that would be $230 million of impairments. And then you get some of that back.

Dan Johnson: The 10% liquidation value, you get $0.10 on the dollar of a defaulted bond?

Gary Coleman: Yes, but again, we assume no liquidation value and no tax benefit. With the full $200 million would be a 100% loss to us.

Dan Johnson: Right. Okay. So basically you're saying we're going to have roughly 2% default rate, and it is all going to go -- no recovery, no tax benefit.

Gary Coleman: Right. All that would happen in one year.

Dan Johnson: Got it. And then just a couple quick ones. On the CDOs, are we still expecting -- I think you are carrying something like $0.10 or $0.15. Is that still coming back to par, and what's the right time frame for that?

Gary Coleman: Well, yes, they're trading at -- you are right about what they're trading at. We think that's really just the poor condition of the market. In looking at them, where we stand versus the collateral there, we think they're adequately collateralized. We feel like we will collect all, not only principal, but interest also.

Dan Johnson: Is there something unique about these CDOs? And I'm certainly no CDO expert. Is there something unique about these versus what we've seen elsewhere, where most people don't expect a full recovery?

Gary Coleman: Well, one thing that's different about these is there's no subprime or other really -- the troubled asset class that you hear about. These are trust preferreds of primarily banks and insurance companies.

Dan Johnson: Got it. And then lastly, I caught the $1.8 billion in terms of the unrealized loss. Can you remind me where statutory capital is at the end of the fourth quarter and how much that changed versus the third quarter?

Gary Coleman: Statutory capital in the fourth quarter was $1.3 billion, just under $1.3 billion. $1.281 billion was the number. I don't remember what it was at the end of the third quarter.

Dan Johnson: That's okay. I can look that up. Thank you very much for taking my questions.

Gary Coleman: Okay.

Mark Finkelstein, Fox-Pitt Kelton: Hi. Good morning. Just a couple of followups on a few things. One, is what did you say that the short-term debt would stay at during 2009? Can you remind us of that comment?

Gary Coleman: I don't remember saying what it would stay at. We're currently at $300 million, and I said earlier that we would consider paying some of that down during the year. We don't have a target for that.

Mark Finkelstein: Okay. I thought on the last call you said that you were going to build up the short-term, then start paying it down in 2009.

Gary Coleman: Mark, I would think that you will see a reduction in the short-term. I just can't commit to what dollar amount at this point in time, because what we said last quarter was in buying the stock, we could

borrow, as I mentioned earlier, prefund maybe 2009 purchases in 2008 because we thought the price was attractive at the time. And so that's coming into this year. That's something that is on our list of uses for free cash flow. It's just hard right now to say what the combination of all that is going to be.

Mark Finkelstein: Okay. And then just to clarify on the revolver. I know you have $150 million or so supporting LOCs. Are there any other potential calls on that revolver that you can foresee over the next, you know, 12 months or 18 months other than to back-stop the short-term?

Gary Coleman: No, none at all. Let me mention that we've increased the LOC $600 million line, $200 million is dedicated to LOCs, and that leaves the other $400 million for borrowing. And there's no other call on that. We could also, you know, the LOCs are really doing reinsurance in-house. If we chose to go outside and do it that would free up that $200 million, if we chose to do that. We do it in-house because we can do it cheaper. But that would be a source of increasing the liquidity on the line without actually having to expand the line.

Mark Finkelstein: Okay. And then just real quick, on operations. Can you just talk a little bit about expenses in the health business? Obviously persistency is lower in that business. Sales way down. How do you manage expenses down in concert with kind of where that business is going, and do we foresee any kind of one-time charges or anomalies that we should be thinking about in 2009?

Mark McAndrew: We don't anticipate any one-time charges. As that business declines, we will manage the expenses downward. You know, we've never, to my knowledge, had a layoff or a restructuring charge. Any staff reductions we've always managed to do strictly through turnover and attrition. So there will not be any charges there. We would expect as far as the salaries related to the health insurance business, will come down as the year progresses in line with the premium decline. But there will be no charges.

Mark Finkelstein: Okay. Thank you.

Bob Glasspiegel, Langen McAlenney: Good morning. I guess we at Wall Street are great at hammering last year's issues, and I see year-to-date high yields have been on a tear. So to me it's not clear that your overall portfolio would be down in January. Am I wrong in that assumption? I mean, you have not wanted to own treasuries, and you have wanted to own high-yields this year.

Gary Coleman: Yes, Bob, the only thing that I looked at -- I can't remember which index that breaks out financials and industrials, and utilities. It shows the treasuries and the spreads, and it seemed to me that the yields were up a little bit in the financial area. And since we're so heavily weighted toward financial, that's why I assumed that maybe we would see an increase. I don't know. I hadn't looked at it in very much detail.

Bob Glasspiegel: How has your high-yield portfolio performed as of late? Has it fully participated in this rally in the last two months?

Gary Coleman: When you say high yield, are you talking about a below investment grade?

Bob Glasspiegel: Yes.

Gary Coleman: I really don't have an answer to that. It's not something we actively manage. That portfolio has become about by downgrades.

Bob Glasspiegel: I think Wall Street would like you to be owning all treasuries and no high yield right now. But if you listen to Wall Street, you know, to run

your portfolio, that may not be the right approach. But I am interested in how you do run the portfolio. Can you tell us a little bit about your investment department? The seasoning -- how their performance is measured -- how they've done over a long period of time?

Gary Coleman: Well, I think over a period of time they've done very well. The person that heads up our investment department was an actuary by training; an actuary for a long time. He understands our products -- the cash flows of our products, and that's a great help in determining our investment strategy.

And I think if you look at -- we had every opportunity to get involved in the subprime business and some of the other troubled asset classes, and they didn't meet our risk profile, and we stayed away from them. So I feel very good about our portfolio and where we are at today.

Bob Glasspiegel: You said they've done a good job, or they have had good numbers. I would appreciate, and I think a lot of people on this call would appreciate, you know, substantiation of how you measure them and what the long-term performance in the portfolio has been.

Gary Coleman: Well, we look at risk adjusted yield in our portfolio. Our philosophy is, first of all, we are crediting interest to our reserves. We're not talking about policy counts, we're talking about funding reserve. We want to make sure that we're investing at a spread over that, but we don't want to take a lot of chances. Preservation of principal is important. So those are the things that they're measured on. They do a great deal of credit research, not only selecting the bonds that we are buying, but monitoring afterwards. And again, determining whether it's all risk yield related, should we continue to hold bonds or should we sell them, or whatever. It's important to us that we have a spread over what we're crediting the reserves, but at the same time we're protecting the principal of our investments.

Bob Glasspiegel: Are there some other tools, like, you know, buying treasuries or increased reinsurance? I mean Hartford did that and was able to dramatically improve their RBC. Are there some other vehicles available in the disaster scenario?

Gary Coleman: Yes, I think reinsurance is a possibility. We obviously don't see a need for it at this point, but, yes, that would be a possibility.

Bob Glasspiegel: Okay. Appreciate it.

Gary Coleman: Okay.

Ed Spehar, Banc of America: Good morning. Very quick question. Could you just give a sense, Rosemary, what would happen to the annuity line if we had S&P at 700 or even less? I mean, I know it's a small portion of the company but how bad could it be in a 700 or maybe even lower S&P?

Rosemary Montgomery: Well, we had looked, as we said earlier, we had looked at, when we were quoting the range for 2009, we had a $2 million to a $9 million loss that would result from that. And that equated to the $9 million loss, and particularly equated to an S&P 500 of 875. We didn't actually do a calculation taking it down any lower than that, but, obviously, you could extrapolate from that that it would be just lower than the $9 million. Probably just to get a ballpark estimate, just extrapolate between those two numbers.

Ed Spehar: I guess the issue, and what we're seeing with companies who obviously have a much bigger bet on this business, is that extrapolating on a linear basis for declines is not the way to go. I'm assuming

you don't have the living benefit guarantee piece, I think.

Rosemary Montgomery: Right.

Ed Spehar: I think -- so that's one positive. But there's also the issue of the death benefit which does seem to have this exponential impact as well. So I think it would be helpful for all of us if could you give us maybe some color about how bad it could be in the 700, 600 scenario. None of us may be around to see 600. You may to have call me at home to tell me.

Rosemary Montgomery: No, I was just trying to give you a ballpark amount. Obviously, we would never try to go in and calculate that number -- we would never do that it way. But I was trying to give you a ballpark. We just did not go down to that level when we did our calculations, but we obviously could.

Ed Spehar: Yes, I mean, I guess I would argue that in this environment it certainly makes sense to do it. Thanks.

Jeff Schuman, Keefe, Bruyette & Woods: Good morning. Gary, I just wanted to come back to liquidity for a second. Has the holding company at this point borrowed from the operating company? And is there any capacity to do that as kind of a short-term measure if you need to this year?

Gary Coleman: Yes, Jeff, we could do that, and we do that from time to time. At this point we don't have any significant amount borrowed, but we can do that. So for a short-term, that's good point. For short-term cash needs we could borrow from the insurance companies and then pay it back later.

Jeff Schuman: Do you have kind of a cap in mind? Typically agencies don't like you to go there too hard.

Gary Coleman: Yes. As a matter of fact, in each domicile there's a percentage, I think, of assets test that has to be met. But I don't think we ever approached those percentages. We don't borrow that much between companies. We just haven't had the need to. The only times we've really done it is when there's been short-term timing type needs.

Jeff Schuman: But order of magnitude, something like couple hundred million?

Gary Coleman: I'm trying to remember. Yes, I think we could go that high. I don't think we ever have. But I think we could.

Jeff Schuman: All right. Then on the capital side. I think you, like a lot of companies, have deferred tax assets that are not admitted on a statutory basis. The State of Iowa has granted some relief there for Iowa companies. Has there been any discussion in Nebraska? Have you approached Nebraska about a similar approach or not?

Gary Coleman: No, we haven't.

Jeff Schuman: Is that something that -- is there a reason not to pursue that? What's part of the HDLI proposal? And if there is some latitude for individual states to do that, is there sort of a reason not to go there?

Gary Coleman: That's a good idea. We just haven't done that. But that's something we can explore.

Jeff Schuman: Okay. At this point, are all your subs in Nebraska now, or are where are you domiciled?

Gary Coleman: Our major ones, except for American Income, it's in Indiana. But United American, Liberty and Globe are in Nebraska.

Jeff Schuman: Thanks a lot, Gary.

Mark McAndrew: All right. Well, thanks for joining us this morning, and we will talk to you again next quarter. Have a great day.