SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

Commission file number 1-8052

TORCHMARK CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	63-0780404
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
2001 Third Ave. South, Birmingham, AL	35233
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

Registrant's telephone number, including area code:
(205) 325-4200

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	CUSIP NUMBER:	NAME OF EACH EXCHANGE ON WHICH REGISTERED:
Common Stock, $1.00 Par Value	891027104	New York Stock Exchange The International Stock Exchange, London, England

Securities registered pursuant to Section 12(g) of the Act:

None

Securities reported pursuant to Section 15(d) of the Act:

TITLE OF EACH CLASS:	CUSIP NUMBER:
8¼% Senior Debentures due 2009	891027 AE 4
7⅞% Notes due 2023	891027 AF 1
7⅜% Notes due 2013	891027 AG 9

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH) AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.
YES ☒ NO ☐

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K (§229.405 OF THIS CHAPTER) IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. ☐

THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT $2,571,835,000

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK, AS OF FEBRUARY 29, 2000: 129,808,697

DOCUMENTS INCORPORATED BY REFERENCE

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 27, 2000, PART III

INDEX OF EXHIBITS (PAGES 83 through 85)
TOTAL NUMBER OF PAGES INCLUDED ARE 92

PART 1

Item 1. Business

Torchmark Corporation ("Torchmark"), an insurance and diversified financial services holding company, was incorporated in Delaware on November 19, 1979, as Liberty National Insurance Holding Company. Through a plan of reorganization effective December 30, 1980, it became the parent company for the businesses operated by Liberty National Life Insurance Company ("Liberty") and Globe Life And Accident Insurance Company ("Globe"). United American Insurance Company ("United American"), Waddell & Reed, Inc. ("Waddell & Reed") and United Investors Life Insurance Company ("UILIC") along with their respective subsidiaries were acquired in 1981. The name Torchmark Corporation was adopted on July 1, 1982. Family Service Life Insurance Company ("Family Service") was purchased in July, 1990, and American Income Life Insurance Company ("American Income") was purchased in November, 1994. Torchmark disposed of Family Service and Waddell & Reed during 1998.

The following table presents Torchmark's business by primary distribution method:

Primary Distribution Method	Company	Products	Sales Force
Direct Response	**Globe Life And Accident Insurance Company** Oklahoma City, OK	Individual life and supplemental health insurance including juvenile and senior life coverage, Medicare Supplement, long-term care.	Direct response, television, magazine; nationwide.
Liberty National Exclusive Agency	**Liberty National Life Insurance Company** Birmingham, Alabama	Individual life and supplemental health insurance.	1,902 full-time sales representatives; 108 district offices in the Southeastern U.S.
American Income Exclusive Agency	**American Income Life Insurance Company** Waco, Texas	Individual life and supplemental health insurance to union and credit union members and other associations.	1,197 agents in the U.S., Canada, and New Zealand.
United Investors Agency	**United Investors Life Insurance Company** Birmingham, Alabama	Individual life insurance and annuities.	2,611 Waddell & Reed representatives; independent agents; 212 offices nationwide.
Military	**Liberty National Life Insurance Company** Birmingham, Alabama **Globe Life And Accident Insurance Company** Oklahoma City, Oklahoma	Individual life insurance	Independent Agency through career agents nationwide.
United American Independent Agency and Exclusive Agency	**United American Insurance Company** McKinney, Texas	Senior life and supplemental health insurance including Medicare Supplement coverage and long-term care.	42,600 independent agents in the U.S., Puerto Rico and Canada; 2,354 exclusive agents in 78 branch offices.

Additional information concerning industry segments may be found in *Management's Discussion and Analysis* and in *Note 19—Business Segments in the Notes to Consolidated Financial Statements.*

Insurance

Life Insurance

Torchmark's insurance subsidiaries write a variety of nonparticipating ordinary life insurance products. These include traditional and interest sensitive whole-life insurance, term life insurance, and other life insurance. The following table presents selected information about Torchmark's life products:

(Amounts in thousands)

	Annualized Premium Issued			Annualized Premium in Force		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Whole life:						
Traditional	$119,799	$115,154	$114,934	$ 612,964	$ 575,888	$ 551,047
Interest-sensitive	18,348	17,131	14,981	168,805	162,046	163,058
Term	115,592	108,469	94,943	330,533	306,785	270,905
Other	3,468	3,713	5,521	18,307	17,928	22,369
	$257,207	$244,467	$230,379	$1,130,609	$1,062,647	$1,007,379

The distribution methods for life insurance products include sales efforts conducted by direct response, exclusive agents and independent agents. These methods are discussed in more depth under the heading *Marketing*. The following table presents life annualized premium issued by distribution method:

(Amounts in thousands)

	Annualized Premium Issued			Annualized Premium in Force		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Direct response	$ 96,091	$ 93,500	$ 79,412	$ 283,406	$ 260,320	$ 232,535
Exclusive Agents:						
Liberty National	51,467	45,532	43,335	307,495	298,082	298,698
American Income	54,045	53,576	55,245	231,490	216,291	203,475
United American	5,315	5,481	6,562	21,800	21,390	20,978
Independent Agents:						
Military	17,110	16,891	15,781	111,318	98,902	86,209
United American	13,319	9,401	15,225	43,394	41,078	42,725
United Investors	15,616	15,386	10,261	105,523	99,775	88,842
Other	4,244	4,700	4,558	26,183	26,809	33,917
	$257,207	$244,467	$230,379	$1,130,609	$1,062,647	$1,007,379

Permanent insurance products sold by Torchmark insurance subsidiaries build cash values which are available to policyholders. Policyholders may borrow such funds using the policies as collateral. The aggregate value of policy loans outstanding at December 31, 1999 was $245 million and the average interest rate earned on these loans was 6.8% in 1999. Interest income earned on policy loans was $16.3 million in 1999, $15.3 million in 1998, and $14.4 million in 1997. There were 200 thousand and 198 thousand policy loans outstanding at year-end 1999 and 1998, respectively.

The availability of cash values contributes to voluntary policy terminations by policyholders through surrenders. Life insurance products may be terminated or surrendered at the election of the insured at any time, generally for the full cash value specified in the policy. Specific surrender procedures vary with the type of policy. For certain policies this cash value is based upon a fund less a surrender charge which decreases with the length of time the policy has been in force. This surrender charge is either based upon a percentage of the fund or a charge per $1,000 of face amount of insurance. The schedule of charges may vary by plan of insurance and, for some plans, by age of the insured at issue. The ratio of aggregate face amount voluntary terminations to the mean amount of life insurance in force was 17.0% in 1999, 17.0% in 1998, and 16.5% in 1997.

The following table presents an analysis of changes to the Torchmark subsidiaries' life insurance business in force:

(Amounts in thousands)

	1999		1998		1997	
	Number of policies	**Amount of Insurance**	**Number of policies**	**Amount of Insurance**	**Number of policies**	**Amount of Insurance**
In force at January 1,	9,622	$ 96,339,059	9,630	$ 91,869,995	9,392	$ 86,948,151
New issues	1,332	22,846,100	1,452	21,448,243	1,441	20,267,520
Business acquired	-0-	-0-	-0-	-0-	-0-	-0-
Other increases	-0-	105,271	1	75,849	1	96,788
Death benefits	(105)	(327,733)	(107)	(323,393)	(110)	(307,752)
Lapses	(1,023)	(15,352,225)	(1,006)	(14,589,649)	(895)	(13,358,973)
Surrenders	(145)	(1,505,248)	(151)	(1,438,085)	(149)	(1,383,373)
Other decreases	(27)	(258,763)	(197)	(703,901)	(50)	(392,366)
In force at December 31,	9,654	$101,846,461	9,622	$ 96,339,059	9,630	$ 91,869,995
Average policy size (in dollar amounts):						
Direct response—Juvenile		$ 6,690		$ 6,688		$ 6,725
Other		12,146		11,411		10,689

Health insurance

Torchmark insurance subsidiaries offer supplemental health insurance products. These are generally classified as (1) Medicare Supplement, (2) cancer and (3) other health policies.

Medicare Supplement policies are offered on both an individual and group basis through exclusive and independent agents, and direct response. These guaranteed renewable policies provide reimbursement for certain expenses not covered by the federal Medicare program. One popular feature is an automatic claim filing system for Medicare Part B benefits whereby policyholders do not have to file most claims because they are paid from claim records sent directly to the Torchmark insurers by Medicare.

Cancer policies are offered on an individual basis through exclusive and independent agents as well as direct response. These guaranteed renewable policies are designed to fill gaps in existing medical coverage. Benefits are triggered by a diagnosis of cancer or health related events or medical expenses related to the treatment of cancer. Benefits may be in the form of a lump sum payment, stated amounts per diem, per medical procedure, or reimbursement for certain medical expenses.

Other health policies include accident, long term care and limited benefit hospital and surgical coverages. These policies are generally issued as guaranteed-renewable and are offered on an individual basis through exclusive and independent agents, and direct response. They are designed to supplement existing medical coverages. Benefits are triggered by certain health related events or incurred expenses. Benefit amounts are per diem, per health related event or defined expenses incurred up to a stated maximum.

The following table presents supplemental health annualized premium for the three years ended December 31, 1999 by marketing method:

(Amounts in thousands)

	Annualized Premium Issued			Annualized Premium in Force		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Direct response	$ 4,323	$ 3,884	$ 3,001	$ 12,785	$ 9,617	$ 7,248
Exclusive agents:						
Liberty National	9,859	11,124	11,541	149,447	143,668	138,179
American Income	8,039	9,138	10,052	46,691	44,300	43,552
United American	102,583	64,245	39,616	231,034	172,927	141,780
Independent agents:						
United American	68,022	50,508	42,643	444,401	426,351	431,293
	$192,826	$138,899	$106,853	$884,358	$796,863	$762,052

The following table presents supplemental health annualized premium information for the three years ended December 31, 1999 by product category:

(Amounts in thousands)

	Annualized Premium Issued			Annualized Premium in Force		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Medicare Supplement	$152,518	$102,421	$ 65,161	$630,915	$553,737	$522,054
Cancer	10,637	10,248	10,757	153,777	144,900	137,640
Other health related policies	29,671	26,230	30,935	99,666	98,226	102,358
	$192,826	$138,899	$106,853	$884,358	$796,863	$762,052

The number of individual health policies in force were 1.09 million, 1.09 million and 1.16 million at December 31, 1999, 1998, and 1997, respectively.

Annuities

Annuity products offered by Torchmark insurance subsidiaries include single-premium deferred annuities, flexible-premium deferred annuities, and variable annuities. Single-premium and flexible-premium products are fixed annuities where a portion of the interest credited is guaranteed. Additional interest may be credited on certain contracts. Variable annuity policyholders may select from a variety of mutual funds managed by Waddell & Reed which offer different degrees of risk and return. The ultimate benefit on a variable annuity results from the account performance. The following table presents Torchmark subsidiaries' annuity collections and deposit balances by product type excluding Family Service:

	(Amounts in thousands) Collections For the year ended December 31,			(Amounts in millions) Deposit Balance At December 31,		
	1999	1998	1997	1999	1998	1997
Fixed annuities	$ 71,696	$ 64,687	$ 76,930	$ 677.5	$ 647.3	$ 611.0
Variable annuities	392,769	299,005	247,446	3,274.9	2,343.5	1,821.2
	$464,465	$363,692	$324,376	$3,952.4	$2,990.8	$2,432.2

Investments

The nature, quality, and percentage mix of insurance company investments are regulated by state laws that generally permit investments in qualified municipal, state, and federal government obligations, corporate bonds, preferred and common stock, real estate, and mortgages where the value of the underlying real estate exceeds the amount of the loan. The investments of Torchmark insurance subsidiaries consist predominantly of high-quality, investment-grade securities. Fixed maturities represented 92% of total investments at December 31, 1999. Approximately 9% of fixed maturity investments were securities guaranteed by the United States Government or its agencies or investments that were collateralized by U.S. government securities. Approximately 79% of these investments were in GNMA securities that are backed by the full faith and credit of the United States government. The remainder of these government investments were U.S. Treasuries, agency securities or collateralized mortgage obligations ("CMO's") that are fully backed by GNMA's. (*See Note 3—Investments* in the *Notes to Consolidated Financial Statements* and *Management's Discussion and Analysis*.)

The following table presents the market value of fixed maturity investments at December 31, 1999 on the basis of ratings as determined primarily by Standard & Poor's Corporation. Moody's Investors Services' bond ratings are used when Standard & Poor's ratings are not available. Ratings of BBB and higher (or their equivalent) are considered investment grade by the rating services.

Rating	Amount (in thousands)	%
AAA	$1,038,734	18.3%
AA	484,439	8.5
A	2,690,891	47.5
BBB	1,113,956	19.6
BB	251,400	4.4
B	13,279	0.2
Less than B	766	0.0
Not rated	86,330	1.5
	$5,679,795	100.0%

The following table presents the market value of fixed maturity investments of Torchmark's insurance subsidiaries at December 31, 1999 on the basis of ratings as determined by the National Association of Insurance Commissioners (''NAIC''). Categories one and two are considered investment grade by the NAIC.

Rating	Amount (in thousands)	%
1. Highest quality*	$4,251,595	76.3%
2. High quality	1,038,060	18.6
3. Medium quality	236,016	4.2
4. Low quality	47,828	0.9
5. Lower quality	1,997	0.0
6. In or near default	0	0.0
	$5,575,496	100.0%

* Includes $463 million of exempt securities or 8.3% of the portfolio. Exempt securities are exempt for valuation reserve purposes, and consist of U.S. Government guaranteed securities.

Securities are assigned ratings when acquired. All ratings are reviewed and updated at least annually. Specific security ratings are updated as information becomes available during the year.

Pricing

Premium rates for life and health insurance products are established using assumptions as to future mortality, morbidity, persistency, and expenses, all of which are generally based on the experience of each insurance subsidiary, and on projected investment earnings. Revenues for individual life and health insurance products are primarily derived from premium income, and, to a lesser extent, through policy charges to the policyholder account values on certain individual life products. Profitability is affected to the extent actual experience deviates from that which has been assumed in premium pricing and to the extent investment income exceeds that which is required for policy reserves.

Collections for annuity products and certain life products are not recognized as revenues but are added to policyholder account values. Revenues from these products are derived from charges to the account balances for insurance risk and administrative costs. Profits are earned to the extent these revenues exceed actual costs. Profits are also earned from investment income on the deposits invested in excess of the amounts credited to policy accounts.

Underwriting

The underwriting standards of each Torchmark insurance subsidiary are established by management. Each company uses information from the application and, in some cases, telephone interviews with applicants, inspection reports, doctors' statements and/or medical examinations to determine whether a policy should be issued in accordance with the application, with a different rating, with a rider, with reduced coverage or rejected.

For life insurance in excess of certain prescribed amounts, each insurance company requires medical information or examinations of applicants. These are graduated according to the age of the applicant and may vary with the kind of insurance. The maximum amount of insurance issued without additional medical information is $200,000 through age 35. Additional medical information is requested of all applicants, regardless of age or amount, if information obtained from the application or other sources indicates that such information is warranted.

In recent years, there has been considerable concern regarding the impact of the HIV virus associated with Acquired Immune Deficiency Syndrome (''AIDS''). The insurance companies have implemented certain underwriting tests to detect the presence of the HIV virus and continues to assess the utility of other appropriate underwriting tests to detect AIDS in light of medical developments in this field. To date, AIDS claims have not had a material impact on claims experience.

Reinsurance

As is customary among insurance companies, Torchmark insurance subsidiaries cede insurance to other unaffiliated insurance companies on policies they issue in excess of retention limits. Reinsurance is an effective method for keeping insurance risk within acceptable limits. In the event insurance business is ceded, the Torchmark insurance subsidiaries remain contingently liable with respect to ceded insurance should any reinsurer be unable to meet the obligations it assumes. *(See Note 18—Commitments and Contingencies* in the *Notes to Consolidated Financial Statements* and *Schedule IV—Reinsurance [Consolidated].)*

Reserves

The life insurance policy reserves reflected in Torchmark's financial statements as future policy benefits are calculated based on generally accepted accounting principles. These reserves, with premiums to be received in the future and the interest thereon compounded annually at assumed rates, must be sufficient to cover policy and contract obligations as they mature. Generally, the mortality and persistency assumptions used in the calculations of reserves are based on company experience. Similar reserves are held on most of the health policies written by Torchmark's insurance subsidiaries, since these policies generally are issued on a guaranteed-renewable basis. A list of the assumptions used in the calculation of Torchmark's reserves are reported in the financial statements. *(See Note 9—Future Policy Benefit Reserves* in the *Notes to Consolidated Financial Statements.)* Reserves for annuity products consist of the policyholders' account values and are increased by policyholder deposits and interest credits and are decreased by policy charges and benefit payments.

Marketing

Torchmark insurance subsidiaries are licensed to sell insurance in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, New Zealand and Canada. Distribution is through direct response, independent and exclusive agents.

Direct Response. Various Torchmark insurance companies offer life insurance products directly to consumers through direct mail, co-op mailings, television, national newspaper supplements and national magazines. Torchmark operates a full service letterpress which enables the direct response operation to maintain high quality standards while producing materials much more efficiently than they could be purchased from outside vendors.

Exclusive Agents. Liberty National's 1,902 agents sell life and health insurance, primarily in the seven state area of Alabama, Florida, Georgia, Tennessee, Mississippi, South Carolina, and North Carolina. These agents are employees of Liberty and are primarily compensated by commissions based on sales. During the past several years this operation has emphasized bank draft and direct bill collection of premium rather than agent collection, because of the resulting lower cost and improved persistency. Agent collected sales were discontinued in 1996.

Through the American Income Agency, individual life and fixed-benefit accident and health insurance are sold through approximately 1,197 exclusive agents who target moderate income wage earners through the cooperation of labor unions, credit unions, and other associations. These agents are authorized to use the ''union label'' because this sales force is represented by organized labor.

United American offers life and health insurance targeted to various special markets through 2,354 United American exclusive agents in 78 branch offices throughout the United States.

The Waddell & Reed sales force, consisting of 2,611 sales representatives, markets the life insurance products, fixed annuities, and variable annuities of United Investors Life. This sales force continues to market Torchmark's insurance products subsequent to the spin-off of Waddell & Reed under a general agents' contract.

Independent Agents. Torchmark insurance companies offer a variety of life and health insurance policies through approximately 42,600 independent agents, brokers, and licensed sales representatives.

Torchmark is not committed or obligated in any way to accept a fixed portion of the business submitted by any independent agent. All policy applications, both new and renewal, are subject to approval and acceptance by Torchmark. Torchmark is not dependent on any single agent or any small group of independent agents, the loss of which would have a materially adverse effect on insurance sales.

Various Torchmark insurance subsidiaries distribute life insurance through a nationwide independent agency whose sales force is comprised of former commissioned and noncommissioned military officers who sell exclusively to commissioned and noncommissioned military officers and their families.

Ratings

The following list indicates the ratings currently held by Torchmark's five largest insurance companies as rated by A.M. Best Company:

	A.M. Best Company
Liberty National Life Insurance Company	A+ (Superior)
Globe Life And Accident Insurance Company	A+ (Superior)
United Investors Life Insurance Company	A+ (Superior)
United American Insurance Company	A+ (Superior)
American Income Life Insurance Company	A (Excellent)

A.M. Best states that it assigns A+ (Superior) ratings to those companies which, in its opinion, have demonstrated superior overall performance when compared to the norms of the life/health insurance industry. A+ (Superior) companies have a superior ability to meet their obligations to policyholders over a long period of time. A.M. Best states that it assigns A (Excellent) ratings to those companies which, in its opinion, have demonstrated excellent overall performance when compared to the norms of the life/health insurance industry. A (Excellent) companies have an excellent ability to meet their obligations to policyholders over a long period of time.

Liberty, Globe, United American, and UILIC have ratings of AA by Standard & Poor's Corporation. This AA rating is assigned by Standard & Poor's Corporation to those companies who offer excellent financial security on an absolute and relative basis and whose capacity to meet policyholders obligations is overwhelming under a variety of economic and underwriting conditions.

Competition

The insurance industry is highly competitive. Torchmark competes with other insurance carriers through policyholder service, price, product design, and sales efforts. In addition to competition with other insurance companies, Torchmark faces competition from other financial services organizations. While there are insurance companies competing with Torchmark, no individual company dominates any of Torchmark's life or health markets.

Torchmark's health insurance products compete with, in addition to the products of other health insurance carriers, health maintenance organizations, preferred provider organizations, and other health care related institutions which provide medical benefits based on contractual agreements.

Generally, Torchmark companies operate at lower administrative expense levels than its peer companies, allowing Torchmark to have competitive rates while maintaining underwriting margins, or, in the case of Medicare Supplement business, to remain in the business while some companies have ceased new writings. Torchmark's years of experience in the direct response business are a valuable asset in designing direct response products.

Regulation

Insurance. Insurance companies are subject to regulation and supervision in the states in which they do business. The laws of the various states establish agencies with broad administrative and supervisory powers which include, among other things, granting and revoking licenses to transact business, regulating trade practices, licensing agents, approving policy forms, approving certain premium rates, setting minimum reserve and loss ratio requirements, determining the form and content of required financial statements, and prescribing the type and amount of investments permitted. Insurance companies can also be required under the solvency or guaranty laws of most states in which they do business to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. They are also required to file detailed annual reports with supervisory agencies, and records of their business are subject to examination at any time. Under the rules of the NAIC, insurance companies are examined periodically by one or more of the supervisory agencies. The most recent examinations of Torchmark's insurance subsidiaries were: American Income as of December 31, 1995; Globe, as of December 31, 1997; Liberty, as of December 31, 1996; United American, as of December 31, 1996; and UILIC, as of December 31, 1996.

NAIC Ratios. The NAIC developed the Insurance Regulatory Information System (''IRIS''), which is intended to assist state insurance regulators in monitoring the financial condition of insurance companies. IRIS identifies twelve insurance industry ratios from the statutory financial statements of insurance companies, which are based on regulatory accounting principles and are not based on generally accepted accounting principles (''GAAP''). IRIS specifies a standard or ''usual value'' range for each ratio, and a company's variation from this range may be either favorable or unfavorable. The following table presents the IRIS ratios as determined by the NAIC for Torchmark's five largest insurance subsidiaries, which varied unfavorably from the ''usual value'' range for the years 1998 and 1997.

Company	Ratio Name	Usual Range	Reported Value
1998:			
American Income	Nonadmitted to Admitted Assets	0 to 10	10
Globe Life and Accident	Net change in Capital and Surplus	50 to -10	-10
	Gross change in Capital and Surplus	50 to -10	60
1997:			
Liberty	Investment in Affiliate to Capital and Surplus	0 to 100	199
American Income	Nonadmitted to Admitted Assets	0 to 10	11

Explanation of Ratios:

Investment in Affiliate to Capital and Surplus—This ratio is determined by measuring total investment in affiliates against the capital and surplus of the company. The NAIC considers a ratio of more than 100% to be high, and to possibly impact a company's liquidity, yield, and overall investment risk. The large ratio in Liberty in 1997 was the result of its ownership of other Torchmark insurance companies and the ownership of 81% of the stock of Waddell & Reed. Liberty disposed of its investment in Waddell & Reed during 1998 in connection with Torchmark's spin-off of that company to its shareholders. All intercompany investment is eliminated in consolidation, and the internal organizational structure has no bearing on Torchmark's consolidated financial condition or results. Furthermore, this intercompany investment did not affect Liberty's ability to do business.

Nonadmitted Assets to Admitted Assets—This ratio measures the degree to which a company has acquired assets which cannot be carried on its statutory balance sheet. American Income's ratio of 10% in 1998 and 11% in 1997 was due to a large amount of agent balances that arose from commissions that are advanced to agents when a policy is submitted. Due to the growth of American Income's business, these advances have grown and caused a variance in this particular ratio. Agents balances due to American Income are recognized as assets in Torchmark's consolidated financial statements. A significant amount of these balances was sold to an unaffiliated financial institution during 1999.

Change in Capital and Surplus—These ratios, calculated on both a gross and net basis, are a measure of improvement or deterioration in the company's financial position during the year. The NAIC considers ratios less than or equal to minus 10% and greater than or equal to 50% to be unusual. Globe's ratio of 60% in 1998 was caused by the establishment of American Income as a subsidiary of Globe.

Previously, American Income was a direct subsidiary of Torchmark. This transaction did not affect the consolidated equity of Torchmark at December 31, 1998. Also, this transaction did not affect Globe's ability to do business.

Risk Based Capital. The NAIC requires a risk based capital formula be applied to all life and health insurers. The risk based capital formula is a threshold formula rather than a target capital formula. It is designed only to identify companies that require regulatory attention and is not to be used to rate or rank companies that are adequately capitalized. All of the insurance subsidiaries of Torchmark are adequately capitalized under the risk based capital formula.

Guaranty Assessments. State solvency or guaranty laws provide for assessments from insurance companies into a fund which is used, in the event of failure or insolvency of an insurance company, to fulfill the obligations of that company to its policyholders. The amount which a company is assessed for these state funds is determined according to the extent of these unsatisfied obligations in each state. These assessments are recoverable to a great extent as offsets against state premium taxes.

Holding Company. States have enacted legislation requiring registration and periodic reporting by insurance companies domiciled within their respective jurisdictions that control or are controlled by other corporations so as to constitute a holding company system. Torchmark and its subsidiaries have registered as a holding company system pursuant to such legislation in Alabama, Delaware, Missouri, New York, Texas, and Indiana.

Insurance holding company system statutes and regulations impose various limitations on investments in subsidiaries, and may require prior regulatory approval for the payment of certain dividends and other distributions in excess of statutory net gain from operations on an annual noncumulative basis by the registered insurer to the holding company or its affiliates.

Personnel

At the end of 1999, Torchmark had 1,915 employees and 2,345 licensed employees under sales contracts. Additionally, approximately 49,000 independent and exclusive agents and brokers, who were not employees of Torchmark, were associated with Torchmark's marketing efforts.

Item 2. Real Estate

Torchmark, through its subsidiaries, owns or leases buildings that are used in the normal course of business. Liberty owns a 487,000 square foot building at 2001 Third Avenue South, Birmingham, Alabama which currently serves as Liberty's, UILIC's, and Torchmark's home office. Approximately 160,000 square feet of this building is available for lease to unrelated tenants by Liberty. Liberty also operates from 58 company-owned district office buildings used for agency sales personnel.

United American owns and is the sole occupant of a 140,000 square foot facility, located in the Stonebridge Ranch development in McKinney, Texas (a north Dallas suburb).

Globe owns a 300,000 square foot office building at 204 N. Robinson, Oklahoma City, of which Globe occupies 56,000 square feet as its home office and the remaining space is either leased or available for lease. Globe also owns an 80,000 square foot office building at 120 Robert S. Kerr Avenue, Oklahoma City, which is available for lease. Further, Globe owns a 112,000 square foot facility located at 133 NW 122 Street in Oklahoma City which houses the Direct Response operation.

American Income owns and is the sole occupant of an office building located at 1200 Wooded Acres Drive, Waco, Texas. The building is a two-story structure containing approximately 72,000 square feet of usable floor space.

Liberty and Globe also lease district office space for their agency sales personnel.

During 1999, Torchmark sold the majority of its investment real estate holdings for total consideration of $123 million. These sold investments included its TMK Income Properties limited partnership and its joint venture investment in Liberty Park, a planned community in Birmingham, Alabama. As of December 31, 1999, Torchmark retained $16 million of investment real estate, which included $8 million of properties that were partially occupied by Torchmark subsidiaries, $7 million of undeveloped land in Liberty Park, and $1 million of undeveloped land in north Texas.

Information Technology Computing Equipment

Torchmark, and its primary subsidiaries, have significant information technology capabilities at their disposal. The corporation uses centralized mainframe computer systems, company-specific local-area networks, workstations, and personal computers to meet its ongoing information processing requirements. Torchmark and its primary subsidiaries also use data communications hardware and software to support their remote data communications networks, intranets, and internet-related telecommunications capabilities.

Torchmark's computer hardware, data communications equipment, and associated software programs are managed by information technology staff. All of the corporation's computer hardware and software support, information processing schedules, and computer-readable data-management requirements are met through company-specific policies and procedures. These company-specific policies and procedures also provide for the off-site storage and retention of backup computer software, financial, and business data files.

Item 3. Legal Proceedings

Torchmark and its subsidiaries continue to be named as parties to pending or threatened legal proceedings. These lawsuits involve tax matters, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. Many of these lawsuits involve claims for punitive damages in state courts of Alabama, a jurisdiction particularly recognized for its large punitive damage verdicts. A number of such actions involving Liberty also name Torchmark as a defendant. In 1999, Alabama enacted legislation limiting punitive damages in non-physical injury cases to the greater of $500,000 or three times compensatory damages. Since this legislation has not undergone scrutiny by appellate courts regarding its constitutionality and a jury's discretion regarding the amount of compensatory damages (including mental anguish) awarded in any given case is not precisely defined, the effect of this legislation on Torchmark's litigation remains unclear. Thus, the likelihood or extent of a punitive damage award in any given case is currently impossible to predict. As of December 31, 1999, Liberty was a party to approximately 135 active lawsuits (including 17 employment related cases and excluding interpleaders and stayed cases), 126 of which were Alabama proceedings in which punitive damages were sought. Liberty faces trial settings in these cases on an on-going basis.

Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, contingent liabilities arising from threatened and pending litigation are not presently considered by management to be material. It should be noted, however, that large punitive damage awards bearing little or no relation to actual damages awarded by juries in jurisdictions in which Torchmark has substantial business, particularly in Alabama, continue to occur, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

On August 25, 1995, a purported class action was filed against Torchmark, Globe, United American and certain officers of these companies in the United States District Court for the Western District of Missouri on behalf of all former agents of Globe (*Smith v. Torchmark Corporation*, Case No. :95-3304-CV-S-4). This action alleges that the defendants breached independent agent contracts with the plaintiffs by treating them as captive agents and engaged in a pattern of racketeering activity wrongfully denying income and renewal commissions to the agents, restricting insurance sales, mandating the purchase of worthless leads, terminating agents without cause and inducing the execution of independent agent contracts based on misrepresentations of fact. Monetary damages in an unspecified amount are sought. A plaintiff class was certified by the District Court on February 26, 1996, although the certification did not go to the merit of the allegations in the complaint. On December 31, 1996, the plaintiffs filed an amended complaint in *Smith* to allege violations of various provisions of the Employment Retirement Income Security Act of 1974. Extensive discovery was then conducted. In October 1998, defendants filed a motion to decertify the presently defined class in *Smith*. On March 23, 1999, the District Court granted defendants' motion to decertify the *Smith* class in part and decertified all but the ERISA claims of a more narrowly defined *Smith* class. In May 1999, the defendants filed motions to dismiss the claims certified by the Court's March 23, 1999 order. On December 14, 1999, the District Court granted defendants' motion for summary judgment. That Court denied a motion for reconsideration on January 21, 2000.

It has been previously reported that Torchmark, its subsidiaries United American and Globe and certain individual corporate officers are parties to purported class action litigation filed in April, 1996 in the U.S. District Court for the Northern District of Georgia (*Crichlow v. Torchmark Corporation*, Case No. 4:96-CV-0086-HLM) involving certain hospital and surgical insurance policies issued by Globe and United American. In September 1997, the U.S. District Court entered an order granting summary judgment against the plaintiffs on certain issues and denying national class certification, although indicating that plaintiffs could move for the certification of a state class of Georgia policyholders. Discovery then proceeded on the remaining claims for breach of contract and the duty of good faith arising from closure of the block of business and certain post-claim matters as well as fraud and conspiracy relating to pricing and delay in implementing rate increases. On June 17, 1998, the U.S. District Court entered an order which denied the plaintiffs' motion to certify a Georgia policyholders class, denied reconsideration of the previously entered motion for summary judgment on certain issues, denied reconsideration of the denial of national certification of a class of policyholders and severed and transferred claims of Mississippi policyholders to the U.S. District Court for the Northern District of Mississippi (*Greco v. Torchmark Corporation*, Case No. 1:98CV196-D-D). The U.S. District Court granted defendants' motion for summary judgment on all remaining issues in *Crichlow* on February 4, 1999. Plaintiffs in *Greco* then moved to certify a class of persons purchasing Globe hospital and surgical insurance policies in Mississippi. On February 1, 1999, defendants filed a motion for summary judgment in *Greco*.

Defendants' motion for summary judgment on all remaining issues in *Crichlow* was granted by the District Court on February 4, 1999. The *Crichlow* plaintiffs have appealed and *Crichlow* defendants have cross-appealed various orders of the District Court to the United States Court of Appeals for the Eleventh Circuit.

On October 29, 1999, the District Court dismissed all of the plaintiffs' claims in *Greco* in their entirety and entered a final judgment dismissing *Greco* with prejudice. This October 29, 1999 order in *Greco* has been appealed by plaintiffs to the Fifth Circuit Court of Appeals.

As previously reported, Liberty has been a party to two lawsuits alleging that a class of persons were insured under Liberty policies when Liberty knew that such persons were not entitled to retain any benefits under these policies, one of which was filed in 1996 in the Circuit Court of Jefferson County, Alabama (*Harris v. Liberty National Life Insurance Company*, Case No. CV-96-01836) and the other in the Circuit Court of St. Clair County, Alabama (*Gentry v. Liberty National Life Insurance Company*, Case No. CV-97-61). The *Gentry* case was dismissed by the St. Clair County Circuit Court on June 16, 1998 and subsequently the *Harris* case was amended to add former plaintiff Gentry as an additional class representative in that case. On December 28, 1999, the Jefferson County Circuit Court entered an order in *Harris* granting summary judgment for Liberty on all plaintiffs' claims except unjust enrichment. The only remaining claim in the *Harris* plaintiffs' motion for class certification, one of unjust enrichment, was denied by the Circuit Court in an order denying the motion for class certification entered February 10, 2000.

In 1978, the United States District Court for the Northern District of Alabama entered a final judgment in *Battle v. Liberty National Life Insurance Company, et al* (Case No. CV-70-H-752-S), class action litigation involving Liberty, a class composed of all owners of funeral homes in Alabama and a class composed of all insureds (Alabama residents only) under burial or vault policies issued, assumed or reinsured by Liberty. The final judgment fixed the rights and obligations of Liberty and the funeral directors authorized to handle Liberty burial and vault policies as well as reforming the benefits available to the policyholders under the policies. Although class actions are inherently subject to subsequent collateral attack by absent class members, the *Battle* decree remains in effect to date. A motion filed in February 1990 to challenge the final judgment under Federal Rule of Civil Procedure 60(b) was rejected by both the District Court in 1991 and the Eleventh Circuit Court of Appeals in 1992 and a Writ of Certiorari was denied by the U.S. Supreme Court in 1993.

In November 1993, an attorney (purporting to represent the funeral director class) filed a petition in the District Court seeking ''alternative relief'' under the final judgment. This petition was voluntarily withdrawn on November 8, 1995 by petitioners. On February 23, 1996, Liberty filed a petition with the District Court requesting that it order certain contract funeral directors to comply with their obligations under the Final Judgment in *Battle* and their funeral service contracts. A petition was filed on April 8, 1996 on behalf of a group of funeral directors seeking to modify the 1978 decree in *Battle* in light of changed economic circumstances. All parties made extensive submissions to the District Court and a hearing on the opposing petitions was held by the District Court on February 9, 1999. On March 8, 1999, the District Court entered an order granting Liberty's petition to enforce the obligations of contract funeral directors under their funeral service contracts and denying the funeral directors' petition for review of the *Battle* Final Judgment and alternative relief. On July 29, 1999, the funeral director class filed an appeal with the U.S. Court of Appeals of the Eleventh Circuit seeking to have the March 8, 1999 order vacated on the merits. Liberty filed a joint motion in the Eleventh Circuit Court seeking remand to the District Court for purposes of appointment of class counsel for burial policyholders, who are currently not formally represented in these preceedings. The Circuit Court issued an order denying Liberty's joint motion on September 15, 1999 and the funeral director class' appeal remains pending. On January 24, 2000, Liberty and the funeral director class filed a joint motion for remand in order to allow the District Court to evaluate a proposed settlement of the funeral directors' appeal.

On October 28, 1999, Liberty was served with a subpoena from the Florida Department of Insurance in connection with that Department's investigation into Liberty's sales practices and disclosures in the State of Florida regarding industrial life insurance and low coverage life insurance policies. Subsequently, on December 8, 1999, purported class action litigation was filed against Liberty in the United States District Court for the Northern District of Alabama (*Moore v. Liberty National Life Insurance Company*, Case No. CV-99-BU-3262-S), on behalf of all African-Americans who have or have had at the time of policy termination an ownership interest in certain life insurance policies ($25,000 face amount or less) marketed by Liberty and certain of its former subsidiaries. Plaintiffs allege racial discrimination in Liberty's premium rates in violation of 42 U.S.C §1981, breach of fiduciary duty in sales and administrative practices, receipt of excessive and unreasonable premium payments by Liberty, improper hiring, supervision, retention and failure to monitor actions of officers, agents and employees, breach of contract in dismantling the debit premium collection system, fraudulent inducement and negligent misrepresentation. Unspecified compensatory and punitive damages are sought together with a declaratory judgment and equitable and/or injunctive relief, including establishment of a constructive trust for the benefit of class members. Defendants filed a motion for judgment on the pleadings or in the alternative for summary judgment on January 27, 2000.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of shareholders, through the solicitation of proxies or otherwise, during the fourth quarter of 1999.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

The principal market in which Torchmark's common stock is traded is the New York Stock Exchange. There were 6,378 shareholders of record on December 31, 1999, excluding shareholder accounts held in nominee form. On November 6, 1998, Torchmark distributed its approximately 64% ownership of Waddell & Reed to its shareholders at a ratio of .3018 Waddell & Reed shares to one share of Torchmark. All market prices and dividends per share have been adjusted to reflect the Waddell & Reed distribution. Information concerning restrictions on the ability of Torchmark's subsidiaries to transfer funds to Torchmark in the form of cash dividends is set forth in *Note 16—Shareholders' Equity* in the *Notes to the Consolidated Financial Statements*. The market prices and cash dividends paid by calendar quarter for the past two years are as follows:

	1999 Market Price		
Quarter	**High**	**Low**	**Dividends Per Share**
1	$36.6250	$30.6875	$ .0900
2	37.1875	31.2500	.0900
3	36.1250	24.6250	.0900
4	35.9375	25.5625	.0900

Year-end closing price $29.0625

	1998 Market Price		
Quarter	**High**	**Low**	**Dividends Per Share**
1	$41.2813	$33.0156	$ .1500
2	43.0000	34.5781	.1500
3	40.7344	30.5313	.1500
4	40.2500	27.4688	.1300

Year-end closing price $35.3125

Item 6. Selected Financial Data

The following information should be read in conjunction with Torchmark's Consolidated Financial Statements and related notes reported elsewhere in this Form 10-K:

(Amounts in thousands except per share and percentage data)

Year ended December 31,	1999	1998	1997	1996	1995
Premium revenue:					
Life	$1,018,301	$ 959,766	$ 909,992	$ 854,897	$ 772,257
Health	824,816	759,910	739,485	732,618	750,588
Other	40,969	33,954	28,527	22,404	23,438
Total	1,884,086	1,753,630	1,678,004	1,609,919	1,546,283
Net investment income	447,337	459,558	429,116	399,551	377,338
Realized investment gains (losses)	(110,971)	(57,637)	(36,979)	5,830	(14,323)
Total revenue	2,226,895	2,157,876	2,071,103	2,016,416	1,910,454
Net operating income(1)	341,167	324,315	273,730	240,637	219,864
Net income from continuing operations	258,930	255,776	260,429	252,815	217,958
Net income	273,956	244,441	337,743	311,372	143,235
Annualized premium issued:					
Life	257,207	244,467	230,379	214,741	217,988
Health	192,826	138,899	106,853	100,981	103,491
Total	450,033	383,366	337,232	315,722	321,479
Per common share:					
Basic earnings:					
Net operating income(1)	2.56	2.32	1.97	1.69	1.54
Net income from continuing operations	1.95	1.83	1.87	1.78	1.52
Net income	2.06	1.75	2.43	2.19	1.00
Diluted earnings:					
Net operating income(1)	2.55	2.29	1.94	1.67	1.52
Net income from continuing operations	1.93	1.81	1.84	1.76	1.51
Net income	2.04	1.73	2.39	2.17	0.99
Cash dividends paid	0.36	0.58	0.59	0.58	0.57
Return on average common equity, excluding effect of SFAS 115, Vesta earnings, discontinued operations, and nonrecurring charge	16.2%	15.1%	18.2%	18.4%	18.3%
Basic average shares outstanding	133,197	139,999	139,202	142,460	143,188
Diluted average shares outstanding	133,986	141,352	141,431	143,783	144,228

As of December 31,	1999	1998	1997	1996	1995
Cash and invested assets	$ 6,202,251	$ 6,417,511	$ 6,473,096	$5,863,163	$5,724,180
Total assets	12,131,664	11,249,028	11,127,648	9,893,964	9,445,623
Short-term debt	418,394	355,392	347,152	40,910	189,372
Long-term debt	371,555	383,422	564,298	791,880	791,988
Shareholders' equity	1,993,337	2,259,528	1,932,736	1,629,343	1,588,952
Per common share (2)	15.10	16.51	13.80	11.69	11.09
Per common share excluding effect of SFAS 115	16.32	15.43	12.90	11.42	10.16
Annualized premium in force:					
Life	1,130,609	1,062,647(3)	1,007,379	946,525	869,366
Health	884,358	796,863	762,052	748,153	759,059
Total	2,014,967	1,859,510(3)	1,769,431	1,694,678	1,628,425

(1) Net income from continuing operations, excluding realized investment gains (losses), the related adjustment to deferred acquisition costs, equity in Vesta earnings for periods prior to 1999, a one-time gain on the sale of equipment, and the nonrecurring charge.
(2) Computed after deduction of preferred shareholders' equity.
(3) Annualized life premium in force excludes $5.3 million representing the Family Service business sold in 1998.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statements. Torchmark cautions readers regarding certain forward-looking statements contained in the following discussion and elsewhere in this document, and in any other statements made by, or on behalf of Torchmark whether or not in future filings with the Securities and Exchange Commission. Any statement that is not a historical fact, or that might otherwise be considered an opinion or projection concerning Torchmark or its business, whether express or implied, is meant as and should be considered a forward-looking statement. Such statements represent management's opinions concerning future operations, strategies, financial results or other developments.

Forward-looking statements are based upon estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond Torchmark's control. If these estimates or assumptions prove to be incorrect, the actual results of Torchmark may differ materially from the forward-looking statements made on the basis of such estimates or assumptions. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, which may be national in scope, related to the insurance industry generally, or applicable to Torchmark specifically. Such events or developments could include, but are not necessarily limited to:

1) Deteriorating general economic conditions leading to increased lapses and/or decreased sales of Torchmark's policies;

2) Changes in governmental regulations (particularly those impacting taxes and changes to the federal Medicare program that would affect Medicare Supplement insurance);

3) Financial markets trends that adversely affect sales of Torchmark's market-sensitive products;

4) Increased pricing competition;

5) Adverse levels of mortality, morbidity, and utilization of healthcare services relative to Torchmark's assumptions;

6) The inability of Torchmark to obtain timely and appropriate premium rate increases;

7) Adverse regulatory developments;

8) Interest rate changes that adversely affect product sales and/or investment portfolio yield;

9) Adverse litigation results;

10) Developments involving Vesta Insurance Group, Inc., (''Vesta'') described more fully elsewhere in this document under the caption ''Transactions involving Vesta Insurance Group'' on page of this report;

11) The inability of Torchmark to achieve the anticipated levels of administrative and operational efficiencies; and

12) The customer response to new products and marketing initiatives.

Readers are also directed to consider other risks and uncertainties described in other documents filed by Torchmark with the Securities and Exchange Commission.

The following discussion should be read in conjunction with the Selected Financial Data and Torchmark's Consolidated Financial Statements and Notes thereto appearing elsewhere in this report.

RESULTS OF OPERATIONS

The following is a discussion of Torchmark's operations for the three years ended December 31, 1999. In the analysis and comparison of Torchmark's operating results with 1998 and 1997, two divestitures that occurred in 1998 should be taken into account:

a) the divestiture of Waddell & Reed

b) the sale of Family Service

Divestiture of Waddell & Reed. In March, 1998, Waddell & Reed, Torchmark's asset management subsidiary, completed an initial public offering of approximately 24 million shares of its common stock. The offering represented approximately 36% of Waddell & Reed's shares. Net proceeds from the offering were approximately $516 million after underwriters' fees and expenses. Waddell & Reed used $481 million of the proceeds to repay existing notes owed to Torchmark and other Torchmark subsidiaries and retained the remaining $35 million. Torchmark's $481 million proceeds from the note repayments were invested or used to pay down debt. (See the discussion on *Investments* on page 28, *Liquidity* on page 32, and *Capital Resources* on page 32 of this report.) The initial public offering resulted in a $426 million gain which was added to Torchmark's additional paid-in capital. Torchmark retained the remaining 64% of the Waddell & Reed stock.

On November 6, 1998, Torchmark distributed its remaining 64% investment in Waddell & Reed through a tax-free spin-off to Torchmark shareholders. Each Torchmark shareholder of record on October 23, 1998 received a total of .3018 Waddell & Reed shares per Torchmark share. After the spin-off, Torchmark retained no further ownership interest in Waddell & Reed. As a result of the transaction, Torchmark incurred $54 million in expenses related to the spin-off, the majority of which was $50 million of corporate Federal income tax resulting from the distribution of a portion of the policyholder surplus account of a Torchmark life subsidiary.

Torchmark has accounted for the spin-off of Waddell & Reed as a disposal of a segment. Accordingly, Torchmark's financial statements for 1998 and all prior periods were modified to present the net assets and operating results of Waddell & Reed as discontinued operations of the disposed segment. The $54 million expense of the spin-off is included in discontinued operations under the caption "Loss on Disposal." The distribution of the Waddell & Reed shares resulted in a reduction in Torchmark's shareholders' equity in the approximate amount of $174 million, consisting of the equity in Waddell & Reed, net of the 36% minority interest.

Torchmark's share of Waddell & Reed's earnings for 1998 was $48 million after reduction for the minority interest during the period subsequent to the initial public offering but before the spin-off. This compares with $77 million for 1997, when Torchmark owned 100% of Waddell & Reed for the entire period.

Sale of Family Service. On June 1, 1998, Torchmark sold Family Service to an unaffiliated insurance carrier. Family Service, which was acquired in 1990, is a preneed funeral insurer but has not issued any new policies since 1995. Consideration for the sale was $140 million in cash. Torchmark recorded a pretax realized loss on the sale of approximately $14 million, but incurred a tax expense on the transaction of $9 million for a total after-tax loss of $23 million. In connection with the sale, Torchmark agreed to continue to service the policies in force of Family Service for five years from the sale date for a fee of $2 million per year plus certain variable processing costs. During 1997, Family Service accounted for $57 million in revenues and $7.7 million in pretax income. Through May, 1998, Family Service contributed $25 million in revenues and $5.8 million in pretax income. Invested assets were $778 million and total assets were $828 million at the date of the sale.

Summary of Operating Results. Torchmark's management computes a classification of income called "net operating income." Net operating income is the measure of income Torchmark's management focuses on to evaluate the performance of the operations of the company. It differs from net income as reported in the financial statements in that it excludes unusual and nonrecurring income or loss items which distort operating trends. It also excludes discontinued operations.

The following items were excluded from net income as reported in Torchmark's financial statements in order to compute net operating income:

1) Realized investment gains and losses and the related adjustment to deferred acquisition costs, net of tax;
2) Net income or loss from the discontinued operations of Waddell & Reed, including the $54 million nonrecurring expenses of the spin-off;
3) Torchmark's pro rata share of the income or losses related to Vesta;
4) The nonrecurring loss from the redemption by Torchmark of its debt in the second quarter of 1998 in the amount of $5 million net of tax;
5) A one-time gain on the sale of equipment (included in other income) in the after-tax amount of $3.3 million; and
6) The effect of a change in accounting principle which modified the accounting for an interest rate swap instrument, increasing net income in the after-tax amount of $16.1 million.

Additionally, in 1999, Torchmark entered into a life insurance marketing arrangement with a third party, discussed more fully under the caption *Life Insurance* on page 20 of this report. This agreement contained certain cash guarantees to the third party which would not be recoverable by Torchmark based on test marketing results. Accordingly, Torchmark recorded a nonrecurring after-tax operating charge of $13 million, or $.10 per diluted share in 1999. Because this was an unusual one-time charge, net operating income has been presented before the charge for comparability.

A reconciliation of net operating income to net income on a per diluted share basis is as follows:

Reconciliation of Per Share Net Operating Income to Reported Net Income*

	1999	1998	1997
Net operating income before nonrecurring charge	$2.55	$2.29	$1.94
Nonrecurring charge	(.10)	—	—
Net operating income	2.45	2.29	1.94
Realized investment losses, net of tax	(.54)	(.36)	(.17)
Gain on sale of equipment, net of tax	.02	—	—
Equity in Vesta earnings (losses), net of tax	—	(.12)	.07
Discontinued operations of Waddell & Reed, net of tax	(.01)	(.04)	.55
Loss on redemption of debt, net of tax	—	(.04)	—
Change in accounting principle, net of tax	.12	—	—
Net income	$2.04	$1.73	$2.39

* Diluted share basis

Realized investment losses in 1999 in the after-tax amount of $72 million included a $41 million after-tax loss from the sale of real estate and a $19 million after-tax loss from the sale of fixed maturities, which are discussed on page 29 of this report under the caption *Investments*. Realized losses in 1999 also included a $12 million after-tax loss from the reduction in value of Torchmark's interest rate swap relating to its MIPS, as discussed under the caption *Capital Resources* on page 32 of this report.

Realized investment losses in 1998, which were $51 million net of tax, included a $23 million after-tax loss from the sale of Family Service, a $24 million after-tax loss on the writedown of Torchmark's Vesta holdings, and a $3 million after-tax loss from the sale of a portion of the Vesta holdings. Losses in 1997, in the after-tax amount of $24 million, were primarily a result of intentional sales of fixed-maturity investments at a loss to offset current and prior-year taxable gains.

The Vesta transactions are discussed on page 35 and the redemption of Torchmark debt is discussed under the caption *Capital Resources* on page 32 of this report. The change in accounting principle is discussed in *Note 15—Change in Accounting Principle* to the Consolidated Financial Statements on page 64 of this report.

Torchmark reports earnings per share data as basic and diluted. Basic earnings per share are based on average shares outstanding during the period. Diluted earnings per share assume the exercise of Torchmark's employee stock options for which the exercise price was lower than the market price during the year and their impact on shares outstanding. Diluted earnings per share differ from basic earnings per share in that they are influenced by changes in the market price of Torchmark stock and the number of options as well as the number of shares outstanding. Unless otherwise indicated, all references to per share data in this report are on the basis of diluted shares.

A comparison of Torchmark's basic and diluted earnings per share is as follows:

Earnings and Earnings Per Share
(Dollar amounts in thousands, except for per share data)

	For the Year Ended December 31,		
	1999	1998	1997
Net operating income before nonrecurring charge:			
Amount	$341,167	$324,315	$273,730
Per Share:			
Basic	2.56	2.32	1.97
Diluted	2.55	2.29	1.94
Net operating income:			
Amount	327,744	324,315	273,730
Per Share:			
Basic	2.46	2.32	1.97
Diluted	2.45	2.29	1.94
Net income:			
Amount	273,956	244,441	337,743
Per Share:			
Basic	2.06	1.75	2.43
Diluted	2.04	1.73	2.39

Torchmark's revenues were $2.23 billion in 1999, an increase of 3% over 1998 revenues of $2.16 billion. Revenues rose 4% in 1998 over 1997 revenues of $2.07 million. After adjustment for realized investment gains and losses in each year, revenues grew 5% in 1999 from $2.22 billion in 1998 to $2.33 billion. They also rose 5% in 1998 over the prior year. Total premium rose $130 million, or 7%, to $1.88 billion in 1999. Total premium increased 5% in 1998 to $1.75 billion. Life insurance premium rose 6% in 1999 to $1.02 billion, an increase of $59 million. Health premium in 1999 rose 9%, an increase of $65 million to $825 million. Net investment income declined $12 million, or 3%, in 1999 due primarily to the sale of Family Service. Life premium increased 5% to $960 million and health premium grew 3% to $760 million in 1998. Net investment income increased 7% in 1998 to $460 million.

Other operating expenses have declined in each of the years 1997 through 1999. They declined from $120 million in 1997 to $117 million in 1998 and to $115 million in 1999. Other operating expenses as a percentage of revenues, excluding realized gains and losses, declined in each period and were 4.9% in 1999, 5.3% in 1998, and 5.7% in 1997. Other operating expenses consist of insurance administrative expenses and expenses of the parent company. The components of Torchmark's revenues and operations are described in more detail in the discussion of Insurance and Investment segments found on pages 20 through 31 of this report.

The following table is a summary of Torchmark's continuing net operating income. Insurance underwriting income is defined by Torchmark management as premium income less net policy obligations, commissions, acquisition expenses, and insurance administrative expenses plus other income. Excess investment income is defined as tax-equivalent net investment income reduced by the interest credited to net policy liabilities and financing costs. Financing costs include the interest on Torchmark's debt and the net cost of the Monthly Income Preferred Securities (''MIPS'').

Summary of Net Operating Income
(Dollar amounts in thousands)

	1999		1998		1997	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Insurance underwriting income before other income and administrative expenses:						
Life	$ 263,269	60.5%	$ 252,556	60.8%	$ 241,038	60.0%
Health	144,632	33.3	139,445	33.6	141,540	35.3
Annuity	26,831	6.2	23,423	5.6	19,025	4.7
Other	-0-		-0-		7	
Total	434,732	100.0%	415,424	100.0%	401,610	100.0%
Other income	3,348		4,488		3,141	
Administrative expenses	(104,903)		(102,559)		(101,950)	
Insurance underwriting income excluding Family Service	333,177		317,353		302,801	
Insurance underwriting income—Family Service	-0-		1,393		3,685	
Excess investment income (tax equivalent basis)	215,387		206,119		143,476	
Corporate expense	(10,166)		(12,061)		(13,953)	
Goodwill amortization	(12,075)		(12,075)		(12,074)	
Tax equivalency adjustment	(11,487)		(11,143)		(9,951)	
Pretax net operating income	514,836		489,586		413,984	
Income tax	(173,669)		(165,271)		(140,254)	
Net operating income before nonrecurring charge	341,167		324,315		273,730	
Nonrecurring charge, net of tax	(13,423)		-0-		-0-	
Net operating income	$ 327,744		$ 324,315		$ 273,730	
Net operating income before nonrecurring charge per diluted share	$ 2.55		$ 2.29		$ 1.94	
Net operating income per diluted share	$ 2.45		$ 2.29		$ 1.94	

On a per share basis, Torchmark's net operating income before nonrecurring charge grew 11% in 1999 and 18% in 1998. Excluding the proceeds from the public offering of Waddell & Reed, the increase for 1998 would have been 10%.

In total dollars, Torchmark's net operating income before nonrecurring charge rose 5% in 1999 after an 18% increase in 1998. Contributing to the growth in net operating income were gains in insurance underwriting income and excess investment income. Excluding Family Service, insurance underwriting income rose 5% in 1999 to $333 million and 5% in 1998 to $317 million. Excess investment income also rose in both 1998 and 1999 as a result of lower policy requirements in 1999, increased investment income in 1998, and lower financing costs in both years. Torchmark's core operations are segmented into insurance underwriting operations and investment operations. Insurance underwriting activities are further segmented into life insurance, health insurance, and annuity product groups. A detailed discussion of each of Torchmark's segments follows.

Life insurance. Life insurance is Torchmark's largest segment, with life premium representing 54% of total premium and with life underwriting income before other income, administrative expense, and nonrecurring charge, representing 61% of the total. Life insurance products provide higher underwriting margins and a larger asset base resulting from higher reserve levels. A larger asset base provides Torchmark the opportunity to increase investment income.

Family Service was sold on June 1, 1998. Comparisons of 1997 through 1999 in the following discussions of Torchmark's life insurance operations exclude Family Service.

Life insurance premium rose 6% in 1999 to $1.02 billion from $957 million in 1998. Life premium increased 6% in 1998. Sales of life insurance, in terms of annualized premium, were $257 million in 1999, increasing 5% over 1998 sales of $244 million. This compares with 6% growth in 1998 sales over 1997. Annualized life premium in force was $1.13 billion at December 31, 1999, compared with $1.06 billion at 1998 year end, an increase of 6%. Annualized premium in force grew 6% in 1998 from $1.00 billion at year-end 1997. Annualized premium in force and issued data includes amounts collected on certain interest-sensitive life products which are not recorded as premium income but excludes single-premium income and policy account charges.

Life insurance products are marketed through a variety of distribution channels. The following table presents life insurance premium by distribution method during each of the three years ended December 31, 1999.

LIFE INSURANCE
Premium by Distribution Method
(Dollar amounts in thousands)

	1999		1998		1997	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Liberty National Exclusive Agency	$ 288,330	28.3%	$282,389	29.5%	$280,519	31.1%
Direct Response	245,824	24.1	221,371	23.1	195,393	21.7
American Income Exclusive Agency	217,367	21.3	204,310	21.3	190,681	21.2
Military Independent Agency	104,590	10.3	92,204	9.6	79,631	8.8
United Investors Agency	84,098	8.3	80,376	8.4	77,986	8.7
United American Independent Agency	37,375	3.7	36,925	3.9	36,810	4.1
United American Exclusive Agency	19,318	1.9	18,798	2.0	18,243	2.0
Other	21,399	2.1	20,901	2.2	21,924	2.4
	$1,018,301	100.0%	$957,274	100.0%	$901,187	100.0%

Direct Response marketing is conducted through direct mail, co-op mailings, television and consumer magazine advertising, and direct mail solicitations endorsed by groups, unions and associations. It markets a line of life products primarily to juveniles and adults with face amounts of less than $10 thousand on average. The Direct Response operation is characterized by lower acquisition costs than Torchmark's agency-based marketing systems. In each of the three years 1997 through 1999, this distribution center had Torchmark's highest growth in life insurance premium in dollar amount. It accounted for over 24% of Torchmark's life insurance premium during 1999. Direct Response premium was $246 million in 1999, increasing 11% over 1998 premium of $221 million. Direct Response life premium in 1998 grew 13% over 1997 premium of $195 million.

Annualized premium sold by the Direct Response operation was $96 million in 1999, increasing 3% over 1998 sales of $94 million. Sales in 1998 rose 18% over 1997 sales of $79 million. Sales growth declined as compared with previous years due in part to the withdrawal from the under-age 40 adult direct mail market because of unfavorable financial results from that segment. Direct mail sales to ages 40 to 50 were interrupted for part of the year while those products were repriced to improve their financial results. The annualized life premium issued by the Direct Response group represented over 37% of Torchmark's total life sales in 1999. Direct Response annualized life premium in force rose 9% to $283 million at December 31, 1999 from $260 million a year earlier. At December 31, 1999, Direct Response life annualized premium in force was second only to that of the Liberty National Exclusive Agency. Direct Response life insurance annualized premium in force grew 12% in 1998.

In addition to growth in life insurance sales and premium, the Direct Response operation has promoted growth in some of Torchmark's agent-based distribution channels through marketing support. This support includes providing sales leads and assisting in agent recruiting. This assistance has contributed indirectly to the growth in premium in other Torchmark distribution agencies. For example, Direct Response marketing support indirectly contributed to the increase in health sales by the United American Exclusive Agency through its assistance in the agent recruiting process and by providing leads to the agents.

The Liberty National Exclusive Agency distribution system represented Torchmark's largest contribution to life insurance premium income in each of the three years presented, with 1999 premium of $288 million representing 28% of total life premium. The annualized life premium in force of the Liberty Agency was $307 million at year-end 1999, compared with $298 million and $299 million at year-end 1998 and 1997, respectively. Life premium sales, in terms of annualized premium issued, grew 13% during 1999 to $51 million. This $6 million increase in annualized life premium sales by the Liberty National Agency was Torchmark's largest in dollar amount, accounting for 47% of the growth in annualized life premium issued. Life sales in this agency rose 5% in 1998 to $46 million, representing a turnaround in sales growth from a 5% decline in sales in 1997. The turnaround in sales growth in the Liberty Agency was largely attributable to growth in the number of agents. Liberty's agents rose from a count of 1,750 agents at year-end 1997 to 1,829 agents at year-end 1998, an increase of 5%. They further increased 4% to 1,902 at year-end 1999. Improved agent recruitment efforts and training programs which help improve agent retention have been responsible for the new agent growth. Additionally, training programs have been employed to improve the retention of recruited agents. Agency productivity has also increased in 1999, as average sales per agent rose 9% over the prior year. Management believes that the continued recruiting of new agents and the retention of productive agents are critical to the continued growth of sales in controlled agency distribution systems.

The American Income Exclusive Agency is a distribution system that focuses on members of labor unions, credit unions, and other associations for its life insurance sales. It is a high margin business characterized by lower policy obligation ratios. At December 31, 1999, premium from this system accounted for 21% of Torchmark's total life premium. In 1999, American Income's premium increased 6% to $217 million, after having risen 7% in 1998 to $204 million. Annualized life premium in force was $231 million at year-end 1999, an increase of 7% over 1998 premium in force of $216 million. Annualized life premium in force rose 6% in 1998 and 8% in 1997. Sales, in terms of annualized premium issued, were $54 million in 1999, $54 million in 1998, and $55 million in 1997, declining 3% in 1998 but increasing 1% in 1999. Growth in sales of this agency is dependent on the growth in the number of agents. An 8% decline in agent count was experienced in 1998 to 1,222 agents at December 31, 1998, and a further decline in the first half of 1999 resulted in 1,160 agents at June 30, 1999. However, changes in American Income's marketing organization were implemented in 1999 to reverse the decline in the number of agents. As a result, the American Income agency had 1,197 agents at year-end 1999, an increase of 3% in agents over June, 1999. Management continues to make changes to American Income's marketing organization to improve agent recruiting, retention, and productivity in order to increase the size of this agency.

Another of Torchmark's distribution channels for life insurance is a nationwide independent agency whose sales force is comprised of former commissioned and noncommissioned military officers who sell exclusively to commissioned and noncommissioned military officers and their families. This business consists of whole life products with term insurance riders and is characterized by extremely low lapse rates. Life premium income from this distribution system grew 13% to $105 million in 1999. Premium for this agency rose 16% to $92 million in 1998. These premium increases represented the largest percentage growth in life premium of any Torchmark distribution channel in 1999 or 1998. Annualized life premium in force for the Military distribution system grew 13% in 1999 to $111 million, after having increased 15% to $99 million in 1998. In both years this distribution system produced the greatest amount of growth in annualized life premium in force on a percentage basis. A major factor in this growth of in-force premium relates to the very high persistency associated with this business. Annualized premium sold during 1999 by this agency was $17 million, flat with 1998 sales of $17 million. Sales in 1998 gained 7% over sales of $16 million in 1997.

The United Investors Agency is made up of Waddell & Reed sales representatives, who market the life insurance products of United Investors Life under a marketing agreement with Waddell & Reed. This agency accounted for 8% of Torchmark's life premium in 1999. Premium income rose 5% in 1999 to $84 million, following a 3% increase in 1998 to $80 million. Sales, in terms of annualized premium issued, were $16 million in 1999, increasing 1% over 1998 sales. However, 1998 sales of $15 million rose 50% over 1997 sales of $10 million. Annualized life premium in force increased 6% to $106 million at December 31, 1999, representing 9% of Torchmark's total life premium in force. In addition to the growth in life insurance sales, this agency has also increased production of variable life collections in 1999 from $18 million in 1998 to $32 million in 1999, an increase of 77%. Variable life collections rose almost fourfold in 1998. Although variable life collections are not included in premium in force data, they are indicative of growth in the variable life account balance. Indirectly, they add to premium revenue through the policy account charges for insurance coverage and administration as the account balance grows.

The United American Independent and Exclusive Agencies represented about 6% of total life premium in 1999. On a combined basis, life premium rose 2% to $57 million in 1999 after a 1% increase in 1998. Premium for these agencies increased 12% in 1997 to $55 million. Annualized life premium issued in 1999 was $19 million, increasing 25% over 1998 issues of $15 million.

LIFE INSURANCE
Summary of Results
(Dollar amounts in thousands)

	1999		1998		1997	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium and policy charges	$1,018,301	100.0%	$ 957,274	100.0%	$ 901,187	100.0%
Policy obligations	666,122	65.4	618,867	64.7	574,139	63.7
Required reserve interest	(229,287)	(22.5)	(215,185)	(22.5)	(199,339)	(22.1)
Net policy obligations	436,835	42.9	403,682	42.2	374,800	41.6
Commissions and premium taxes	56,341	5.5	57,364	6.0	55,019	6.1
Amortization of acquisition costs	170,444	16.7	158,298	16.5	149,358	16.6
Required interest on deferred acquisition costs	91,412	9.0	85,374	8.9	80,972	9.0
Total expense	755,032	74.1	704,718	73.6	660,149	73.3
Insurance underwriting income before other income and administrative expenses, excluding Family Service and nonrecurring charge	263,269	25.9%	252,556	26.4%	241,038	26.7%
Nonrecurring charge	(20,650)		-0-		-0-	
Family Service insurance underwriting income before other income and administrative expenses	-0-		2,187		5,650	
Insurance underwriting income before other income and administrative expenses	$ 242,619		$ 254,743		$ 246,688	

In the third quarter of 1999, Reader's Digest Association and Torchmark entered into an agreement to market Torchmark life insurance products to certain Reader's Digest customers. These products were marketed through Torchmark's Direct Response operation, and required Torchmark to guarantee specified compensation to Reader's Digest, regardless of marketing success. Test marketing began in the fourth quarter of 1999. The less than favorable results from these tests indicated that it would be unlikely that Torchmark would recover the full amount of compensation guaranteed to Reader's Digest under the terms of the agreement. As a result, Torchmark recorded a nonrecurring operating charge of $21 million in the fourth quarter of 1999. This charge represented $13 million after tax or $.10 per diluted share. Torchmark intends to maintain its relationship with Reader's Digest and to use its subscriber lists in selective marketing of Torchmark insurance products. Because of the nonrecurring charge, Torchmark will only incur its normal solicitation costs on future business and will have no further costs related to the guaranteed compensation.

Life insurance gross margins have been presented in the above table to remove the effect of Family Service underwriting income and the nonrecurring charge, which distort comparisons. Excluding these items, gross margins, as indicated by insurance underwriting income before other income and administrative expense, increased 4% in 1999 to $263 million after having risen 5% in 1998 to $253 million. As a percentage of life insurance premium, life insurance gross margins were 26% in both 1999 and 1998, as compared with 27% in 1997. Slight increases in mortality have been experienced in both 1999 and 1998 over the prior year, resulting in increased obligation ratios. Fluctuations in mortality are normal in the life insurance industry and are not indicative of a trend.

Health Insurance. Torchmark markets its supplemental health insurance products through a number of distribution channels. The following table indicates health insurance premium income during each of the three years ended December 31, 1999 by distribution method.

HEALTH INSURANCE
Premium by Distribution Method
(Dollar amounts in thousands)

	1999		1998		1997	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
United American Independent Agency	$ 427,023	51.8%	$417,556	54.9%	$428,775	58.0%
United American Exclusive Agency	194,594	23.6	150,602	19.8	132,426	17.9
Liberty National Exclusive Agency	143,857	17.4	135,861	17.9	125,701	17.0
American Income Exclusive Agency	47,564	5.8	47,074	6.2	46,116	6.2
Direct Response	11,778	1.4	8,817	1.2	6,467	0.9
	$ 824,816	100.0%	$759,910	100.0%	$739,485	100.0%

Premium for the health insurance segment increased 9% to $825 million in 1999 over 1998 premium of $760 million. In 1998, health premium rose 3%. Annualized health premium in force grew 11% to $884 million at December 31, 1999 over the previous year-end balance of $797 million. Health premium in force rose 5% during 1998. Sales of health insurance, in terms of annualized premium issued, were $193 million in 1999, increasing 39% over 1998 sales of $139 million. Sales in 1998 grew 30% over the prior year. Sales of health insurance have accelerated greatly in the past three years due to increases in sales of Medicare Supplement policies. Prior to 1997, Torchmark had not experienced year-over-year sales growth in health insurance for five years.

Health products sold by Torchmark insurance companies include Medicare Supplement, cancer, long-term care, and other under-age-65 limited-benefit supplemental medical and hospitalization products. As a percentage of annualized health premium in force at December 31, 1999, Medicare Supplement accounted for 71%, cancer 17%, and other health products 11%. The table below presents Torchmark's health insurance annualized premium in force by major product category at December 31, 1999 and for the two preceding years.

HEALTH INSURANCE
Annualized Premium in Force by Product
(Dollar amounts in thousands)

	At December 31,					
	1999		1998		1997	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Medicare Supplement	$ 630,915	71.3%	$553,737	69.5%	$522,054	68.5%
Cancer	153,777	17.4	144,900	18.2	137,640	18.1
Other	99,666	11.3	98,226	12.3	102,358	13.4
Total	$ 884,358	100.0%	$796,863	100.0%	$762,052	100.0%

Medicare Supplement insurance is sold primarily by the United American Exclusive Agency and the United American Independent Agency. Health sales in both agencies have grown significantly in the past three years. The Exclusive Agency sold $103 million in annualized health premium in 1999, a 60% increase over the prior year. Health sales for this agency rose 62% in 1998 to $64 million. This agency accounted for $44 million of the $65 million in health premium growth in 1999. It also was instrumental in health annualized premium growth in both 1999 and 1998, accounting for $58 million of the $87 million growth during 1999 in in-force premium and adding $31 million to annualized health premium in force in 1998. The United American Exclusive Agency represented 26% of Torchmark's annualized health premium in force at December 31, 1999, compared with 22% a year earlier. One factor in the growth in Medicare Supplement sales in the United American Exclusive Agency is the targeted marketing support provided by the Direct Response operation.

The United American Independent Agency continues to represent the largest amount of Torchmark's health premium in force. The agency's $444 million of annualized health premium in force at December 31, 1999, of which $418 million was Medicare Supplement premium in force, was 50% of Torchmark's total health premium in force. This agency increased annualized health premium in force over the previous year for the first time at year-end 1999 since 1992. Health sales by the United American Independent Agency, in terms of annualized premium issued, were $68 million in 1999, a 35% increase over 1998. Sales rose 18% to $51 million in 1998.

Medicare Supplement policies are highly regulated at both the federal and state levels with standardized benefit plans, limits on first year agent compensation, and mandated minimum loss ratios. However, they remain a popular supplemental health policy with the country's large and growing group of Medicare beneficiaries. About 85% of all Medicare beneficiaries have Medicare Supplements to cover at least some of the deductibles and coinsurance for which the federal Medicare program does not pay. During the last few years, Torchmark has focused on developing its United American Exclusive Agency to serve this market. Using the Direct Response operation, targeted marketing support and increased agent recruiting have led to increased sales. Because of loss ratio regulation, underwriting margins on Medicare Supplements are less than on Torchmark's life business. However, due to United American's low cost, service-oriented customer service and claims administration, as well as its economies of scale, it is a profitable line of business.

Until recently the primary competition for Medicare Supplement sales had come from Medicare health maintenance organizations (HMO's), the managed care alternative to traditional fee-for-service Medicare which eliminated the need for a supplemental policy. However, in the last few years, growing public dissatisfaction with managed care, increased medical cost inflation and increased Federal Government regulatory pressures on Medicare HMO's have caused an increasing number of HMO's to withdraw from the market, reducing that competition. Other regulatory issues continue to affect the Medicare Supplement market. Medical cost inflation and changes to the Medicare program cause the need for annual rate increases, which generally require state insurance department approval. In addition, Congress and the Federal Administration have begun studying ways to restructure the Medicare program in the future as it is anticipated that the program could be insolvent within the next decade. This would occur because of the growth in the number of ''baby boomers'' becoming eligible for Medicare during that period and increasing medical cost inflation generally due to increased utilization. Therefore, it is likely that changes will be made to the Medicare program at sometime in the future. However, regardless of proposed changes, it appears that there will continue to be an important role for private insurers in helping senior citizens cover their healthcare costs. As a result, Medicare Supplements should continue as a popular product for senior-age consumers.

Cancer insurance premium in force grew 6% in 1999 to $154 million, compared with 5% growth in 1998. Sales of this product rose 4% in 1999 to $11 million from $10 million. Sales in 1997 were also $11 million. Growth in cancer annualized premium in force has been partially attributable to premium rate increases to offset increased health care costs. Cancer insurance products are sold primarily by the Liberty National Exclusive Agency. This agency represented 85% of Torchmark's total cancer annualized premium in force at December 31, 1999.

Annualized premium in force for other health products gained 1% in 1999 to $100 million, after declining 4% in 1998. Other health sales rose 13% in 1999 to $30 million, after having declined 15% in 1998.

HEALTH INSURANCE
Summary of Results
(Dollar amounts in thousands)

	1999		1998		1997	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium	$824,816	100.0%	$759,910	100.0%	$739,485	100.0%
Policy obligations	535,901	65.0	482,496	63.5	462,967	62.6
Required reserve interest	(17,383)	(2.1)	(20,440)	(2.7)	(21,644)	(2.9)
Net policy obligations	518,518	62.9	462,056	60.8	441,323	59.7
Commissions and premium taxes	84,913	10.3	87,828	11.5	87,069	11.8
Amortization of acquisition costs	64,046	7.8	59,208	7.8	58,473	7.9
Required interest on deferred acquisition costs	12,707	1.5	11,373	1.5	11,080	1.5
Total expense	680,184	82.5	620,465	81.6	597,945	80.9
Insurance underwriting income before other income and administrative expenses	$144,632	17.5%	$139,445	18.4%	$141,540	19.1%

Health insurance underwriting income before other income and administrative expense rose 4% in 1999 to $145 million, after having declined 1% in 1998. As a percentage of premium, underwriting income before other income and administrative expense declined 1% in both of the years 1999 and 1998 from the prior year, respectively. Margins have lagged premium growth because of higher obligation costs. Medicare Supplement margins are restrained by the federally mandated minimum loss ratio of 65% and by competition. Cancer obligation ratios have increased in each year because of healthcare inflationary pressures. To the extent management is able to obtain timely and adequate premium rate increases from regulatory authorities to offset these cost increases, margins may be stabilized on cancer business. Torchmark continues to seek such rate increases.

Annuities. Annuity products are marketed by Torchmark to service a variety of needs, including retirement income and long-term, tax-deferred growth opportunities. Torchmark's annuities are sold almost entirely by the United Investors Agency. This Agency consists of the Waddell & Reed sales force which markets United Investors annuities and other products under a marketing agreement. In 1999, this Agency collected $403 million of Torchmark's total $464 million in annuity collections, or 87%. The United Investors Agency accounted for almost 99% of total annuity policy charges in 1999. Annuities are also marketed by the United American Independent Agency, which collected $56 million in annuity deposits in 1999.

Annuities are sold on both a fixed and variable basis. Fixed annuity deposits are held and invested by Torchmark and are obligations of the company. Variable annuity deposits are invested at the policyholder's direction into his choice among a variety of mutual funds managed by Waddell & Reed, which vary in degree of investment risk and return. A fixed annuity investment account is also available as a variable annuity investment option. Investments pertaining to variable annuity deposits are reported as "Separate Account Assets" and the corresponding deposit balances for variable annuities are reported as "Separate Account Liabilities."

Annuity premium is added to the annuity account balance as a deposit and is not reflected in income. Revenues on both fixed and variable annuities are derived from charges to the annuity account balances for insurance risk, administration, and surrender, depending on the structure of the contract. Variable accounts are also charged an investment fee and a sales charge. Torchmark benefits to the extent these policy charges exceed actual costs and to the extent actual investment income exceeds the investment income which is credited to fixed annuity policyholders.

The following table presents the annuity account balance at each year end and the annuity collections for each year for both fixed and variable annuities, excluding Family Service.

	Annuity Deposit Balances (Dollar amounts in millions)			Annuity Collections (Dollar amounts in thousands)		
	1999	1998	1997	1999	1998	1997
Fixed	$ 677.5	$ 647.3	$ 611.0	$ 71,696	$ 64,687	$ 76,930
Variable	3,274.9	2,343.5	1,821.2	392,769	299,005	247,446
Total	$3,952.4	$2,990.8	$2,432.2	$464,465	$363,692	$324,376

Collections of fixed annuity premium were $72 million in 1999, compared with $65 million in 1998, an increase of 11%. Fixed annuity premium collections declined 16% in 1998 from $77 million in 1997. Management believes that the interest-rate environment is a primary factor in the sales of fixed annuities. The low-interest rate environment of 1998 contributed to the lower sales as alternative investments grew more attractive. In 1999, as interest rates increased, fixed annuities became more desirable relative to alternative investments. The fixed annuity deposit balance increased 5% in 1999 to $677 million at year end. It rose 6% in the prior year from $611 million at year-end 1997 to $647 million at the end of 1998.

During 1998, Torchmark sold Family Service, a wholly-owned provider of funeral preneed annuities. While the sale of these preneed annuities had been discontinued in 1995, this block of fixed annuities remained on deposit until Family was sold. At the date of sale, this deposit balance was approximately $396 million.

Variable annuity collections were $393 million in 1999, increasing 31% over the prior year. Variable collections rose 21% to $299 million in 1998. The strength in financial markets has had a positive influence on sales of variable annuities in all of the years 1997 through 1999.

The variable annuity account balance continues to experience rapid growth. The variable account balance rose 40% in 1999 from $2.3 billion at December 31, 1998 to $3.3 billion at year-end 1999. This balance had previously increased 29% in 1998 and 32% in 1997. Strong financial markets in all of these periods contributed greatly to the growth. Variable accounts are valued based on the market values of the underlying securities. The additional collections in each year also added to the balances.

ANNUITIES
Summary of Results
(Dollar amounts in thousands)

	1999	1998	1997
Policy charges	$ 40,969	$ 33,594	$ 27,426
Policy obligations	34,524	34,662	34,631
Required reserve interest	(40,991)	(42,171)	(41,551)
Net policy obligations	(6,467)	(7,509)	(6,920)
Commissions and premium taxes	759	510	710
Amortization of acquisition costs	13,310	11,561	9,660
Required interest on deferred acquisition costs	6,536	5,609	4,951
Total expense	14,138	10,171	8,401
Insurance underwriting income before other income and administrative expenses, excluding Family Service	26,831	23,423	19,025
Family Service insurance underwriting income before other income and administrative expenses	-0-	98	305
Insurance underwriting income before other income and administrative expenses	$ 26,831	$ 23,521	$ 19,330

Annuity underwriting income excluding Family Service and before other income and administrative expense has grown steadily throughout each of the years 1997 through 1999, increasing 15% to $27 million in 1999 and 23% to $23 million in 1998 over the respective prior year. Policy charges have also grown in each period, rising 22% in both 1999 and 1998. Growth in policy charges is primarily related to the growth in the size of the account balance, but is also attributable to the increase in the number of annuity contracts in force and the cumulative effect of the growth in sales over the past few years upon which the sales charge is based.

Investments. The following table summarizes Torchmark's investment income and excess investment income.

Analysis of Excess Investment Income
(Dollar amounts in thousands)

	1999	1998	1997
Net investment income	$ 447,337	$ 459,558	$ 429,116
Tax equivalency adjustment	11,487	11,143	9,951
Tax equivalent investment income	458,824	470,701	439,067
Required interest on net insurance policy liabilities:			
Interest on reserves	(287,661)	(296,696)	(308,632)
Interest on deferred acquisition costs	110,655	103,481	100,096
Net required	(177,006)	(193,215)	(208,536)
Financing costs	(66,431)	(71,367)	(87,055)
Excess investment income	$ 215,387	$ 206,119	$ 143,476
Mean invested assets (at amortized cost)	$6,319,465	$6,353,279	$6,058,037
Average net insurance policy liabilities	3,066,351	3,261,982	3,468,702
Average debt (including MIPS)	965,728	1,000,063	1,062,543

Excess investment income represents the profit margin attributable to investment operations and cash flow management. It is defined as tax-equivalent investment income reduced by the interest cost credited to net policy liabilities and the interest cost associated with capital funding or "financing costs." Excess investment income is increased in a number of ways: an increase in investment yields over the rates credited to policyholders' liabilities or in relationship to the rates applicable to Torchmark debt, growth in invested assets in relation to policy liabilities and debt, and the efficient use of capital resources and cash flow.

Net investment income declined 3% in 1999 to $447 million after rising 7% to $460 million in 1998 and 7% to $429 million in 1997. On a tax-equivalent basis, in which the yield on tax-exempt securities is adjusted to produce a yield equivalent to the pretax yield on taxable securities, investment income declined 3% in 1999 after rising 7% in both 1998 and 1997. The 1999 decline in investment income was a result of the sale of Family Service in the second quarter of 1998 and repurchases of Torchmark Stock since late 1998. The Family Service sale resulted in the investment of approximately $140 million proceeds, producing an additional $10 million of investment income in 1999, compared with incremental investment income of $6 million in 1998. However, the 1998 tax-equivalent net investment income also included $22 million earned on Family Service assets which were not includable in 1999. The Family Service sale also negatively impacted 1998 net investment income as 1997 tax-equivalent net investment income included $54 million on Family Service assets held for the entire year.

Mean invested assets, computed based on book values, were flat in 1999, compared with the year 1998. The growth in 1999 invested assets from reinvested cash flows were essentially offset by the loss of Family Service's $778 million in invested assets when compared with the prior year. In spite of the loss of Family Service's invested assets in 1998, mean invested assets increased 5% during 1998 over the prior year. This increase was largely due to the receipt of $481 million in proceeds from the Waddell & Reed stock offering in early 1998, offset to some extent by the sale of investments to repay debt and to acquire Torchmark stock.

Excess investment income increased 5% in 1999 and 44% in 1998 because the increases in excess investment income were greater than the growth in net investment income. While the 1998 sale of Family Service caused a reduction in 1998 and 1999 investment income, it had little effect on excess investment income comparisons in either 1999 or 1998. The reduction in required interest on Family Service's policy liabilities offset the loss in investment income. The 1999 increase in excess investment income resulted primarily from decreased financing costs. The $63 million increase in 1998 excess investment income resulted primarily from the proceeds of the Waddell & Reed offering which provided Torchmark with additional funds to invest or to apply to outstanding debt. Additionally, there was $7 million of interest income on an internal financing with Waddell & Reed included in 1998 income. Also in 1998, Torchmark essentially refinanced $380 million principal amount of its long-term debt with either short-term debt or with sales of lower-yielding investments, saving an average of 350 basis points in 1998 financing costs.

During 1999, Torchmark entered into two transactions to dispose of the majority of its investment real estate. The first transaction closed in July, 1999 and the other closed in October, 1999. Total consideration for the combined transactions was $123 million of which $111 million was cash. The real estate dispositions resulted in an after-tax loss of $41 million. After the sales, Torchmark retained $16 million in investment real estate, of which $8 million was represented by properties partially occupied by Torchmark subsidiaries.

In addition to the real estate capital losses, Torchmark has also generated $19 million in after-tax losses during 1999 from the planned sale of fixed maturities. These losses allowed Torchmark to carry back and recover capital gains taxes paid in prior years. Realized losses also included a $12 million after-tax loss from the decline in market value on the interest-rate swap associated with Torchmark's MIPS, discussed in more depth under the caption *Capital Resources* found on page 33 of this discussion.

With the steady increase in interest rates during 1999, new investments of corporate bonds afforded higher returns each successive quarter, and the 1999 average yield on fixed maturity purchases was the highest it had been since 1992. Acquisitions in fixed maturity securities totaled $2.1 billion in 1999 and $1.8 billion in 1998. The 1999 acquisitions were made at an effective compounded yield of 7.54%, compared with an effective compounded yield of 7.26% for the prior year. The yields equate to nominal yields on acquisitions of 7.38% and 7.13% for 1999 and 1998, respectively.

During 1999, the yield curve "flattened" with short-term yields approaching long-term yields. In fact, the yield curve "inverted" in early 2000, with short-term yields exceeding long-term yields. This flattening allowed the purchase of new investments at higher yields with shorter maturities as compared with 1998. The average life of acquired securities was 14.9 years in 1999, compared with 20.7 years in 1998 and 13.3 years in 1997. In the fourth quarter of 1999, the average life of acquired securities was 8.8 years.

Although 1999 acquisitions were made at a higher average yield than in the past six years, the new investment yield was slightly below the average yield of the portfolio, resulting in a 3 basis point decline in the nominal portfolio yield at year-end 1999. At December 31, 1999, the fixed-maturity portfolio had an estimated nominal yield of 7.39%, compared with 7.42% in 1998 and 7.49% in 1997. The average life of the portfolio was 12.7 years at year-end 1999, increasing from 8.8 years at year-end 1998 and 8.0 years at the year-end 1997. Duration also rose at 1999 year end to 6.2 years from the 5.7 year level at the end of 1998 and 5.1 year level at the end of 1997. The increase in average life and duration was impacted primarily by the purchase of securities with longer maturities than the prior year average maturity.

Emphasis continues to be on marketable, high and medium quality investments. Approximately 92% of invested assets are fixed-maturity securities, and 94% of these holdings are rated investment grade by Standard & Poor's. The NAIC considers 95% of the portfolio investment grade. While the portfolio is highly marketable, its value fluctuates with changes in interest rates. The portfolio's unrealized loss of $275 million at year-end 1999 compares with unrealized gains of $249 million and $213 million at year ends 1998 and 1997, respectively. A considerable portion of the portfolio is expected to repay or mature within the next several years, as indicated by the following table.

	1999	1998
Short terms and under 1 year	4.2%	7.8%
2-5 years	13.6	23.8
6-10 years	39.7	31.8
11-15 years	11.0	9.0
16-20 years	5.8	3.8
Over 20 years	25.7	23.8
	100.0%	100.0%

Because Torchmark emphasizes fixed-maturity investments, the percentage holdings of Torchmark's investments by type vary considerably from industry averages. The following table presents Torchmark's components of invested assets compared with the latest industry data:

	Torchmark		
	Amount (in thousands)	%	Industry % (1)
Bonds & short terms	$5,779,982	93.3%	74.5%
Equities	29,189	.5	5.0
Mortgage loans	94,599	1.5	11.5
Real estate	16,379	.3	1.5
Policy loans	244,607	4.0	5.6
Other invested assets	23,054	.4	1.9
	$6,187,810	100.0%	100.0%

(1) Latest data available from the American Council of Life Insurance.

Market Risk Sensitivity. Market risk is a risk that the value of a security will change because of a change in market conditions. Torchmark's primary exposure to market risk is interest rate risk which is the risk that a change in a security's value could occur because of a change in interest rates. This risk is significant to Torchmark's investment portfolio because its fixed-income holdings amount to 92% of total investments. The effects of these interest rate fluctuations on fixed investments are reflected on an after-tax basis in Torchmark's shareholders' equity because these investments are marked to market.

The actual interest rate risk to Torchmark is reduced because the effect that changes in rates have on assets is offset by the effect they have on insurance liabilities and on debt. Interest assumptions are used to compute the majority of Torchmark's insurance liabilities. These liabilities, net of deferred acquisition costs, were $3.4 billion at December 31, 1999, compared with fixed-income investments of $6.0 billion at amortized cost at the same date. Because of the long-term nature of insurance liabilities, temporary changes in value caused by rate fluctuations have little bearing on ultimate obligations. These liabilities are not marked to market.

Market risk is managed in a manner consistent with Torchmark's investment objectives. Torchmark seeks to maintain a portfolio of high-quality fixed-maturity assets that may be sold in response to changing market conditions. A significant change in the level of interest rates, changes in credit quality of individual securities, or changes in the relative values of a security or asset sector are the primary factors that influence such sales. Occasionally, the need to raise cash for various operating commitments may also necessitate the sale of a security. Volatility in the value of Torchmark's fixed-income holdings is reduced by maintaining a relatively short-term portfolio, of which 18% matures within five years and 58% matures within ten years. Also, the portfolio and market conditions are constantly evaluated for appropriate action.

No derivative instruments are used to manage Torchmark's exposure to market risk in the investment portfolio. An interest-rate swap instrument was entered into to allow Torchmark to participate in the downward trend in interest rates in connection with its MIPS as discussed in the Notes to the Consolidated Financial Statements on page 64 of this report and in *Capital Resources* on page 33 of this report. A cap instrument was also entered into to protect Torchmark from the market risk on an increase in rates associated with the swap on this security. This cap expired during 1999.

The liability for Torchmark's insurance policy obligations is computed using interest assumptions, some of which are contractually guaranteed. A reduction in market interest rates of a permanent nature could cause investment return to fall below amounts guaranteed. Torchmark's insurance companies participate in the cash flow testing procedures imposed by statutory insurance regulations, the purpose of which is to insure that such liabilities are adequate to meet the company's obligations under a variety of interest rate scenarios. Those procedures indicate that Torchmark's insurance policy liabilities, when considered in light of the assets held with respect to such liabilities and the investment income expected to be received on such assets, are adequate to meet the obligations and expenses of Torchmark's insurance activities in all but the most extreme circumstances.

The following table illustrates the market risk sensitivity of Torchmark's interest-rate sensitive fixed-maturity portfolio at December 31, 1999 and December 31, 1998. This table measures the effect of a change in interest rates (as represented by the U.S. Treasury curve) on the fair value of Torchmark's fixed-maturity portfolio. The data is prepared through a model that measures the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points. It takes into account the effect that special option features such as call options, put options, and unscheduled repayments would have on the portfolio, given the changes in rates. The valuation of these option features is dependent upon assumptions about future interest rate volatility that are based on past performance.

	Market Value of Fixed-Maturity Portfolio ($ millions)	
Change in Interest Rates (in basis points)	**At December 31, 1999**	**At December 31, 1998**
-200	$6,455	$6,476
-100	6,055	6,108
0	5,680	5,768
100	5,332	5,450
200	5,012	5,147

FINANCIAL CONDITION

Liquidity. Torchmark's liquidity relates to its ability to meet on demand the cash commitments required by its business operations and financial obligations. Torchmark's liquidity is very strong, as evidenced by its three sources of liquidity: its positive cash flow from operations, its portfolio of marketable securities, and its line of credit facility.

Torchmark's insurance operations generate positive cash flows in excess of its immediate needs. Cash flows provided from operations were $512 million in 1999, compared with $389 million in 1998 and $410 million in 1997. In addition to operating cash flows, Torchmark received $413 million in investment maturities and repayments during 1999, adding to available cash flows. Such repayments were $474 million in 1998 and $513 million in 1997. Cash flows in excess of immediate requirements are used to build an investment base to fund future requirements.

Torchmark's cash and short-term investments were $115 million at December 31, 1999, compared with $81 million at year-end 1998. In addition to these highly liquid assets, Torchmark has a portfolio of marketable fixed and equity securities, which are available for sale should the need arise. These securities had a value of $5.7 billion at December 31, 1999.

Torchmark has a line of credit facility with a group of lenders which allows unsecured borrowings up to a specified maximum amount. The maximum amount on this facility was $600 million at December 31, 1999. Interest is charged at variable rates for borrowings. This line of credit is further designated as a backup credit line for a commercial paper program not to exceed $600 million, whereby Torchmark may borrow from either the credit line or issue commercial paper at any time but may not borrow in excess of a total of $600 million on the combined facilities. At December 31, 1999, $420 million in face amount of commercial paper was outstanding and there were no borrowings on the line of credit. A fee is charged on the entire $600 million facility. In accordance with the agreements, Torchmark is subject to certain covenants regarding capitalization and earnings. At December 31, 1999, Torchmark was in full compliance with these covenants.

Liquidity of the parent company is affected by the ability of the subsidiaries to pay dividends. Dividends are paid by subsidiaries to the parent in order to meet its dividend payments on common and preferred stock, interest and principal repayment requirements on parent-company debt, and operating expenses of the parent company. These requirements have declined in both 1999 and 1998 from the respective prior year. Dividends from insurance subsidiaries of Torchmark are limited to the greater of statutory net gain from operations, excluding capital gains and losses, on an annual noncumulative basis, or 10% of surplus, in the absence of special approval. Distributions are not permitted in excess of statutory net worth. Subsidiaries are also subject to certain minimum capital requirements. Although these restrictions exist, dividend availability from subsidiaries has been and is expected to be more than adequate for parent company operations. During the year 2000, a maximum amount of $192 million will be available to Torchmark from insurance subsidiaries without regulatory approval.

Capital Resources. Torchmark's capital structure consists of long and short-term debt, MIPS, and shareholders' equity. Torchmark's debt consists primarily of its funded debt and its commercial paper facility. An analysis of Torchmark's funded debt outstanding at year-ends 1999 and 1998 on the basis of par value was as follows:

			1999	1998
Instrument	**Year Due**	**Rate**	**Principal Amount ($ thousands)**	**Principal Amount ($ thousands)**
Senior Debentures	2009	8¼	$ 99,450	$ 99,450
Notes	2023	7⅞	200,000	200,000
Notes	2013	7⅜	100,000	100,000
Total funded debt			399,450	399,450
Debt held by subsidiaries			(22,318)	(10,828)
Long-term debt			$377,132	$388,622

The carrying value of the funded debt was $372 million at December 31, 1999, compared with $383 million a year earlier.

Through its insurance subsidiaries, Torchmark has reacquired a portion of its funded debt in the open market. In 1999, $7.5 million principal amount of its 7⅞% Notes due 2023 were acquired at a cost of $7.9 million. Also in 1999, $4.0 million principal amount of its 7⅜% Notes due 2013 were purchased for $4.1 million. In 1998, Torchmark bought $10.8 million of its 7⅞% Notes at a price of $10.6 million. Insurance company holdings in the funded debt reduce consolidated debt outstanding.

During 1998, Torchmark received approximately $481 million in intercompany note repayments from Waddell & Reed as a result of their initial public offering. Torchmark utilized a portion of these funds to pay down funded debt. It also took advantage of the lower interest rate environment in 1998 to refinance existing funded debt at lower short-term rates. In early 1998, Torchmark repaid $20 million principal amount on its 8⅝% Sinking Fund Debentures due in 2017, of which $8 million was a mandatory redemption and $12 million was an optional repayment under the terms of the agreement. On April 1, 1998, Torchmark called the remaining $160 million principal balance of this debt at the prevailing call price of 103.76, or $166 million. A loss on the redemption of debt was recorded in the second quarter of 1998 in the after-tax amount of $5 million, representing the difference between the total call price and the carrying value of $158 million. In addition to the call, Torchmark's 9⅝% Senior Notes, principal amount $200 million, matured on May 1, 1998. Torchmark borrowed on its commercial paper facility to repay the Sinking Fund Debentures that were called and to repay its Senior Notes upon maturity with accrued interest, in the combined amount of $377 million.

During 1997, Torchmark repaid $20 million principal amount on its Sinking Fund Debentures due in 2017, of which $8 million was a mandatory redemption and $12 million was an optional repayment under the terms of the agreement.

The MIPS were issued in November, 1994 at a redemption amount of $200 million with an annual dividend rate of 9.18%. They are subject to a mandatory redemption in full at September 30, 2024, although Torchmark may elect to extend the MIPS for up to an additional 20 years if certain conditions are met. They are currently redeemable at Torchmark's option at any time. While Torchmark is obligated to pay dividends at a fixed rate of 9.18%, Torchmark has in place a ten-year interest-rate swap agreement with an unaffiliated party. The swap agreement calls for Torchmark to pay a variable rate on the $200 million face amount in exchange for payment of the fixed dividend by the other party. The swap expires in 2004. Torchmark is at risk on this instrument for higher financing costs to the extent interest rates rise during the remaining term. At December 31, 1999, the variable rate was 7.0%. During 1999, Torchmark's after-tax dividend cost for the MIPS was $9.2 million, compared with $11.9 million that would have been incurred without the swap. Torchmark's after-tax cost in 1998 was $9.8 million and in 1997 was $9.9 million, saving $2.1 million and $2.0 million in each of those years, respectively.

Effective January 1, 1999, Torchmark changed its method of accounting for the swap agreement to recognize changes in its fair value, net of tax, as realized investment gains or losses. This method of accounting for such instruments was believed to be preferable under the guidance established by *Statement of Financial Accounting Standards No. 80, Accounting for Futures Contracts ("SFAS 80")* and the Securities and Exchange Commission. Previously, Torchmark accounted for the swap using hedge accounting under SFAS 80. The after-tax cumulative effect of the change at January 1, 1999 was $16.1 million (net of income taxes of $8.7 million). The effect of the change on the twelve months ended December 31, 1999 was to increase realized losses by $11.7 million ($.09 per diluted share), excluding the cumulative effect of the change in accounting principal. Market value of the swap at December 31, 1999 was $6.7 million.

During July, 1999, Torchmark filed with the Securities and Exchange Commission a Form S-3 Registration Statement for the shelf registration of capital securities in an aggregate face amount of $300 million. Proceeds from the issuance of any such capital securities could be used for the possible purchase of Torchmark securities, for working capital, for the repayment of debt, for acquisitions, or for any other general corporate purpose or business opportunity.

Short-term debt consists primarily of Torchmark's commercial paper outstanding. The commercial paper balance outstanding at December 31, 1999 was $418 million at carrying value, compared with a balance of $355 million a year earlier. The commercial paper borrowing balance fluctuates based on Torchmark's current cash needs. As previously noted, Torchmark essentially refinanced $360 million face amount of funded debt in 1998 with additional short-term borrowings. These borrowings were offset somewhat by the use of $82 million in Waddell & Reed offering proceeds for repayment.

Total debt as a percentage of total capitalization was 25% at December 31, 1999. In the computation of this ratio, the MIPS are counted as equity and the effect of fluctuations in security values based on changes in interest rates in financial markets are excluded. This debt-to-capitalization ratio was 24% at year-end 1998 and 31% at year-end 1997. The increase in the debt-to-capitalization ratio at year-end 1999 was caused by the increase in short-term borrowings. The 1998 decline in this ratio resulted primarily from the funded debt paydowns, net of the increase in short-term debt. The debt-to-capitalization ratio was also favorably impacted by the net increase in Torchmark's shareholders' equity resulting from the Waddell & Reed offering and spin-off. Torchmark's ratio of earnings before interest, taxes and discontinued operations to interest requirements was 8.7 in 1999, compared with 8.9 in 1998 and 6.5 in 1997. Torchmark's interest expense declined 7% to $52 million in 1999, largely as a result of lower average debt than in 1998. There was also a larger proportion of short-term debt in 1999 compared with the prior year, resulting in lower borrowing costs. In 1998, interest expense declined 22% to $56 million primarily because of the funded debt paydowns.

Torchmark resumed its share buyback program in November, 1998 after completion of the Waddell & Reed spin-off. Torchmark purchased 6.7 million shares on the open market at a cost of $222 million in 1999. Purchases of 3.4 million shares were made in late 1998 at a cost of $126 million. During 1997, Torchmark acquired 5.2 million shares at a cost of $183 million. Torchmark will continue to make share purchases under its share repurchase program on the open market when prices are attractive. Share purchases could have a favorable impact on earnings per share and return on equity, but negatively affect book value per share.

On November 15, 1999, Torchmark executed a stock option exercise and restoration program through which 80 Torchmark directors and employees exercised vested stock options and received a reduced number of replacement options at the current market price. This program resulted in the issuance of 1.8 million shares, but over 1.3 million of the new shares were immediately sold by the directors and employees through the open market to cover the cost of the purchased shares and the related taxes. As a result of the restoration program, management's ownership interest increased, and Torchmark received a significant current tax benefit from the exercise of the options.

Shareholders' equity declined 12% to $1.99 billion at December 31, 1999. Shareholders' equity rose 17% in 1998, from $1.93 billion at year-end 1997 to $2.26 billion at year-end 1998. The 1999 decrease was impacted by the decrease in the value of the fixed-maturity portfolio due to increases in interest rates in the financial markets. The 1998 growth in shareholders' equity was greatly impacted by the Waddell & Reed offering and spin-off in that year. Proceeds from the March, 1998 offering added $516 million to Torchmark's shareholders' equity, but equity was reduced by $90 million of minority interest at the time of the offering representing the 36% of Waddell & Reed that Torchmark no longer owned. Additionally, the November, 1998 spin-off caused a reduction in Torchmark's equity of $174 million, representing its carrying value of Waddell & Reed at the time of the spin. Book value per share was $15.10 at 1999 year end, compared with $16.51 at year-end 1998. After adjusting for the impact on shareholders' equity for security value fluctuations due to changes in interest rates in financial markets, shareholders' equity rose from $2.11 billion at year-end 1998 to $2.15 billion at year-end 1999. Book value per share was $16.32 at year-end 1999, an increase of 6% over $15.43 at year-end 1998. Return on common shareholders' equity was 16.2% in 1999, compared with 15.1% in 1998. The return-on-equity ratios exclude the mark up or down of shareholders' equity for changes in security values caused by fluctuations in market interest rates. They are also computed on a basis of net operating income before nonrecurring charge, as defined on page 16 through 17 of this report.

OTHER ITEMS

Transactions Regarding Vesta Insurance Group. Since 1993, Torchmark has held a passive investment in Vesta, a property insurance carrier. Torchmark held 5.1 million shares of Vesta stock, or approximately 28% of the outstanding shares of Vesta, until December, 1998. Torchmark carried its investment in Vesta during this period on the equity method of accounting. In June, 1998, Vesta announced that (a) an investigation of accounting irregularities that occurred during the fourth quarter of 1997 and the first quarter of 1998 would result in an aggregate $14 million net after-tax reduction in previously reported net income, and, in addition, that (b) it would restate its historical financial statements for the period of 1993 through the first quarter of 1998, reflecting reductions in reported net after-tax earnings of $49 million for the period of 1993 through 1997 and $10 million for the first quarter of 1998. To reflect its pro rata share of Vesta's cumulative reported financial corrections, Torchmark recorded a pre-tax charge of $20 million ($13 million after tax) or $.09 per diluted share in the second quarter of 1998. As a result of the announcements relating to Vesta and the decline in value of Vesta stock, Vesta is currently subject to numerous class action lawsuits in state and Federal courts filed subsequent to such announcements.

In the fourth quarter of 1998, Torchmark announced its intention to dispose of its holdings in Vesta and to sell Vesta shares under satisfactory terms. In December, 1998, Torchmark sold 680 thousand Vesta shares at a price of $4.75 per share, recording a loss of $3 million after tax. In 1999, Vesta filed a registration statement with the Securities and Exchange Commission for the public offering of its shares held by Torchmark. To facilitate the registration of Vesta shares, Torchmark reacquired the previously sold 680 thousand shares at a price of $5 per share. On November 5, 1999, the registration statement was filed by Vesta to offer all of Torchmark's holdings in Vesta.

Because of its intention to dispose of Vesta, Torchmark wrote its carrying value of Vesta down to net realizable amount effective September 30, 1998. The adjustment produced an after-tax realized loss of $24 million, or $.17 per diluted Torchmark share. Net realizable value was $32 million at December 31, 1998. During 1998, Torchmark recorded a pretax loss of $27 million ($18 million after tax or $.13 per diluted share) on Vesta operations, including its pro rata share of Vesta's cumulative accounting corrections.

During the first quarter of 1999, the two Torchmark directors who occupied seats on the Vesta Board of Directors resigned from those Vesta seats. Due to the vacating of the Vesta board seats and the absence of significant influence regarding Vesta, Torchmark discontinued the equity method of accounting for Vesta and has included Vesta in equity securities at market value subsequent to December 31, 1998. Torchmark carried Vesta at a value of $20 million at December 31, 1999.

Litigation. Torchmark and its subsidiaries continue to be named as parties to pending or threatened litigation, most of which involves punitive damage claims based upon allegations of agent misconduct at Liberty National in Alabama. Such punitive damage claims are tried in Alabama state courts where any punitive damage litigation may have the potential for significant adverse results. It is impossible to predict the extent of punitive damages that may be awarded if liability is found in any given case, since punitive damages in Alabama are based upon the compensatory damages (including mental anguish) awarded and the discretion of the jury in awarding compensatory damages is not precisely defined. It is thus difficult to predict with certainty the liability of Torchmark or its subsidiaries in any given case because of the unpredictable nature of this type of litigation. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, contingent liabilities arising from threatened and pending litigation are not presently considered by management to be material.

NEW ACCOUNTING RULES

Accounting for Derivative Instruments and Hedging Activities (FASB Statement No. 133), as amended by FASB Statement No. 137, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000, with earlier application of all of the provisions of this statement encouraged. Early adoption of selective provisions is prohibited. Prior periods may not be restated for comparability.

This statement establishes standards for the accounting and reporting of derivative instruments. It requires that all derivatives be recognized as assets or liabilities on the balance sheet and be measured at fair value. Changes in the values of derivatives for the reporting period are reflected as adjustments to earnings through realized gains and losses. If certain conditions are met, a derivative may be designated as a hedge against exposure to market risks of other instruments or commitments, cash flow risks, or foreign currency risks. If a derivative is classified as a hedge, the adjustment to earnings is offset by a corresponding change in the value of the item hedged. Hedging relationships may be designated anew upon adoption of this statement.

Management believes that Statement 133 will have an immaterial impact on Torchmark's financial statements. Other than the interest rate swap on its MIPs, which is carried at fair market value, Torchmark's use of derivatives is limited.

Item 8. Financial Statements and Supplementary Data

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Torchmark Corporation
Birmingham, Alabama

We have audited the accompanying consolidated balance sheet of Torchmark Corporation and subsidiaries as of December 31, 1999, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flow for the year then ended. Our audit also included the financial statement schedules listed in the Index at Item 14 as of and for the year ended December 31, 1999. These financial statements and financial statement schedules are the responsibility of Torchmark's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 1999 consolidated financial statements present fairly, in all material respects, the financial position of Torchmark Corporation and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, such 1999 financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Dallas, Texas
January 28, 2000

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Torchmark Corporation
Birmingham, Alabama

We have audited the consolidated financial statements of Torchmark Corporation and subsidiaries as listed in Item 8 as of and for the years ended December 31, 1998 and December 31, 1997. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in Item 14(a) as of and for the years ended December 31, 1998 and December 31, 1997. These consolidated financial statements and financial statement schedules are the responsibility of Torchmark's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial statement schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Torchmark Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP

Birmingham, Alabama
January 29, 1999 except
for Note 18 which is
as of February 10, 1999

TORCHMARK CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollar amounts in thousands except per share data)

	December 31, 1999	December 31, 1998
Assets:		
Investments:		
Fixed maturities—available for sale, at fair value (cost: 1999—$5,954,697; 1998—$5,519,772)	$ 5,679,795	$ 5,768,447
Equity securities, at fair value (cost: 1999—$37,121; 1998—$2,256)	29,189	9,843
Mortgage loans on real estate, at cost (estimated fair value: 1999—$94,716; 1998—$124,191)	94,599	124,072
Investment real estate, at cost (less allowance for depreciation: 1999—$19,490; 1998—$40,828)	16,379	164,644
Policy loans	244,607	233,765
Other long-term investments	23,054	35,976
Short-term investments	100,187	75,844
Total investments	6,187,810	6,412,591
Cash	14,441	4,920
Investment in unconsolidated subsidiaries	-0-	31,510
Accrued investment income	112,475	99,279
Other receivables	53,458	130,279
Deferred acquisition costs	1,741,570	1,502,511
Value of insurance purchased	151,752	170,640
Property and equipment, net of accumulated depreciation	38,761	39,080
Goodwill	402,584	414,658
Other assets	15,138	18,298
Separate account assets	3,413,675	2,425,262
Total assets	$12,131,664	$11,249,028
Liabilities:		
Future policy benefits	$ 4,869,241	$ 4,595,567
Unearned and advance premiums	85,344	85,923
Policy claims and other benefits payable	215,923	194,965
Other policyholders' funds	81,919	81,568
Total policy liabilities	5,252,427	4,958,023
Accrued income taxes	309,271	511,311
Other liabilities	179,681	162,831
Short-term debt	418,394	355,392
Long-term debt (estimated fair value: 1999—$378,046; 1998—$430,431)	371,555	383,422
Separate account liabilities	3,413,675	2,425,262
Total liabilities	9,945,003	8,796,241
Monthly income preferred securities (estimated fair value: 1999—$193,040; 1998—$205,040)	193,324	193,259
Shareholders' equity:		
Preferred stock, par value $1 per share—Authorized 5,000,000 shares; outstanding: -0- in 1999 and in 1998	-0-	-0-
Common stock, par value $1 per share—Authorized 320,000,000 shares; outstanding: 147,800,908 issued, less 15,804,640 held in treasury in 1999 and 10,951,933 held in treasury in 1998	147,801	147,801
Additional paid-in capital	622,318	610,925
Accumulated other comprehensive income (loss)	(174,222)	144,501
Retained earnings	1,910,487	1,707,933
Treasury stock	(513,047)	(351,632)
Total shareholders' equity	1,993,337	2,259,528
Total liabilities and shareholders' equity	$12,131,664	$11,249,028

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Amounts in thousands except per share data)

	Year Ended December 31,		
	1999	1998	1997
Revenue:			
Life premium	$1,018,301	$ 959,766	$ 909,992
Health premium	824,816	759,910	739,485
Other premium	40,969	33,954	28,527
Total premium	1,884,086	1,753,630	1,678,004
Net investment income	447,337	459,558	429,116
Realized investment losses	(110,971)	(57,637)	(36,979)
Other income	6,443	2,325	962
Total revenue	2,226,895	2,157,876	2,071,103
Benefits and expenses:			
Life policyholder benefits	666,122	625,272	591,867
Health policyholder benefits	535,901	482,496	462,967
Other policyholder benefits	34,524	42,508	54,066
Total policyholder benefits	1,236,547	1,150,276	1,108,900
Amortization of deferred acquisition costs	247,800	231,024	224,738
Commissions and premium taxes	160,655	143,747	141,296
Other operating expense	115,069	117,438	120,233
Amortization of goodwill	12,075	12,075	12,074
Interest expense	52,341	56,325	71,863
Total benefits and expenses	1,824,487	1,710,885	1,679,104
Income from continuing operations before income taxes, equity in earnings of Vesta, extraordinary item, and cumulative effect of change in accounting principle	402,408	446,991	391,999
Income taxes	(134,320)	(154,338)	(138,409)
Equity in earnings (losses) of Vesta	-0-	(6,866)	16,714
Adjustment to carrying value of Vesta	-0-	(20,234)	-0-
Monthly income preferred securities dividend (net of tax)	(9,158)	(9,777)	(9,875)
Net income from continuing operations	258,930	255,776	260,429
Discontinued operations of Waddell & Reed:			
Income from operations (less applicable income tax expense of $42,932 in 1998 and $40,081 in 1997)	-0-	47,868	77,314
Loss on disposal (less applicable income tax benefit of $571 in 1999 and including income tax of $49,840 in 1998)	(1,060)	(54,241)	-0-
Net income before extraordinary item and cumulative effect of change in accounting principle	257,870	249,403	337,743
Loss on redemption of debt (less applicable income tax benefit of $2,672)	-0-	(4,962)	-0-
Net income before cumulative effect of change in accounting principle	257,870	244,441	337,743
Cumulative effect of change in accounting principle (less applicable income tax expense of $8,661)	16,086	-0-	-0-
Net income	$ 273,956	$ 244,441	$ 337,743

(Continued)

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS—(Continued)

(Amounts in thousands except per share data)

	Year Ended December 31,		
	1999	**1998**	**1997**
Basic net income per share:			
Continuing operations	$1.95	$1.83	$1.87
Discontinued operations of Waddell & Reed:			
Net income from operations	–0–	.34	.56
Loss on disposal	(.01)	(.39)	–0–
Net income before extraordinary item and cumulative effect of change in accounting principle	1.94	1.78	2.43
Loss on redemption of debt	–0–	(.03)	–0–
Net income before cumulative effect of change in accounting principle	1.94	1.75	2.43
Cumulative effect of change in accounting principle	.12	–0–	–0–
Net income	$2.06	$1.75	$2.43
Diluted net income per share:			
Continuing operations	$1.93	$1.81	$1.84
Discontinued operations of Waddell & Reed:			
Net income from operations	–0–	.34	.55
Loss on disposal	(.01)	(.38)	–0–
Net income before extraordinary item and cumulative effect of change in accounting principle	1.92	1.77	2.39
Loss on redemption of debt	–0–	(.04)	–0–
Net income before cumulative effect of change in accounting principle	1.92	1.73	2.39
Cumulative effect of change in accounting principle	.12	–0–	–0–
Net income	$2.04	$1.73	$2.39

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Year Ended December 31,		
	1999	1998	1997
Net income	$ 273,956	$244,441	$337,743
Other comprehensive income:			
Unrealized investment gains (losses):			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	(568,398)	54,217	125,820
Reclassification adjustment for (gains) losses on securities included in net income	29,930	8,519	29,967
Reclassification adjustment for amortization of (discount) and premium	(1,266)	(2,999)	(2,751)
Foreign exchange adjustment on securities marked to market	(1,159)	1,958	1,373
Unrealized gains (losses) on securities	(540,893)	61,695	154,409
Unrealized gains (losses) on other investments	81	(7,551)	(398)
Unrealized gains (losses) on deferred acquisition costs	48,380	(3,092)	(13,324)
Total unrealized investment gains (losses)	(492,432)	51,052	140,687
Applicable tax	171,760	(17,524)	(49,447)
Unrealized investment gains (losses), net of tax	(320,672)	33,528	91,240
Foreign exchange translation adjustments, other than securities	1,949	(2,081)	(1,585)
Applicable tax	-0-	-0-	-0-
Foreign exchange translation adjustments, net of tax	1,949	(2,081)	(1,585)
Unrealized gains (losses) on discontinued operations	-0-	(12,100)	1,062
Applicable tax	-0-	4,235	(372)
Unrealized gains (losses) on discontinued operations, net of tax	-0-	(7,865)	690
Other comprehensive income (loss)	(318,723)	23,582	90,345
Comprehensive income (loss)	$ (44,767)	$268,023	$428,088

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Amounts in thousands except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Year Ended December 31, 1997							
Balance at January 1, 1997	$ -0-	$ 73,784	$141,701	$ 46,581	$1,549,391	$(182,114)	$1,629,343
Comprehensive income				90,345	337,743		428,088
Common dividends declared ($0.585 a share)					(81,793)		(81,793)
Two-for-one stock split in the form of a dividend		73,784			(73,784)		-0-
Acquisition of treasury stock—common						(182,903)	(182,903)
Exercise of stock options		281	44,011		(36,776)	130,466	137,982
Grant of discounted options			372				372
Grant of deferred options			1,647				1,647
Balance at December 31, 1997	-0-	147,849	187,731	136,926	1,694,781	(234,551)	1,932,736
Year Ended December 31, 1998							
Comprehensive income				23,582	244,441		268,023
Common dividends declared ($0.58 a share)					(73,304)		(73,304)
Proceeds from Waddell & Reed initial public offering			516,138				516,138
Distribution of Waddell & Reed					(174,113)		(174,113)
Minority interest—Waddell & Reed initial public offering			(90,484)				(90,484)
Sale of Family Service				(16,007)	16,007		-0-
Acquisition of treasury stock—common						(125,875)	(125,875)
Grant of deferred stock options			319				319
Grant of restricted stock			(4,958)		1,428	3,530	-0-
Conversion of restricted stock to Waddell & Reed shares		(48)	48				-0-
Expense of restricted stock grants and options			865				865
Exercise of stock options			1,266		(1,307)	5,264	5,223
Balance at December 31, 1998	-0-	147,801	610,925	144,501	1,707,933	(351,632)	2,259,528
Year Ended December 31, 1999							
Comprehensive loss				(318,723)	273,956		(44,767)
Common dividends declared ($0.36 a share)					(47,739)		(47,739)
Acquisition of treasury stock—common						(221,878)	(221,878)
Grant of deferred stock options			482				482
Lapse of restricted stock grant			364			(364)	-0-
Expense of restricted stock grants and options			797				797
Exercise of stock options			9,750		(23,663)	60,827	46,914
Balance at December 31, 1999	$ -0-	$147,801	$622,318	$(174,222)	$1,910,487	$(513,047)	$1,993,337

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOW
(Amounts in thousands)

	Year ended December 31,		
	1999	1998	1997
Net income	$273,956	$ 244,441	$ 337,743
Adjustments to reconcile net income to cash provided from operations:			
Increase in future policy benefits	206,724	173,593	147,207
Increase (decrease) in other policy benefits	20,730	(30,593)	10,096
Deferral of policy acquisition costs	(419,590)	(356,493)	(328,086)
Amortization of deferred policy acquisition costs	247,800	231,024	224,738
Change in accrued income taxes	(30,434)	86,670	87,590
Depreciation	8,840	7,934	8,038
Realized (gains) losses on sale of investments, subsidiaries, and properties	110,971	57,637	36,979
Change in accounts payable and other liabilities	43,930	3,753	(6,119)
Change in receivables	70,119	(20,331)	(14,368)
Change in payables and receivables of unconsolidated affiliates	(5,931)	2,021	1,385
Other accruals and adjustments	9,245	17,452	(17,825)
Adjustment to carrying value of Vesta	-0-	20,234	-0-
Minority interest in income of Waddell & Reed	-0-	20,869	-0-
Discontinued operations of Waddell & Reed	-0-	(68,737)	(77,314)
Change in accounting principle	(24,747)	-0-	-0-
Cash provided from operations	$511,613	$ 389,474	$ 410,064

(Continued)

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOW—(Continued)
(Amounts in thousands)

	Year ended December 31, 1999	1998	1997
Cash provided from operations	$ 511,613	$ 389,474	$ 410,064
Cash provided from (used for) investment activities:			
Investments sold or matured:			
Fixed maturities available for sale—sold	1,240,652	757,649	744,839
Fixed maturities available for sale—matured, called, and repaid	413,264	474,386	512,512
Equity securities	260	3,056	670
Mortgage loans	26,496	8,589	3,300
Real estate	124,173	12,220	7,341
Other long-term investments	11,338	51,903	28,082
Total investments sold or matured	1,816,183	1,307,803	1,296,744
Acquisition of investments:			
Fixed maturities—available for sale	(2,118,362)	(1,872,040)	(1,668,301)
Equity securities	(3,400)	-0-	-0-
Mortgage loans	(5,421)	(52,921)	(17,826)
Real estate	(29,639)	(35,944)	(24,452)
Net increase in policy loans	(10,842)	(13,445)	(14,744)
Other long-term investments	(10,949)	(20,298)	(6,082)
Total investments acquired	(2,178,613)	(1,994,648)	(1,731,405)
Net (increase) decrease in short-term investments	(24,343)	(19,168)	(18,067)
Funds borrowed from affiliates	-0-	-0-	42,210
Repayment of loans to affiliates	-0-	(1,390)	-0-
Sale of Family Service	-0-	140,388	-0-
Dispositions of properties	8,091	1,033	1,407
Additions to properties	(8,494)	(6,170)	(6,204)
Dividends from Waddell & Reed	-0-	16,814	52,977
Cash used for investment activities	(387,176)	(555,338)	(362,338)
Cash provided from (used for) financing activities:			
Issuance of common stock	37,164	3,957	93,973
Additions to debt	63,152	216,429	98,185
Cash dividends paid to shareholders	(48,175)	(82,601)	(107,097)
Repayments of debt	(12,129)	(390,917)	(20,132)
Acquisition of treasury stock	(221,878)	(125,875)	(182,903)
Proceeds from Waddell & Reed offering	-0-	516,138	-0-
Offering proceeds retained by Waddell & Reed	-0-	(35,251)	-0-
Net receipts from deposit product operations	66,950	57,819	78,817
Cash provided from (used for) financing activities	(114,916)	159,699	(39,157)
Increase (decrease) in cash	9,521	(6,165)	8,569
Cash at beginning of year	4,920	11,085	2,516
Cash at end of year	$ 14,441	$ 4,920	$ 11,085

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars amounts in thousands except per share data)

Note 1—Significant Accounting Policies

Business: Torchmark Corporation (''Torchmark'') through its subsidiaries provides a variety of life and health insurance products and annuities to a broad base of customers.

Basis of Presentation: The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (''GAAP''). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation: The financial statements include the results of Torchmark Corporation (''Torchmark'') and its wholly-owned subsidiaries. Subsidiaries which are not majority-owned are reported on the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments: Torchmark classifies all of its fixed maturity investments, which include bonds and redeemable preferred stocks, as available for sale. Investments classified as available for sale are carried at fair value with unrealized gains and losses, net of deferred taxes, reflected directly in other comprehensive income. Investments in equity securities, which include common and nonredeemable preferred stocks, are reported at fair value with unrealized gains and losses, net of deferred taxes, reflected directly in other comprehensive income. Policy loans are carried at unpaid principal balances. Mortgage loans are carried at amortized cost. Investments in real estate are reported at cost less allowances for depreciation, which are calculated on the straight line method. Short-term investments include investments in certificates of deposit and other interest-bearing time deposits with original maturities within three months. If an investment becomes permanently impaired, such impairment is treated as a realized loss and the investment is adjusted to net realizable value.

Gains and losses realized on the disposition of investments are recognized as revenues and are determined on a specific identification basis.

Realized investment gains and losses and investment income attributable to separate accounts are credited to the separate accounts and have no effect on Torchmark's net income. Investment income attributable to all other insurance policies and products is included in Torchmark's net investment income. Net investment income for the years ended December 31, 1999, 1998, and 1997, included $287.6 million, $296.7 million, and $308.6 million, respectively, which was allocable to policyholder reserves or accounts. Realized investment gains and losses are not allocable to insurance policyholders' liabilities.

Determination of Fair Values of Financial Instruments: Fair value for cash, short-term investments, short-term debt, receivables and payables approximates carrying value. Fair values for investment securities are based on quoted market prices, where available. Otherwise, fair values are based on quoted market prices of comparable instruments. Mortgages are valued using discounted cash flows. Substantially all of Torchmark's long-term debt, including the monthly income preferred securities, is valued based on quoted market prices.

Cash: Cash consists of balances on hand and on deposit in banks and financial institutions. Overdrafts arising from the overnight investment of funds offset cash balances on hand and on deposit.

Recognition of Premium Revenue and Related Expenses: Premiums for insurance contracts which are not defined as universal life-type according to Statement of Financial Accounting Standards (''SFAS'') No. 97 are recognized as revenue over the premium-paying period of the policy. Profits for limited-payment life insurance contracts as defined by SFAS 97 are recognized over the contract period. Premiums for universal life-type and annuity contracts are added to the policy account value, and revenues for such products are recognized as charges to the policy account value for mortality, administration, and surrenders (retrospective deposit method). Variable annuity products are also assessed an investment management fee and a sales charge. Life premium includes policy charges of $71.9 million, $71.7 million, and $72.3 million for the years ended December 31, 1999, 1998, and 1997,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 1—Significant Accounting Policies (continued)

respectively. Other premium includes annuity policy charges for the years ended December 31, 1999, 1998 and 1997, of $40.5 million, $33.5 million, and $28.2 million, respectively. Profits are also earned to the extent that investment income exceeds policy requirements. The related benefits and expenses are matched with revenues by means of the provision of future policy benefits and the amortization of deferred acquisition costs in a manner which recognizes profits as they are earned over the same period.

Future Policy Benefits: The liability for future policy benefits for universal life-type products according to SFAS 97 is represented by policy account value. The liability for future policy benefits for all other life and health products is provided on the net level premium method based on estimated investment yields, mortality, morbidity, persistency and other assumptions which were appropriate at the time the policies were issued. Assumptions used are based on Torchmark's experience as adjusted to provide for possible adverse deviation. These estimates are periodically reviewed and compared with actual experience. If it is determined future experience will probably differ significantly from that previously assumed, the estimates are revised.

Deferred Acquisition Costs and Value of Insurance Purchased: The costs of acquiring new insurance business are deferred. Such costs consist of sales commissions, underwriting expenses, and certain other selling expenses. The costs of acquiring new business through the purchase of other companies and blocks of insurance business are also deferred.

Deferred acquisition costs, including the value of life insurance purchased, for policies other than universal life-type policies, are amortized with interest over the estimated premium-paying period of the policies in a manner which charges each year's operations in proportion to the receipt of premium income. For limited-payment contracts, acquisition costs are amortized over the contract period. For universal life-type policies, acquisition costs are amortized with interest in proportion to estimated gross profits. The assumptions used as to interest, persistency, morbidity and mortality are consistent with those used in computing the liability for future policy benefits and expenses. If it is determined that future experience will probably differ significantly from that previously assumed, the estimates are revised. Deferred acquisition costs are adjusted to reflect the amounts associated with realized and unrealized investment gains and losses pertaining to universal life-type products.

Income Taxes: Income taxes are accounted for under the asset and liability method in accordance with SFAS 109. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement book values and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Property and Equipment: Property and equipment is reported at cost less allowances for depreciation. Depreciation is recorded primarily on the straight line method over the estimated useful lives of these assets which range from two to ten years for equipment and five to forty years for buildings and improvements. Ordinary maintenance and repairs are charged to income as incurred.

Impairments: Torchmark accounts for impairments in accordance with the provisions of SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* This standard requires that certain long-lived assets used in Torchmark's business as well as certain intangible assets, including goodwill, be reviewed for impairment when circumstances indicate that these assets may not be recoverable, and further provides how such impairment shall be determined and measured. It also requires that long-lived assets and intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. Except for Torchmark's writedown of real estate in 1999, as discussed in *Note 3—Investments* on page 53 of this report, and Torchmark's writedown of its investment in Vesta Insurance Group ("Vesta") in 1998, as discussed in *Note 20—Related Party Transactions* on page 79 of this report, there were no significant impairments in the three years ending 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 1—Significant Accounting Policies (continued)

Goodwill: The excess cost of businesses acquired over the fair value of their net assets is reported as goodwill and is amortized on a straight-line basis over a period not exceeding 40 years. Torchmark's unamortized goodwill is periodically reviewed to ensure that conditions are present to indicate the recorded amount of goodwill is recoverable from the estimated future profitability of the related business. If events or changes in circumstances indicate that future profits will not be sufficient to support the carrying amount of goodwill, goodwill would be written down to the recoverable amount and amortized over the original remaining period or a reduced period if appropriate.

Treasury Stock: Torchmark accounts for purchases of treasury stock on the cost method. Issuance of treasury stock is accounted for using the weighted-average cost method.

Reclassifications: Certain amounts in the financial statements presented have been reclassified from amounts previously reported in order to be comparable between years. These reclassifications have no effect on previously reported shareholders' equity or net income during the periods involved.

Litigation: Torchmark and its subsidiaries continue to be named as parties to legal proceedings. Because much of Torchmark's litigation is brought in Alabama, a jurisdiction known for large punitive damage verdicts bearing little or no relationship to actual damages, the ultimate outcome of any particular action cannot be predicted. It is reasonably possible that changes in the expected outcome of these matters could occur in the near term, but such changes should not be material to Torchmark's reported results or financial condition.

Stock Split: On August 1, 1997, Torchmark distributed one share for every one share owned by shareholders of record as of July 1, 1997 in the form of a stock dividend. The dividend was accounted for as a stock split.

Earnings Per Share: Torchmark presents basic and diluted earnings per share (''EPS'') on the face of the income statement and a reconciliation of basic EPS to diluted EPS. Basic EPS is computed by dividing income available to common stockholders by the weighted average common shares outstanding for the period. Weighted average common shares outstanding for each period are as follows: 1999—133,197,023, 1998—139,998,671, 1997—139,202,354. Diluted EPS is calculated by adding to shares outstanding the additional net effect of potentially dilutive securities or contracts which could be exercised or converted into common shares. Weighted average diluted shares outstanding for each period are as follows: 1999—133,985,943, 1998—141,351,912, 1997—141,431,156.

Comprehensive Income: Torchmark adopted SFAS 130, *Reporting Comprehensive Income,* effective January 1, 1998. This standard defines comprehensive income as the change in equity of a business enterprise during a period from transactions from all nonowner sources. It requires the company to display comprehensive income for the period, consisting of net income and other comprehensive income. In compliance with SFAS 130, a Consolidated Statement of Comprehensive Income is included as an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 2—Statutory Accounting

Insurance subsidiaries of Torchmark are required to file statutory financial statements with state insurance regulatory authorities. Accounting principles used to prepare these statutory financial statements differ from GAAP. Consolidated net income and shareholders' equity on a statutory basis for the insurance subsidiaries were as follows:

	Net Income Year Ended December 31,			Shareholders' Equity At December 31,	
	1999	**1998**	**1997**	**1999**	**1998**
Life insurance subsidiaries	$193,253	$260,847	$369,446	$667,168	$640,034

During 1998, Liberty National Life Insurance Company paid an extraordinary dividend to Torchmark in the amount of $213 million. In 1999, Liberty paid $61 million and Globe Life And Accident Insurance Company paid $34.5 million in extraordinary dividends.

The excess, if any, of shareholders' equity of the insurance subsidiaries on a GAAP basis over that determined on a statutory basis is not available for distribution to Torchmark without regulatory approval.

A reconciliation of Torchmark's insurance subsidiaries' statutory net income to Torchmark's consolidated GAAP net income is as follows:

	Year Ended December 31,		
	1999	**1998**	**1997**
Statutory net income	$ 193,253	$ 260,847	$ 369,446
Deferral of acquisition costs	419,590	356,493	328,086
Amortization of acquisition costs	(247,800)	(231,024)	(224,738)
Differences in insurance policy liabilities	80,088	96,412	44,117
Deferred income taxes	(63,576)	(107,384)	(47,541)
Income of noninsurance affiliates	(62,711)	(100,758)	(142,041)
Other	(44,888)	(30,145)	10,414
GAAP net income	$ 273,956	$ 244,441	$ 337,743

A reconciliation of Torchmark's insurance subsidiaries' statutory shareholders' equity to Torchmark's consolidated GAAP shareholders' equity is as follows:

	Year Ended December 31,	
	1999	**1998**
Statutory shareholders' equity	$ 667,168	$ 640,034
Differences in insurance policy liabilities	587,619	585,680
Deferred acquisition costs	1,741,570	1,502,511
Value of insurance purchased	151,752	170,640
Deferred income taxes	(367,994)	(467,023)
Debt of parent company	(789,949)	(749,290)
Monthly income preferred securities	(193,324)	(193,259)
Asset valuation reserves	53,364	68,674
Nonadmitted assets	15,983	84,826
Goodwill	402,584	414,658
Market value adjustment on fixed maturities	(268,598)	200,087
Other	(6,838)	1,990
GAAP shareholders' equity	$1,993,337	$2,259,528

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 3—Investments

	Year Ended December 31,		
	1999	1998	1997
Investment income is summarized as follows:			
Fixed maturities	$ 409,695	$410,528	$396,489
Equity securities	488	301	367
Mortgage loans on real estate	7,720	9,247	7,127
Investment real estate	7,889	8,332	3,379
Policy loans	16,308	15,301	14,433
Other long-term investments	11,245	19,755	9,279
Short-term investments	4,066	6,089	5,762
	457,411	469,553	436,836
Less investment expense	(10,074)	(9,995)	(7,720)
Net investment income	$ 447,337	$459,558	$429,116
An analysis of gains (losses) from investments is as follows:			
Realized investment gains (losses):			
Fixed maturities	$ (30,145)	$ (8,519)	$ (30,122)
Equity securities	215	-0-	155
Other	(81,041)	(49,118)	(7,012)
	(110,971)	(57,637)	(36,979)
Adjustment to deferred acquisition costs	-0-	-0-	(198)
	(110,971)	(57,637)	(37,177)
Applicable tax	38,840	20,173	13,012
Gains (losses) from investments, net of tax	$ (72,131)	$ (37,464)	$ (24,165)
An analysis of the net change in unrealized investment gains (losses) is as follows:			
Equity securities	$ (15,519)	$ (1,080)	$ 4,061
Fixed maturities available for sale	(525,374)	66,526	150,494
Other long-term investments and foreign exchange translation adjustments	2,028	(46,018)	(1,054)
Adjustment to deferred acquisition costs	48,382	(3,091)	(13,324)
	(490,483)	16,337	140,177
Applicable tax	171,760	(8,762)	(49,832)
Change in unrealized gains (losses), net of tax	$(318,723)	$ 7,575	$ 90,345

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 3—Investments (continued)

A summary of fixed maturities available for sale and equity securities by amortized cost and estimated market value at December 31, 1999 and 1998 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amount per the Balance Sheet	% of Total Fixed Maturities
1999:						
Fixed maturities available for sale:						
Bonds:						
U.S. Government direct obligations and agencies	$ 82,550	$ 228	$ (1,885)	$ 80,893	$ 80,893	1.4%
GNMAs	371,374	13,325	(4,027)	380,672	380,672	6.7
Mortgage-backed securities, GNMA collateral	20,617	99	(41)	20,675	20,675	0.4
Other mortgage-backed securities	322,092	1,773	(6,320)	317,545	317,545	5.6
State, municipalities and political subdivisions	557,250	8,947	(4,972)	561,225	561,225	9.9
Foreign governments	57,495	1,338	(317)	58,516	58,516	1.0
Public utilities	613,494	1,421	(31,828)	583,087	583,087	10.3
Industrial and miscellaneous	3,927,294	6,633	(259,339)	3,674,588	3,674,588	64.7
Redeemable preferred stocks	2,531	63	-0-	2,594	2,594	0.0
Total fixed maturities	5,954,697	33,827	(308,729)	5,679,795	5,679,795	100.0%
Equity securities:						
Common stocks:						
Banks and insurance companies	36,879	7,289	(15,042)	29,126	29,126	
Industrial and all others	242	-0-	(179)	63	63	
Non-redeemable preferred stocks	-0-	-0-	-0-	-0-	-0-	
Total equity securities	37,121	7,289	(15,221)	29,189	29,189	
Total fixed maturities and equity securities	$5,991,818	$ 41,116	$(323,950)	$5,708,984	$5,708,984	
1998:						
Fixed maturities available for sale:						
Bonds:						
U.S. Government direct obligations and agencies	$ 145,902	$ 9,527	$ (13)	$ 155,416	$ 155,416	2.7%
GNMAs	494,859	29,205	(481)	523,583	523,583	9.1
Mortgage-backed securities, GNMA collateral	60,724	566	(15)	61,275	61,275	1.1
Other mortgage-backed securities	355,419	14,968	(837)	369,550	369,550	6.4
State, municipalities and political subdivisions	615,125	36,730	(233)	651,622	651,622	11.3
Foreign governments	50,882	2,744	(296)	53,330	53,330	.9
Public utilities	411,624	24,972	(11)	436,585	436,585	7.6
Industrial and miscellaneous	3,382,689	152,510	(20,844)	3,514,355	3,514,355	60.9
Redeemable preferred stocks	2,548	183	-0-	2,731	2,731	-0-
Total fixed maturities	5,519,772	271,405	(22,730)	5,768,447	5,768,447	100%
Equity securities:						
Common stocks:						
Banks and insurance companies	2,013	7,756	(8)	9,761	9,761	
Industrial and all others	243	-0-	(161)	82	82	
Total equity securities	2,256	7,756	(169)	9,843	9,843	
Total fixed maturities and equity securities	$5,522,028	$279,161	$ (22,899)	$5,778,290	$5,778,290	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 3—Investments (continued)

A schedule of fixed maturities by contractual maturity at December 31, 1999 is shown below on an amortized cost basis and on a fair value basis. Actual maturities could differ from contractual maturities due to call or prepayment provisions.

	Amortized Cost	Fair Value
Fixed maturities available for sale:		
Due in one year or less	$ 64,588	$ 65,172
Due from one to five years	618,342	622,551
Due from five to ten years	1,998,061	1,947,724
Due after ten years	2,391,480	2,179,271
	5,072,471	4,814,718
Redeemable preferred stocks	2,530	2,594
Mortgage-backed and asset-backed securities	879,696	862,483
	$ 5,954,697	$ 5,679,795

Proceeds from sales of fixed maturities available for sale were $1.24 billion in 1999, $758 million in 1998, and $745 million in 1997. Gross gains realized on those sales were $4.3 million in 1999, $6.1 million in 1998, and $1.3 million in 1997. Gross losses were $36.5 million in 1999, $20.1 million in 1998, and $32.2 million in 1997.

Torchmark had $7.0 million and $24.7 million in investment real estate at December 31, 1999 and 1998, respectively, which was nonincome producing during the previous twelve months. These properties included primarily construction in process and land. Torchmark had $118 thousand in nonincome producing mortgages as of year end 1999. There were no fixed maturity investments, or other long-term investments which were nonincome producing at December 31, 1999.

During 1999, Torchmark determined to dispose of most of its investment real estate. In the second quarter of 1999, efforts to dispose of these properties revealed that the carrying value of the real estate exceeded its estimated realizable value. For this reason Torchmark wrote down its investment real estate portfolio to its estimated realizable value as of June 30, 1999. This write down resulted in a pretax loss of $64 million, or $41 million after tax. The majority of the investment real estate was sold in two transactions in the latter half of 1999 for total consideration of $123 million, of which $111 million was in cash and the remainder in a ten-year collaterized note. After the sales, Torchmark retained $16 million in investment real estate, of which $8 million was included with properties partially occupied by Torchmark subsidiaries.

Note 4—Property and Equipment

A summary of property and equipment used in the business is as follows:

	December 31, 1999		December 31, 1998	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Company occupied real estate	$ 58,042	$28,440	$ 59,417	$28,697
Data processing equipment	20,823	19,185	19,915	18,743
Transportation equipment	7,128	2,525	11,157	7,551
Furniture and office equipment	17,083	14,165	35,777	32,195
	$103,076	$64,315	$126,266	$87,186

Depreciation expense on property used in the business was $5.6 million, $4.2 million, and $4.6 million in each of the years 1999, 1998, and 1997, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 5—Deferred Acquisition Costs and Value of Insurance Purchased

An analysis of deferred acquisition costs and the value of insurance purchased is as follows:

	1999		1998		1997	
	Deferred Acquisition Costs	Value of Insurance Purchased	Deferred Acquisition Costs	Value of Insurance Purchased	Deferred Acquisition Costs	Value of Insurance Purchased
Balance at beginning of year	$1,502,512	$170,640	$1,371,131	$216,988	$1,253,727	$244,368
Additions:						
Deferred during period:						
Commissions	246,174	-0-	207,864	-0-	199,177	-0-
Other expenses	173,416	-0-	148,629	-0-	128,909	-0-
Total deferred	419,590	-0-	356,493	-0-	328,086	-0-
Adjustment attributable to unrealized investment losses(1)	48,380	-0-	-0-	-0-	-0-	-0-
Total additions	467,970	-0-	356,493	-0-	328,086	-0-
Deductions:						
Amortized during period	(228,912)	(18,888)	(210,287)	(20,737)	(197,160)	(27,380)
Adjustment attributable to unrealized investment gains(1)	-0-	-0-	(3,092)	-0-	(13,324)	-0-
Adjustment attributable to realized investment gains(1)	-0-	-0-	-0-	-0-	(198)	-0-
Business disposed	-0-	-0-	(11,734)	(25,611)	-0-	-0-
Total deductions	(228,912)	(18,888)	(225,113)	(46,348)	(210,682)	(27,380)
Balance at end of year	$1,741,570	$151,752	$1,502,511	$170,640	$1,371,131	$216,988

(1) Represents amounts pertaining to investments relating to universal life-type products.

The amount of interest accrued on the unamortized balance of value of insurance purchased was $10.5 million, $13.2 million, and $16.6 million, for the years ended December 31, 1999, 1998, and 1997, respectively. The average interest rates used for the years ended December 31, 1999, 1998, and 1997 were 6.5%, 6.8%, and 7.19%, respectively. The estimated amortization, net of interest accrued, on the unamortized balance at December 31, 1999 during each of the next five years is: 2000, $16.7 million; 2001, $14.1 million; 2002, $12.5 million; 2003, $11.0 million; and 2004, $9.7 million.

In the event of lapses or early withdrawals in excess of those assumed, deferred acquisition costs and the value of insurance purchased may not be recoverable.

Note 6—Initial Public Offering and Divestiture of Asset Management Segment

Divestiture of Waddell & Reed. Waddell & Reed, Torchmark's asset management subsidiary, completed an initial public offering in March, 1998 of approximately 24 million shares of its common stock. The offering represented approximately 36% of Waddell & Reed's shares. Net proceeds from the offering were approximately $516 million after underwriters' fees and expenses. Waddell & Reed used $481 million of the proceeds to repay existing notes owed to Torchmark and other Torchmark subsidiaries and retained the remaining $35 million. Torchmark's $481 million proceeds from the note repayments were invested or used to pay down debt. The initial public offering resulted in a $426 million gain which was added to Torchmark's additional paid-in capital in accordance with Staff Accounting Bulletin 51. Torchmark retained the remaining 64% of the Waddell & Reed stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 6—Initial Public Offering and Divestiture of Asset Management Segment (continued)

On November 6, 1998, Torchmark distributed the remaining 64% investment in Waddell & Reed through a tax-free spin-off to Torchmark shareholders. Each Torchmark shareholder of record on October 23, 1998 received a total of .3018 Waddell & Reed shares per Torchmark share. After the spin-off, Torchmark retained no further ownership interest in Waddell & Reed. As a result of the transaction, Torchmark incurred $54 million in expense related to the spin-off, the majority of which was $50 million of corporate Federal income tax resulting from the distribution of a portion of the policyholder surplus account of a Torchmark life subsidiary.

Torchmark has accounted for the spin-off of Waddell & Reed as a disposal of a segment. Accordingly, Torchmark's financial statements for 1998 and all prior periods have been modified to present the net assets and operating results of Waddell & Reed as discontinued operations of the disposed segment. The $54 million expense of the spin-off is included in discontinued operations under the caption ''Loss on Disposal.'' The distribution of the Waddell & Reed shares resulted in a reduction in Torchmark's shareholders' equity in the approximate amount of $174 million, consisting of the equity in Waddell & Reed net of the 36% minority Interest.

Note 7—Sale of Family Service

On June 1, 1998, Torchmark sold Family Service to an unaffiliated insurance carrier. Family Service, which was acquired in 1990, is a preneed funeral insurer but has not issued any new policies since 1995. Consideration for the sale was $140 million in cash. Torchmark recorded a pretax realized loss on the sale of approximately $14 million, but incurred a tax expense on the transaction of $9 million. In connection with the sale, Torchmark will continue to service the policies in force of Family Service for the next five years for a fee of $2 million per year plus certain variable processing costs. During 1997, Family Service accounted for $57 million in revenues and $7.7 million in pretax income. Through May, 1998, Family Service contributed $25 million in revenues and $5.8 million in pretax income. Invested assets were $778 million and total assets were $828 million at the date of the sale.

Note 8—Supplemental Disclosures for Cash Flow Statement

The following table summarizes Torchmark's noncash transactions, which are not reflected on the *Statement of Cash Flow:*

	Year Ended December 31,		
	1999	1998	1997
Paid-in capital from tax benefit for stock option exercises	$9,750	$ 933	$39,873
Discounted/deferred option grants	482	582	2,020
Distribution of Waddell & Reed stock	-0-	174,113	-0-

The following table summarizes certain amounts paid during the period:

	Year Ended December 31,		
	1999	1998	1997
Interest paid	$ 52,704	$ 66,911	$73,537
Income taxes paid	148,223	102,753	31,422

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 9—Future Policy Benefit Reserves

A summary of the assumptions used in determining the liability for future policy benefits at December 31, 1999 is as follows:

Individual Life Insurance

Interest assumptions:

Years of Issue	Interest Rates	Percent of Liability
1917-1999	3.00%	3%
1947-1954	3.25%	1
1927-1989	3.50%	1
1955-1961	3.75%	1
1925-1999	4.00%	11
1962-1969	4.50% graded to 4.00%	2
1970-1980	5.50% graded to 4.00%	3
1970-1999	5.50%	1
1929-1999	6.00%	17
1986-1994	7.00% graded to 6.00%	12
1954-1999	8.00% graded to 6.00%	12
1951-1985	8.50% graded to 6.00%	9
1980-1987	8.50% graded to 7.00%	1
1984-1999	Interest Sensitive	26
		100%

Mortality assumptions:

For individual life, the mortality tables used are various statutory mortality tables and modifications of:

1950-54 Select and Ultimate Table
1954-58 Industrial Experience Table
1955-60 Ordinary Experience Table
1965-70 Select and Ultimate Table
1955-60 Inter-Company Table
1970 United States Life Table
1975-80 Select and Ultimate Table
X-18 Ultimate Table

Withdrawal assumptions:

Withdrawal assumptions are based on Torchmark's experience.

Individual Health Insurance

Interest assumptions:

Years of Issue	Interest Rates	Percent of Liability
1962-1999	3.00%	2%
1982-1999	4.50%	3
1993-1999	6.00%	23
1986-1992	7.00% graded to 6.00%	47
1955-1999	8.00% graded to 6.00%	18
1951-1986	8.50% graded to 6.00%	7
		100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 9—Future Policy Benefit Reserves (continued)

Morbidity assumptions:

For individual health, the morbidity assumptions are based on either Torchmark's experience or the assumptions used in calculating statutory reserves.

Termination assumptions:

Termination assumptions are based on Torchmark's experience.

Overall Interest Assumptions

The overall average interest assumption for determining the liability for future life and health insurance benefits in 1999 was 6.1%.

Note 10—Liability for Unpaid Health Claims

Activity in the liability for unpaid health claims is summarized as follows:

	Year ended December 31,		
	1999	1998	1997
Balance at beginning of year:	$145,802	$178,989	$173,900
Incurred related to:			
Current year	555,595	518,993	503,948
Prior year	8,297	(2,670)	15,280
Total incurred	563,892	516,323	519,228
Paid related to:			
Current year	364,623	342,084	349,815
Prior year	182,934	207,426	164,324
Total paid	547,557	549,510	514,139
Balance at end of year	$162,137	$145,802	$178,989

The liability for unpaid health claims is included with ''Policy claims and other benefits payable'' on the Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 11—Income Taxes

Torchmark and most of its subsidiaries file a life-nonlife consolidated federal income tax return. American Income files its own consolidated federal income tax return and will not be eligible to join Torchmark's consolidated return group until 2000.

Total income taxes were allocated as follows:

	Year Ended December 31,		
	1999	1998	1997
Income from continuing operations	$ 134,320	$154,338	$138,409
Discontinued operations	(571)	92,772	40,081
Monthly income preferred securities dividend	(4,932)	(5,265)	(5,318)
Shareholders' equity:			
Unrealized gains (losses)	(171,757)	8,540	49,832
Tax basis compensation expense (from the exercise of stock options) in excess of amounts recognized for financial reporting purposes	(9,751)	(933)	(44,011)
Other	(1,274)	(1,964)	1,514
	$ (53,965)	$247,488	$180,507

Income tax expense attributable to income from continuing operations consists of:

	Year ended December 31,		
	1999	1998	1997
Current income tax expense	$ 85,917	$118,827	$ 92,989
Deferred income tax expense	48,403	35,511	45,420
	$134,320	$154,338	$138,409

In 1999, 1998, and 1997, deferred income tax expense was incurred because of certain differences between net operating income before income taxes as reported on the consolidated statement of operations and taxable income as reported on Torchmark's income tax returns. As explained in Note 1, these differences caused the financial statement book values of some assets and liabilities to be different from their respective tax bases.

The effective income tax rate differed from the expected 35% rate as shown below:

	Year ended December 31,					
	1999	%	1998	%	1997	%
Expected income taxes	$140,843	35%	$156,447	35%	$137,200	35%
Increase (reduction) in income taxes resulting from:						
Tax-exempt investment income	(8,798)	(2)	(7,111)	(2)	(6,165)	(2)
Equity in earnings of Vesta	-0-		(9,485)	(2)	5,850	1
Sale of Family Service	-0-		13,460	3	-0-	
Other	2,275	1	1,027	1	1,524	1
Income taxes	$134,320	34%	$154,338	35%	$138,409	35%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 11—Income Taxes (continued)

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 1999	December 31, 1998
Deferred tax assets:		
Unrealized investment losses	$ 89,433	$ -0-
Present value of future policy surrender charges	28,534	20,153
Carryover of nonlife net operating losses and life-nonlife capital losses	18,044	8,364
Other assets and other liabilities, principally due to the current nondeductibility of certain accrued expenses for tax purposes	42,458	22,241
Total gross deferred tax assets	178,469	50,758
Deferred tax liabilities:		
Deferred acquisition costs	445,266	381,415
Unrealized investment gains	-0-	82,324
Future policy benefits, unearned and advance premiums, and policy claims	69,314	46,621
Other	12,553	17,060
Total gross deferred tax liabilities	527,133	527,420
Net deferred tax liability	$348,664	$476,662

Torchmark has not recognized a deferred tax liability for the undistributed earnings of its wholly-owned subsidiaries because such earnings are remitted to Torchmark on a tax-free basis. A deferred tax liability will be recognized in the future if the remittance of such earnings becomes taxable to Torchmark. In addition, Torchmark has not recognized a deferred tax liability of approximately $10 million that arose prior to 1984 on temporary differences related to the policyholders' surplus accounts in the life insurance subsidiaries. A current tax expense will be recognized in the future if and when these amounts are distributed.

As more fully discussed in *Note 6*, Torchmark completed the spin-off of its asset management segment in 1998, which resulted in a distribution of the policyholder surplus account of a Torchmark life insurance subsidiary. This caused a current tax expense of $50 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 12—Postretirement Benefits

Pension Plans: Torchmark has noncontributory retirement benefit plans and contributory savings plans which cover substantially all employees. There is also a nonqualified noncontributory excess benefit pension plan which covers certain employees. The total cost of these retirement plans charged to operations was as follows:

Year Ended December 31,	Defined Contribution Plans	Defined Benefit Pension Plans	Excess Benefit Pension Plan
1999	$2,775	$2,889	$480
1998	1,530	2,875	399
1997	2,123	3,244	526

Torchmark accrues expense for the defined contribution plans based on a percentage of the employees' contributions. The plans are funded by the employee contributions and a Torchmark contribution equal to the amount of accrued expense. Plan contributions are both mandatory and discretionary, depending on the terms of the plan.

Cost for the defined benefit pension plans has been calculated on the projected unit credit actuarial cost method. Contributions are made to the pension plans subject to minimums required by regulation and maximums allowed for tax purposes. Accrued pension expense in excess of amounts contributed has been recorded as a liability in the financial statements and was $7.5 million and $7.2 million at December 31, 1999 and 1998, respectively. The plans covering the majority of employees are organized as trust funds whose assets consist primarily of investments in marketable long-term fixed maturities and equity securities which are valued at market.

The excess benefit pension plan provides the benefits that an employee would have otherwise received from a defined benefit pension plan in the absence of the Internal Revenue Code's limitation on benefits payable under a qualified plan. Although this plan is unfunded, pension cost is determined in a similar manner as for the funded plans. Liability for the excess benefit plan was $4.7 million at both December 31, 1999 and 1998.

Net periodic pension cost for the defined benefit plans by expense component was as follows:

	Year Ended December 31,		
	1999	1998	1997
Service cost—benefits earned during the period	$ 5,133	$ 4,555	$ 4,732
Interest cost on projected benefit obligation	8,260	7,595	7,389
Actual return on assets	(20,381)	(21,572)	(17,014)
Net amortization and deferral	10,357	12,696	8,663
Net periodic pension cost	$ 3,369	$ 3,274	$ 3,770

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 12—Postretirement Benefits (continued)

Torchmark adopted FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* effective for year-end 1998 with comparative periods restated. In accordance with this Standard, the following table presents a reconciliation from the beginning to the end of the year of the benefit obligation and plan assets. This table also presents a reconciliation of the plans' funded status with the amounts recognized on Torchmark's balance sheet.

	Pension Benefits For the year ended December 31,	
	1999	**1998**
Changes in benefit obligation:		
Obligation at beginning of year	$109,720	$ 98,078
Service cost	5,133	4,555
Interest cost	8,260	7,595
Amendments	74	-0-
Actuarial loss (gain)	(5,430)	7,823
Benefits paid	(13,176)	(8,331)
Obligation at end of year	104,581	109,720
Changes in plan assets:		
Fair value at beginning of year	123,289	108,942
Return on assets	20,381	21,572
Contributions	2,285	1,106
Benefits paid	(13,176)	(8,331)
Fair value at end of year	132,779	123,289
Funded status at year end	28,198	13,569
Unrecognized amounts at year end:		
Unrecognized actuarial loss (gain)	(40,764)	(25,016)
Unrecognized prior service cost	865	851
Unrecognized transition obligation	(115)	(356)
Net amount recognized at year end	$ (11,816)	$(10,952)
Amounts recognized consist of:		
Prepaid benefit cost	$ 243	$ 212
Accrued benefit liability	(12,418)	(12,083)
Intangible asset	359	919
Net amount recognized at year end	$ (11,816)	$(10,952)

The weighted average assumed discount rates used in determining the actuarial benefit obligations were 7.5% in 1999 and 7.0% in 1998. The rate of assumed compensation increase was 4.5% in 1999 and 4.0% in 1998 while the expected long-term rate of return on plan assets was 9.2% in both 1999 and 1998.

Postretirement Benefit Plans Other Than Pensions: Torchmark provides postretirement life insurance benefits for most retired employees, and also provides additional postretirement life insurance benefits for certain key employees. The majority of the life insurance benefits are accrued over the working lives of active employees.

For retired employees over age sixty-five, Torchmark does not provide postretirement benefits other than pensions. Torchmark does provide a portion of the cost for health insurance benefits for employees who retired before February 1, 1993 and before age sixty-five, covering them until they reach age sixty-five. Eligibility for this benefit was generally achieved at age fifty-five with at least fifteen years of service. This subsidy is minimal to retired employees who did not retire before February 1, 1993. This plan is unfunded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 12—Postretirement Benefits (continued)

The components of net periodic postretirement benefit cost for plans other than pensions are as follows:

	Year Ended December 31,		
	1999	**1998**	**1997**
Service cost	$ 239	$ 249	$ 248
Interest cost on accumulated postretirement benefit obligation	380	493	490
Actual return on plan assets	-0-	-0-	-0-
Net amortization and deferral	(450)	(281)	(377)
Net periodic postretirement benefit cost	$ 169	$ 461	$ 361

The following table presents a reconciliation of the benefit obligation and plan assets from the beginning to the end of the year and a reconciliation of the funded status to the accrued benefit liability:

	Benefits Other Than Pensions For the year ended December 31,	
	1999	**1998**
Changes in benefit obligation:		
Obligation at beginning of year	$ 6,849	$ 6,431
Service cost	239	249
Interest cost	380	493
Amendments	-0-	(149)
Actuarial loss (gain)	(1,324)	435
Benefits paid	(529)	(610)
Obligation at end of year	5,615	6,849
Changes in plan assets:		
Fair value at beginning of year	-0-	-0-
Return on assets	-0-	-0-
Contributions	529	610
Benefits paid	(529)	(610)
Fair value at end of year	-0-	-0-
Funded status at year end	(5,615)	(6,849)
Unrecognized amounts at year end:		
Unrecognized actuarial loss (gain)	(2,349)	(1,259)
Unrecognized prior service cost	(290)	(506)
Net amount recognized at year end as accrued benefit liability	$(8,254)	$(8,614)

For measurement purposes, an 8.0% annual rate of increase in per capita cost of covered healthcare benefits was assumed for 1999. These rates grade to ranges of 4.5% to 5.5% by the year 2010. The health care cost trend rate assumption has a significant effect on the amounts reported, as illustrated in the following table which presents the effect of a one percentage point increase and decrease on the service and interest cost components and the benefit obligation:

	Change in Trend Rate	
Effect on:	**1% Increase**	**1% Decrease**
Service and interest cost components	$ 62	$ 54
Benefit obligation	431	386

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.15% in 1999 and 7.38% in 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 13—Debt

An analysis of debt at carrying value is as follows:

	December 31,			
	1999		1998	
	Short-term Debt	Long-term Debt	Short-term Debt	Long-term Debt
Senior Debentures, due 2009		$ 99,450		$ 99,450
Notes, due 2023		177,540		185,394
Notes, due 2013		94,565		98,578
Commercial paper	$418,394		$355,242	
Other notes and mortgages payable at various interest rates; collateralized by buildings			150	
	$418,394	$371,555	$355,392	$383,422

The amount of debt that becomes due during each of the next five years is: 2000, $418,394, and 2001-2004, $0.

The Senior Debentures, remaining principal amount of $99 million, are due August 15, 2009. They bear interest at a rate of 8¼%, with interest payable on February 15 and August 15 of each year. The Senior Debentures are not redeemable at the option of Torchmark prior to maturity and have equal priority with other Torchmark unsecured indebtedness.

The Notes, due May 15, 2023, were issued in May, 1993 in the principal amount of $200 million. Proceeds of the issue, net of issue costs, were $196 million. Interest is payable on May 15 and November 15 of each year at a rate of 7⅞%. In 1998 and 1999, $10.8 million and $7.5 million principal amount were purchased in the open market at a cost of $10.6 million and $7.9 million respectively. These notes are not redeemable prior to maturity and have equal priority with other Torchmark unsecured indebtedness.

The Notes, due August 1, 2013, were issued in July, 1993 in the principal amount of $100 million for net proceeds of $98 million. Interest is payable on February 1 and August 1 of each year at a rate of 7⅜%. In March, 1999, $4.0 million principal amount were purchased in the open market at a cost of $4.1 million. These notes are not redeemable prior to maturity and have equal priority with other Torchmark unsecured indebtedness.

Torchmark has entered into a revolving credit agreement with a group of lenders under which it may borrow on an unsecured basis up to $600 million. The commitment matures October 22, 2002. Borrowings are at interest rates selected by Torchmark based on either the corporate base rate or the Eurodollar rate at the time of borrowing. At December 31, 1999 and December 31, 1998 there were no borrowings under the revolving credit agreement. The revolving credit agreement is also designed to back up a commercial paper program. The short-term borrowings under the revolving credit agreements and in the commercial paper market averaged $411 million during 1999, and were made at an average yield of 5.43%. At December 31, 1999, commercial paper was outstanding in the face amount of $420 million. Torchmark is subject to certain covenants for the revolving credit agreements regarding capitalization and earnings, for which it was in compliance at December 31, 1999, and pays a facility fee based on size of the line. Including fees, the average borrowing cost during 1999 was 5.61%.

In the first quarter of 1998, Torchmark repaid $20 million principal amount of its 8⅝% Sinking Fund Debentures due March 1, 2017, through a sinking fund payment of which $8 million was mandatory and $12 million was elective under the terms of the issue. An identical payment was made in the third quarter of 1997. The remaining $160 million principal amount was called on April 1, 1998, at a prevailing call price of 103.76, or $166 million. An after-tax loss on the redemption of debt of $5 million was recorded in the second quarter of 1998. These payments were made from additional commercial paper borrowings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 13—Debt (continued)

The 9⅝% Senior Notes Torchmark previously had outstanding matured on May 1, 1998. The principal amount of $200 million with accrued interest was repaid from additional commercial paper borrowings.

Interest in the amount of $284 thousand, $2.4 million, and $1.7 million was capitalized during 1999, 1998, and 1997, respectively.

Note 14—Monthly Income Preferred Securities

In October, 1994, Torchmark, through its wholly-owned finance subsidiary, Torchmark Capital L.L.C., completed a public offering of eight million shares of 9.18% MIPS at a face amount of $200 million. The securities are subject to a mandatory redemption in full at September 30, 2024, although Torchmark may elect to extend the MIPS for up to an additional 20 years if certain conditions are met. They have been redeemable at Torchmark's option since September 30, 1999. Torchmark subsequently entered into a ten-year swap agreement with an unaffiliated party whereby Torchmark agreed to pay a variable rate on the $200 million face amount in exchange for payment of the fixed dividend. In a related transaction, Torchmark purchased a five-year cap on the swap agreement that expired on September 30, 1999. The interest rate was 7.00% at December 31, 1999 and 6.44% at December 31, 1998. The market value of the swap agreement was a benefit of $6.7 million at December 31, 1999 and $24.7 million at December 31, 1998. Torchmark changed its method of accounting for this swap agreement during 1999. Refer to *Note 15—Change in Accounting Principle* below for more information on this change in accounting principle.

Note 15—Change in Accounting Principle

Torchmark has in place a swap agreement with an unaffiliated party whereby Torchmark pays a variable dividend rate on its $200 million face amount outstanding MIPS in exchange for payment of a 9.18% fixed dividend. Effective January 1, 1999, Torchmark changed its method of accounting for this swap agreement to recognize changes in its fair value, net of tax, as realized investment gains or losses. This method of accounting for such instruments is believed to be preferable under the guidance established by Statement of Financial Accounting Standards No. 80, ''Accounting for Futures Contracts (''SFAS 80'') and the Securities and Exchange Commission. Previously, Torchmark accounted for the swap using hedge accounting under SFAS 80. The after-tax cumulative effect of the change at January 1, 1999 of $16.1 million (net of income taxes of $8.7 million) is included in income for the twelve months ended December 31, 1999. The effect of the change on the twelve months ended December 31, 1999 was to increase realized losses by $11.7 million ($.09 per diluted share) excluding the cumulative effect of the change in accounting principle. The pro forma effect of the retroactive application of the new accounting method to the twelve month period ended December 31, 1998 would be to increase net income by $4.4 million ($.03 per diluted share).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 16—Shareholders' Equity

Share Data: A summary of preferred and common share activity which has been restated to give effect for the two-for-one stock split in the form of a dividend is as follows:

	Preferred Stock		Common Stock	
	Issued	Treasury Stock	Issued	Treasury Stock
1997:				
Balance at January 1, 1997	-0-	-0-	147,568,456	(8,176,506)
Issuance of common stock due to exercise of stock options			280,452	5,539,596
Other treasury stock acquired				(5,171,558)
Balance at December 31, 1997	-0-	-0-	147,848,908	(7,808,468)
1998:				
Issuance of common stock due to exercise of stock options				175,240
Issuance of common stock due to restricted stock grant				117,500
Other treasury stock acquired				(3,436,205)
Restricted shares converted to Waddell & Reed shares			(48,000)	
Balance at December 31, 1998	-0-	-0-	147,800,908	(10,951,933)
1999:				
Issuance of common stock due to exercise of stock options				1,898,524
Other treasury stock acquired				(6,742,606)
Lapse of unvested stock grant				(8,625)
Balance at December 31, 1999	-0-	-0-	147,800,908	(15,804,640)

	At December 31, 1999		At December 31, 1998	
	Preferred Stock	Common Stock	Preferred Stock	Common Stock
Par value per share	$1.00	$1.00	$1.00	$1.00
Authorized shares	5,000,000	320,000,000	5,000,000	320,000,000

Acquisition of Common Shares: Torchmark shares are acquired from time to time through open market purchases under the Torchmark stock repurchase program when it is believed to be the best use of Torchmark's funds and for future employee stock option exercises. Share repurchases under this program were 6.7 million shares at a cost of $222 million in 1999, 3.4 million shares at a cost of $126 million in 1998, and 5.2 million shares at a cost of $183 million in 1997.

Grant of Restricted Stock: On January 1, 1998, 117,500 shares were granted to four executive officers of Torchmark or its subsidiaries. These shares vest over eight years in accordance with the following schedule: 16% on the first anniversary, with the vesting percentage declining one percent each year thereafter until the eighth anniversary. The market value of Torchmark stock was $42.1875 per share on the grant date. In the fourth quarter of 1999, 8,625 restricted shares lapsed under the terms of the grant and were returned to the company.

Restrictions: Restrictions exist on the flow of funds to Torchmark from its insurance subsidiaries. Statutory regulations require life insurance subsidiaries to maintain certain minimum amounts of capital and surplus. These restrictions generally limit the payment of dividends by insurance subsidiaries to statutory net gain from operations before realized capital gains or losses on an annual noncumulative basis in the absence of special approval. Additionally, insurance companies are not permitted to distribute the excess of shareholders' equity as determined on a GAAP basis over that determined on a statutory basis. In 2000, 192 million will be available to Torchmark for dividends from insurance subsidiaries in compliance with statutory regulations without prior regulatory approval.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 16—Shareholders' Equity (continued)

Earnings Per Share: A reconciliation of basic and diluted weighted-average shares outstanding is as follows:

	1999	1998	1997
Basic weighted average shares outstanding	133,197,023	139,998,671	139,202,354
Weighted average dilutive options outstanding	788,920	1,353,241	2,228,802
Diluted weighted average shares outstanding	133,985,943	141,351,912	141,431,156

Options outstanding considered to be anti-dilutive totaled 5,013,990, 0, and 0 as of December 31, 1999, 1998 and 1997, respectively, and are excluded from the calculation of diluted earnings per share. Income available to common shareholders for basic earnings per share is equivalent to income available to common shareholders for diluted earnings per share.

Note 17—Employee Stock Options

Certain employees, directors, and consultants have been granted options to buy shares of Torchmark stock generally at the market value of the stock on the date of grant under the provisions of the various Torchmark stock option plans. The options are exercisable during the period commencing from the date they vest until expiring ten years and two days or eleven years after grant. Employee and consultant stock options generally vest one-half in two years and one-half in three years. Formula-based director grants generally vest in six months. Grants in September, 1997 and November, 1999 vested immediately. Stock options awarded in connection with compensation deferrals by certain directors and executives vest over ten years. Torchmark generally issues shares for the exercise of stock options out of treasury stock.

An analysis of shares available for grant in terms of shares adjusted for the stock dividend is as follows:

	Available for Grant		
	1999	1998	1997
Balance at January 1	13,192,506	2,434,004	1,345,080
Amendment of 1987 Plan			4,800,000
1998 Stock Incentive Plan		14,000,000	
Approval of Executive Deferred and Director Plan grants		(216,481)	(633,672)
Grant of restricted stock(1)		(117,500)	
Lapse of restricted stock grants(1)	8,625		
Expired	70,760	13,700	32,896
Closure of option plans(2)		(2,113,723)	
Other grants	(2,402,671)	(807,494)	(3,110,300)
Balance at December 31	10,869,220	13,192,506	2,434,004

(1) This stock grant was made from the 1987 Stock Incentive Plan. The retirement of an employee during 1999 resulted in the lapse of unvested grants.
(2) The 1987 Stock Incentive Plan, the 1998 Directors' Stock Option Plan, and the 1998 Executive Deferred Compensation Stock Option Plan were closed in 1998.

Torchmark accounts for its employee stock options in accordance with SFAS 123 *Accounting for Stock-Based Compensation*, which defines a ''fair value method'' of measuring and accounting for employee stock options. It also allows accounting for such options under the ''intrinsic value method'' in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (''APB 25'') and related interpretations. If a company elects to use the intrinsic value method, then pro forma disclosures of earnings and earnings per share are required as if the fair value method of accounting was applied. The effects of applying SFAS 123 in the pro forma disclosures are not necessarily indicative of future amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 17—Employee Stock Options (continued)

Torchmark has elected to account for its stock options under the intrinsic value method as outlined in APB 25. The fair value method requires the use of an option valuation model, such as the Black-Scholes option valuation model, to value employee stock options, upon which a compensation expense is based. The Black-Scholes option valuation model was not developed for use in valuing employee stock options. Instead, this model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Torchmark's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing models do not provide a reliable measure of the fair value of its employee stock options. Under the intrinsic value method, compensation expense is only recognized if the exercise price of the employee stock option is less than the market price of the underlying stock on the date of grant.

The fair value for Torchmark's employee stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1999, 1998, and 1997:

	1999	1998	1997
Risk-free interest rate	6.0%	4.8%	6.1%
Dividend yield	1.2%	1.1%	1.7%
Volatility factor	25.6	22.8	23.7
Weighted average expected life (in years)	4.66	4.71	3.93

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Torchmark's pro forma information follows (in thousands except for earnings per share information):

	1999	1998	1997
Pro forma net income	$262,433	$245,383	$318,671
Pro forma basic net income per share	1.97	1.75	2.29
Pro forma diluted net income per share	1.96	1.74	2.25

On September 25, 1997, Torchmark executed a stock option exercise and restoration program through which over 100 Torchmark directors and employees exercised vested stock options and received a reduced number of replacement options at current market price. This program resulted in the issuance of 4.8 million shares, of which over 3 million shares were immediately sold by the directors and employees through the open market to cover the cost of the purchased shares and related taxes. Another restoration program was effected on November 15, 1999. The 1999 program involved 80 directors and employees who exercised vested options for 1.8 million shares, resulting in the net issuance to employees of 523 thousand shares and 1.2 million replacement options for the shares sold by the employee to pay the exercise price and minimum withholding taxes. As a result of these restoration programs, management's ownership interest increased, and Torchmark received a significant current tax benefit from the exercise of the options.

On November 6, 1998, in connection with its spin-off of Waddell & Reed, Torchmark adjusted the number and exercise price of its employee stock options so that the options' value after the spin would be equivalent to its value before the spin. Additionally, every eligible optionee was given the opportunity to elect to convert a portion of their Torchmark options into equivalent Waddell & Reed options in accordance with the same spin ratio that was applicable to all Torchmark shareholders. Also, employees of Waddell & Reed and directors were allowed to convert all of their Torchmark options into equivalent Waddell & Reed options. In every case, the employee or director maintained the same value after the spin-off as was held prior to the transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 17—Employee Stock Options (continued)

As a result of the adjustment and conversion of these options, 7.2 million outstanding Torchmark options with an aggregate exercise price of $219 million on November 6, 1998 were replaced with 6.4 million adjusted Torchmark options with an aggregate exercise price of $167 million. Also 3.7 million Waddell & Reed options were granted with an aggregate exercise price of $51.6 million.

A summary of Torchmark's stock option activity and related information for the years ended December 31, 1999, 1998, and 1997 follows:

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding-beginning of year	7,228,400	$27.04	7,241,050	$29.76	9,350,022	$18.52
Granted	2,402,671	31.36	1,023,975	34.97	3,743,972	36.70
Exercised	(1,898,524)	19.80	(175,240)	22.58	(5,820,048)	16.17
Expired	(70,760)	32.98	(13,700)	29.19	(32,896)	29.81
Reduction due to Waddell & Reed spinoff			(7,249,129)	30.20		
Addition due to Waddell & Reed spinoff			6,401,444	26.16		
Outstanding-end of year	7,661,787	30.14	7,228,400	27.04	7,241,050	29.76
Exercisable at end of year	4,243,254	29.37	5,038,081	26.24	4,189,238	32.82

The weighted average fair value of options granted during the years ended December 31, 1999, 1998, and 1997 were $9.29, $8.88, and $8.43, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 17—Employee Stock Options (continued)

The following table summarizes information about stock options outstanding at December 31, 1999:

Exercise Price	Grant Date	Number Outstanding	Number Exercisable	Contract Termination Date
4.86419	October 1, 1993	6,416	6,416	October 3, 2003
5.63977	October 1, 1993	5,016	5,016	October 3, 2003
13.91029	January 2, 1991	21,029	21,029	January 4, 2001
14.17778	January 25, 1990	21,029	21,029	January 27, 2000
14.55172-14.58579	December 16, 1994	65,969	65,969	December 18, 2004
14.55222	December 7, 1992	1,694	1,694	December 9, 2002
14.55659-14.57130	December 14, 1993	6,337	6,337	December 16, 2003
14.57232-14.57573	October 1, 1993	6,552	6,552	October 3, 2003
14.7127	December 12, 1991	13,802	13,802	December 14, 2001
14.92781	January 3, 1995	7,010	7,010	January 5, 2005
15.94885*	December 18, 1996	48,000	6,000	December 18, 2007
16.42468	January 2, 1992	21,029	21,029	January 4, 2002
18.56413-18.5922	December 20, 1995	394,519	394,519	December 22, 2005
18.61765-18.618	December 14, 1993	56,427	56,427	December 16, 2003
19.26091	January 2, 1996	7,010	7,010	January 4, 2006
19.26091-19.276	January 3, 1994	13,010	13,010	January 5, 2004
21.29257-21.30859	December 16, 1996	528,913	528,913	December 18, 2006
21.50657-21.52056	January 2, 1997	79,956	7,010	January 4, 2007
22.14864-22.16198	January 31, 1997	140,927	19,444	January 31, 2008
22.25559-22.25570	December 7, 1992	48,429	48,429	December 9, 2002
24.7174-24.72794	January 4, 1993	19,010	19,010	January 6, 2003
27.8125	December 21, 1999	1,135,713	0	December 23, 2009
33.27631-33.28237	December 24, 1997	315,243	158,241	December 26, 2007
33.4375	December 16, 1998	648,800	500	December 18, 2008
33.4375	December 16, 1998	115,590	11,559	December 16, 2009
33.4903-33.497	September 25, 1997	2,427,422	2,427,422	September 27, 2007
33.54382	January 9, 1998	12,984	1,298	January 9, 2009
33.9375	January 11, 1999	51,025	0	January 11, 2010
34.50	November 15, 1999	1,173,733	283,130	November 17, 2009
34.75	December 30, 1998	39,659	3,966	December 30, 2009
35.63037	February 16, 1998	12,056	1,206	February 16, 2009
36.11175-36.11284	January 2, 1998	152,709	36,000	January 4, 2008
36.37928	February 10, 1998	11,357	1,136	February 10, 2009
36.43278	February 4, 1998	11,412	1,141	February 4, 2009
36.50	January 4, 1999	42,000	42,000	January 4, 2010
		7,661,787	4,243,254	

* Issued when the market price was $24.8125. Option price at that time (prior to the Waddell & Reed spin-off adjustment) was $18.61.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 18—Commitments and Contingencies

Reinsurance: Insurance affiliates of Torchmark reinsure that portion of insurance risk which is in excess of their retention limits. Retention limits for ordinary life insurance range up to $2.5 million per life. Life insurance ceded represents less than 1.0% of total life insurance in force at December 31, 1999. Insurance ceded on life and accident and health products represents .7% of premium income for 1999. Torchmark would be liable for the reinsured risks ceded to other companies to the extent that such reinsuring companies are unable to meet their obligations.

Insurance affiliates also assume insurance risks of other companies. Life reinsurance assumed represents 2.3% of life insurance in force at December 31, 1999 and reinsurance assumed on life and accident and health products represents 1.9% of premium income for 1999.

Leases: Torchmark leases office space and office equipment under a variety of operating lease arrangements. These leases contain various renewal options, purchase options, and escalation clauses. Rental expense for operating leases was $3.4 million in 1999 and $3.2 million in 1998 and 1997. Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year at December 31, 1999 are as follows: 2000, $2.0 million; 2001, $1.2 million; 2002, $845 thousand; 2003, $438 thousand; 2004, $189 thousand and in the aggregate, $4.9 million.

Concentrations of Credit Risk: Torchmark maintains a highly diversified investment portfolio with limited concentration in any given region, industry, or economic characteristic. At December 31, 1999, the investment portfolio consisted of the following:

Type of Investment	Percent of Portfolio
Investment-grade corporate bonds	64%
Securities of state and municipal governments	9
Securities of the U.S. government or U.S. government-backed securities	8
Nongovernment-guaranteed mortgage-backed securities	5
Noninvestment-grade securities	5
Policy loans, which are secured by the underlying insurance policy values	4
Short-term investments, which generally mature within one month	2
Mortgages	1
Securities of foreign governments	1
Equity securities, real estate, and other long-term investments	1

Investments in municipal governments and corporations are made throughout the U.S. with no concentration in any given state. Most of the investments in foreign government securities are in Canadian government obligations. Corporate debt and equity investments are made in a wide range of industries. At December 31, 1999, 4% or more of the portfolio was invested in the following industries:

Industry	Percent of Portfolio
Depository institutions	10%
Electric, gas, and sanitary services	10
Insurance carriers	5
Chemicals and allied products	4
Communications	4
Food and kindred products	4
Nondepository credit institutions	4

Otherwise, no individual industry represented 4% or more of Torchmark's investments. At year-end 1999, 5% of the carrying value of fixed maturities was rated below investment grade (BB or lower as rated by Standard & Poor's or the equivalent NAIC designation). Par value of these investments was $313

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 18—Commitments and Contingencies (continued)

million, amortized cost was $314 million, and market value was $295 million. While these investments could be subject to additional credit risk, such risk should generally be reflected in market value.

Collateral Requirements: Torchmark requires collateral for investments in instruments where collateral is available and is typically required because of the nature of the investment. Since the majority of Torchmark's investments is in government, government-secured, or corporate securities, the requirement for collateral is rare. Torchmark's mortgages are secured by collateral.

Guarantees: In the fourth quarter of 1999, Torchmark issued a full financial guaranty of all obligations, receivables, and recovery of capital on behalf of its subsidiaries American Income and AILIC Receivable Corporation up to $100 million. The guarantee was made to an unaffiliated third party as agent for the purchasers of certain agent receivables of American Income.

Litigation: Torchmark and its subsidiaries continue to be named as parties to pending or threatened legal proceedings. These lawsuits involve tax matters, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. Many of these lawsuits involve claims for punitive damages in state courts of Alabama, a jurisdiction particularly recognized for its large punitive damage verdicts. A number of such actions involving Liberty also name Torchmark as a defendant. In 1999, Alabama enacted legislation limiting punitive damages in non-physical injury cases to the greater of $500,000 or three times compensatory damages. Since this legislation has not undergone scrutiny by appellate courts regarding its constitutionality and a jury's discretion regarding the amount of compensatory damages (including mental anguish) awarded in any given case is not precisely defined, the effect of this legislation on Torchmark's litigation remains unclear. Thus, the likelihood or extent of a punitive damage award in any given case is currently impossible to predict. As of December 31, 1999, Liberty was a party to approximately 135 active lawsuits (including 17 employment related cases and excluding interpleaders and stayed cases), 126 of which were Alabama proceedings in which punitive damages were sought. Liberty faces trial settings in these cases on an on-going basis.

Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, contingent liabilities arising from threatened and pending litigation are not presently considered by management to be material. It should be noted, however, that large punitive damage awards bearing little or no relation to actual damages awarded by juries in jurisdictions in which Torchmark has substantial business, particularly in Alabama, continue to occur, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

On August 25, 1995, a purported class action was filed against Torchmark, Globe, United American and certain officers of these companies in the United States District Court for the Western District of Missouri on behalf of all former agents of Globe (*Smith v. Torchmark Corporation*, Case No. :95-3304-CV-S-4). This action alleges that the defendants breached independent agent contracts with the plaintiffs by treating them as captive agents and engaged in a pattern of racketeering activity wrongfully denying income and renewal commissions to the agents, restricting insurance sales, mandating the purchase of worthless leads, terminating agents without cause and inducing the execution of independent agent contracts based on misrepresentations of fact. Monetary damages in an unspecified amount are sought. A plaintiff class was certified by the District Court on February 26, 1996, although the certification did not go to the merit of the allegations in the complaint. On December 31, 1996, the plaintiffs filed an amended complaint in *Smith* to allege violations of various provisions of the Employment Retirement Income Security Act of 1974. Extensive discovery was then conducted. In October 1998, defendants filed a motion to decertify the presently defined class in *Smith*. On March 23, 1999, the District Court granted defendants' motion to decertify the *Smith* class in part and decertified all but the ERISA claims of a more narrowly defined *Smith* class. In May 1999, the defendants filed motions to dismiss the claims certified by the Court's March 23, 1999 order. On December 14, 1999, the District Court granted defendants' motion for summary judgment. That Court denied a motion for reconsideration on January 21, 2000.

It has been previously reported that Torchmark, its subsidiaries United American and Globe and certain individual corporate officers are parties to purported class action litigation filed in April, 1996 in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 18—Commitments and Contingencies (continued)

the U.S. District Court for the Northern District of Georgia (*Crichlow v. Torchmark Corporation*, Case No. 4:96-CV-0086-HLM) involving certain hospital and surgical insurance policies issued by Globe and United American. In September 1997, the U.S. District Court entered an order granting summary judgment against the plaintiffs on certain issues and denying national class certification, although indicating that plaintiffs could move for the certification of a state class of Georgia policyholders. Discovery then proceeded on the remaining claims for breach of contract and the duty of good faith arising from closure of the block of business and certain post-claim matters as well as fraud and conspiracy relating to pricing and delay in implementing rate increases. On June 17, 1998, the U.S. District Court entered an order which denied the plaintiffs' motion to certify a Georgia policyholders class, denied reconsideration of the previously entered motion for summary judgment on certain issues, denied reconsideration of the denial of national certification of a class of policyholders and severed and transferred claims of Mississippi policyholders to the U.S. District Court for the Northern District of Mississippi (*Greco v. Torchmark Corporation*, Case No. 1:98CV196-D-D). The U.S. District Court granted defendants' motion for summary judgment on all remaining issues in *Crichlow* on February 4, 1999. Plaintiffs in *Greco* then moved to certify a class of persons purchasing Globe hospital and surgical insurance policies in Mississippi. On February 1, 1999, defendants filed a motion for summary judgment in *Greco*.

Defendants' motion for summary judgment on all remaining issues in *Crichlow* was granted by the District Court on February 4, 1999. The *Crichlow* plaintiffs have appealed and *Crichlow* defendants have cross-appealed various orders of the District Court to the United States Court of Appeals for the Eleventh Circuit.

On October 29, 1999, the District Court dismissed all of the plaintiffs' claims in *Greco* in their entirety and entered a final judgment dismissing *Greco* with prejudice. This October 29, 1999 order in *Greco* has been appealed by plaintiffs to the Fifth Circuit Court of Appeals.

As previously reported, Liberty has been a party to two lawsuits alleging that a class of persons were insured under Liberty policies when Liberty knew that such persons were not entitled to retain any benefits under these policies, one of which was filed in 1996 in the Circuit Court of Jefferson County, Alabama (*Harris v. Liberty National Life Insurance Company*, Case No. CV-96-01836) and the other in the Circuit Court of St. Clair County, Alabama (*Gentry v. Liberty National Life Insurance Company*, Case No. CV-97-61). The *Gentry* case was dismissed by the St. Clair County Circuit Court on June 16, 1998 and subsequently the *Harris* case was amended to add former plaintiff Gentry as an additional class representative in that case. On December 28, 1999, the Jefferson County Circuit Court entered an order in *Harris* granting summary judgment for Liberty on all plaintiffs' claims except unjust enrichment. The only remaining claim in the *Harris* plaintiffs' motion for class certification, one of unjust enrichment, was denied by the Circuit Court in an order denying the motion for class certification entered February 10, 2000.

In 1978, the United States District Court for the Northern District of Alabama entered a final judgment in *Battle v. Liberty National Life Insurance Company, et al* (Case No. CV-70-H-752-S), class action litigation involving Liberty, a class composed of all owners of funeral homes in Alabama and a class composed of all insureds (Alabama residents only) under burial or vault policies issued, assumed or reinsured by Liberty. The final judgment fixed the rights and obligations of Liberty and the funeral directors authorized to handle Liberty burial and vault policies as well as reforming the benefits available to the policyholders under the policies. Although class actions are inherently subject to subsequent collateral attack by absent class members, the *Battle* decree remains in effect to date. A motion filed in February 1990 to challenge the final judgment under Federal Rule of Civil Procedure 60(b) was rejected by both the District Court in 1991 and the Eleventh Circuit Court of Appeals in 1992 and a Writ of Certiorari was denied by the U.S. Supreme Court in 1993.

In November 1993, an attorney (purporting to represent the funeral director class) filed a petition in the District Court seeking "alternative relief" under the final judgment. This petition was voluntarily withdrawn on November 8, 1995 by petitioners. On February 23, 1996, Liberty filed a petition with the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 18—Commitments and Contingencies (continued)

District Court requesting that it order certain contract funeral directors to comply with their obligations under the Final Judgment in *Battle* and their funeral service contracts. A petition was filed on April 8, 1996 on behalf of a group of funeral directors seeking to modify the 1978 decree in *Battle* in light of changed economic circumstances. All parties made extensive submissions to the District Court and a hearing on the opposing petitions was held by the District Court on February 9, 1999. On March 8, 1999, the District Court entered an order granting Liberty's petition to enforce the obligations of contract funeral directors under their funeral service contracts and denying the funeral directors' petition for review of the *Battle* Final Judgment and alternative relief. On July 29, 1999, the funeral director class filed an appeal with the U.S. Court of Appeals of the Eleventh Circuit seeking to have the March 8, 1999 order vacated on the merits. Liberty filed a joint motion in the Eleventh Circuit Court seeking remand to the District Court for purposes of appointment of class counsel for burial policyholders, who are currently not formally represented in these proceedings. The Circuit Court issued an order denying Liberty's joint motion on September 15, 1999 and the funeral director class' appeal remains pending. On January 24, 2000, Liberty and the funeral director class filed a joint motion for remand in order to allow the District Court to evaluate a proposed settlement of the funeral directors' appeal.

On October 28, 1999, Liberty was served with a subpoena from the Florida Department of Insurance in connection with that Department's investigation into Liberty's sales practices and disclosures in the State of Florida regarding industrial life insurance and low value life insurance policies. Subsequently, on December 8, 1999, purported class action litigation was filed against Liberty in the United States District Court for the Northern District of Alabama (*Moore v. Liberty National Life Insurance Company*, Case No. CV-99-BU-3262-S), on behalf of all African-Americans who have or have had at the time of policy termination an ownership interest in certain life insurance policies ($25,000 face amount or less) marketed by Liberty and certain of its former subsidiaries. Plaintiffs allege racial discrimination in Liberty's premium rates in violation of 42 U.S.C §1981, breach of fiduciary duty in sales and administrative practices, receipt of excessive and unreasonable premium payments by Liberty, improper hiring, supervision, retention and failure to monitor actions of officers, agents and employees, breach of contract in dismantling the debit premium collection system, fraudulent inducement and negligent misrepresentation. Unspecified compensatory and punitive damages are sought together with a declaratory judgment and equitable and/or injunctive relief, including establishment of a constructive trust for the benefit of class members. Defendants filed a motion for judgment on the pleadings or in the alternative for summary judgment on January 27, 2000.

Note 19—Business Segments

Torchmark's segments are based on the insurance product lines it markets and administers, life insurance, health insurance, and annuities. These major product lines are set out as segments because of the common characteristics of products within these categories, comparability of margins, and the similarity in regulatory environment and management techniques. There is also an investment segment which manages the investment portfolio, debt, and cash flow for the insurance segments and the corporate function. Torchmark's management evaluates the overall performance of the operations of the company in accordance with these segments.

Life insurance products include traditional and interest-sensitive whole life insurance as well as term life insurance. Health products are generally guaranteed-renewable and include Medicare Supplement, cancer, accident, long-term care, and limited hospital and surgical coverages. Annuities include both fixed-benefit and variable contracts. Variable contracts allow policyholders to choose from a variety of mutual funds in which to direct their deposits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

Torchmark markets its insurance products through a number of distribution channels, each of which sells the products of one or more of Torchmark's insurance segments. The tables below present segment premium revenue by each of Torchmark's marketing groups.

	For the Year 1999							
	Life		Health		Annuity		Total	
Distribution Channel	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent	$ 37,375	3.7%	$427,023	51.8%	$ 508	1.2%	$ 464,906	24.7%
Liberty National Exclusive	288,330	28.3	143,857	17.4	60	0.2	432,247	22.9
American Income Exclusive	217,367	21.3	47,564	5.8			264,931	14.1
Direct Response	245,824	24.1	11,778	1.4			257,602	13.7
United American Exclusive	19,318	1.9	194,594	23.6			213,912	11.4
United Investors Exclusive	84,098	8.3			40,401	98.6	124,499	6.6
Military Independent	104,590	10.3					104,590	5.5
Other	21,399	2.1					21,399	1.1
	$1,018,301	100.0%	$824,816	100.0%	$40,969	100.0%	$1,884,086	100.0%

	For the Year 1998							
	Life		Health		Annuity		Total	
Distribution Channel	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent	$ 36,925	3.8%	$417,556	54.9%	$ 445	1.3%	$ 454,926	25.9%
Liberty National Exclusive	282,389	29.4	135,861	17.9	$ 84	0.2	418,334	23.9
American Income Exclusive	204,310	21.3	47,074	6.2			251,384	14.3
Direct Response	221,371	23.1	8,817	1.2			230,188	13.1
United American Exclusive	18,798	2.0	150,602	19.8			169,400	9.7
United Investors Exclusive	80,376	8.4			33,065	97.4	113,441	6.4
Military Independent	92,204	9.6					92,204	5.3
Other	23,393	2.4			360	1.1	23,753	1.4
	$ 959,766	100.0%	$759,910	100.0%	$33,954	100.0%	$1,753,630	100.0%

	For the Year 1997							
	Life		Health		Annuity		Total	
Distribution Channel	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent	$ 36,810	4.0%	$428,775	58.0%	$ 333	1.2%	$ 465,918	27.8%
Liberty National Exclusive	280,519	30.8	125,701	17.0	84	0.3	406,304	24.2
American Income Exclusive	190,681	20.9	46,116	6.2			236,797	14.1
Direct Response	195,393	21.5	6,467	0.9			201,860	12.0
United American Exclusive	18,243	2.0	132,426	17.9			150,669	9.0
United Investors Exclusive	77,986	8.6			27,009	94.7	104,995	6.3
Military Independent	79,631	8.8					79,631	4.7
Other	30,729	3.4			1,101	3.8	31,830	1.9
	$ 909,992	100.0%	$739,485	100.0%	$28,527	100.0%	$1,678,004	100.0%

Because of the nature of the insurance industry, Torchmark has no individual or group which would be considered a major customer. Substantially all of Torchmark's business is conducted in the United States, primarily in the Southeastern and Southwestern regions.

The measure of profitability established by management for insurance segments is underwriting income before other income and administrative expenses, in accordance with the manner the segments are managed. It essentially represents gross profit margin on insurance products before insurance administrative expenses and consists of premium, less net policy obligations, acquisition expenses, and commissions. It differs from GAAP pretax operating income before other income and administrative expense for two primary reasons. First, there is a reduction to policy obligations for interest credited by

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

contract to policyholders because this interest is earned and credited by the investment segment. Second, interest is also added to acquisition expense which represents the implied interest cost of deferred acquisition costs, which is funded by and is attributed to the investment segment.

The measure of profitability for the investment segment is excess investment income, which represents the income earned on the investment portfolio in excess of net policy requirements and financing costs associated with debt and Torchmark's MIPS. The investment segment is measured on a tax-equivalent basis, equating the return on tax-exempt investments to the pretax return on taxable investments. Other than the above-mentioned interest allocations, there are no other intersegment revenues or expenses. Expenses directly attributable to corporate operations are included in the "Corporate" category. All other unallocated revenues and expenses on a pretax basis, including insurance administrative expense, are included in the "Other" segment category. The table below sets forth a reconciliation of Torchmark's revenues and operations by segment to its major income statement line items.

	For the year 1999							
	Life	Health	Annuity	Investment	Other	Corporate	Adjustments	Consolidated
Revenue:								
Premium	$1,018,301	$824,816	$ 40,969					$1,884,086
Net Investment income				$458,824			$(11,487)	447,337
Other income					$ 3,348		(2,008)	1,340
Total revenue	1,018,301	824,816	40,969	458,824	3,348		(13,495)	2,332,763
Expenses:								
Policy benefits	666,122	535,901	34,524					1,236,547
Required reserve interest	(229,287)	(17,383)	(40,991)	287,661				-0-
Amortization of acquisition costs	170,444	64,046	13,310					247,800
Commissions and premium tax	56,341	84,913	759				18,642	160,655
Required interest on acquisition costs	91,412	12,707	6,536	(110,655)				-0-
Financing costs*				66,431			(14,090)	52,341
Total expenses	755,032	680,184	14,138	243,437			4,552	1,697,343
Underwriting income before other income and administrative expense and nonrecurring charge	263,269	144,632	26,831					434,732
Nonrecurring charge	(20,650)						20,650	-0-
Underwriting income before other income and administrative expense**	242,619	144,632	26,831				20,650	434,732
Excess investment income				215,387				215,387
Subtotal adjustments					3,348		(18,047)	(14,699)
Subtotal	242,619	144,632	26,831	215,387	3,348		2,603	635,420
Administrative expense					(104,903)			(104,903)
Parent expense						$(10,166)		(10,166)
Goodwill amortization						(12,075)		(12,075)
Pretax operating income	$ 242,619	$144,632	$ 26,831	$215,387	$(101,555)	$(22,241)	$ 2,603	508,276
Deduct realized investment losses, deferred acquisition cost adjustment, and gain on sale of equipment								(105,868)
Pretax income								$ 402,408

* Investment segment includes MIPS dividend on a pretax basis.

** Insurance segments exclude Family Service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

	For the year 1998								
	Life	**Health**	**Annuity**	**Investment**	**Other**	**Corporate**	**Family Service Underwriting Income**	**Adjustments**	**Consolidated**
Revenue:									
Premium	$ 957,274	$759,910	$ 33,594				$ 2,852		$1,753,630
Net investment income				$ 470,701				$(11,143)	459,558
Other income					$ 4,488			(2,163)	2,325
Total revenue	957,274	759,910	33,594	470,701	4,488		2,852	(13,306)	2,215,513
Expenses:									
Policy benefits	618,867	482,496	34,662				14,251		1,150,276
Required reserve interest	(215,185)	(20,440)	(42,171)	296,696			(18,900)		-0-
Amortization of acquisition costs	158,298	59,208	11,561				3,883	(1,926)	231,024
Commissions and premium tax	57,364	87,828	510				208	(2,163)	143,747
Required interest on acquisition costs	85,374	11,373	5,609	(103,481)			1,125		-0-
Financing costs*				71,367				(15,042)	56,325
Total expenses	704,718	620,465	10,171	264,582			567	(19,131)	1,581,372
Underwriting income before other income and administrative expense**	252,556	139,445	23,423				2,285		417,709
Reclass of Family Service	2,187		98				(2,285)		-0-
Underwriting income before other income and administrative expense	254,743	139,445	23,521						417,709
Excess investment income				206,119					206,119
Subtotal adjustments					4,488			5,825	10,313
Subtotal	254,743	139,445	23,521	206,119	4,488			5,825	634,141
Administrative expense					(103,451)				(103,451)
Parent expense						$(10,406)		(3,581)	(13,987)
Goodwill amortization						(12,075)			(12,075)
Pretax operating income	$ 254,743	$139,445	$ 23,521	$ 206,119	$ (98,963)	$(22,481)	$ -0-	$ 2,244	504,628
Deduct realized investment losses and deferred acquisition cost adjustment									(57,637)
Pretax income									$ 446,991

* Investment segment includes MIPS dividend on a pretax basis.

** Insurance segments exclude Family Service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

	For the year 1997								
	Life	Health	Annuity	Investment	Other	Corporate	Family Service Underwriting Income	Adjustments	Consolidated
Revenue:									
Premium	$ 901,187	$739,485	$ 27,426				$ 9,906		$1,678,004
Net investment income				$ 439,067				$(9,951)	429,116
Other income					$ 3,141			(2,179)	962
Total revenue	901,187	739,485	27,426	439,067	3,141		9,906	(12,130)	2,108,082
Expenses:									
Policy benefits	574,139	462,967	34,631		(7)		37,170		1,108,900
Required reserve interest	(199,339)	(21,644)	(41,551)	308,632			(46,098)		-0-
Amortization of acquisition costs	149,358	58,473	9,660				9,105	(1,858)	224,738
Commissions and premium tax	55,019	87,069	710				681	(2,183)	141,296
Required interest on acquisition costs	80,972	11,080	4,951	(100,096)			3,093		-0-
Financing costs*				87,055				(15,192)	71,863
Total expenses	660,149	597,945	8,401	295,591	(7)		3,951	(19,233)	1,546,797
Underwriting income before other income and administrative expense**	241,038	141,540	19,025		7		5,955		407,565
Reclass of Family Service	5,650		305				(5,955)		-0-
Underwriting income before other income and administrative expense	246,688	141,540	19,330		7				407,565
Excess investment income				143,476					143,476
Subtotal adjustments					3,141			7,103	10,244
Subtotal	246,688	141,540	19,330	143,476	3,148			7,103	561,285
Administrative expense					(104,220)				(104,220)
Parent expense						$(13,879)		(2,134)	(16,013)
Goodwill amortization						(12,074)			(12,074)
Deferred acquisition cost adjustment for realized gains								198	198
Pretax operating income	$ 246,688	$141,540	$ 19,330	$ 143,476	$(101,072)	$(25,953)	$ 0	$ 5,167	429,176
Deduct realized investment losses and deferred acquisition cost adjustment									(37,177)
Pretax income									$ 391,999

* Investment segment includes MIPS dividend on a pretax basis.

** Insurance segments exclude Family Service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

Assets for each segment are reported based on a specific identification basis. The insurance segments' assets contain deferred acquisition costs, value of insurance purchased, and separate account assets. The investment segment includes the investment portfolio, cash, and accrued investment income. Goodwill is assigned to corporate operations. All other assets, representing less than 2% of total assets, are included in the other category. The table below reconciles segment assets to total assets as reported in the consolidated financial statements.

	At December 31, 1999							
	Life	Health	Annuity	Investment	Other	Corporate	Adjustments	Consolidated
Cash and invested assets				$6,202,251				$ 6,202,251
Accrued investment income				112,475				112,475
Deferred acquisition costs	$1,547,934	$225,637	$ 119,751					1,893,322
Goodwill						$402,584		402,584
Separate account assets			3,413,675					3,413,675
Other assets					$107,357			107,357
Total assets	$1,547,934	$225,637	$3,533,426	$6,314,726	$107,357	$402,584		$12,131,664

	At December 31, 1998							
	Life	Health	Annuity	Investment	Other	Corporate	Adjustments	Consolidated
Cash and invested assets				$6,449,021				$ 6,449,021
Accrued investment income				99,279				99,279
Deferred acquisition costs	$1,390,030	$190,285	$ 92,836					1,673,151
Goodwill						$414,658		414,658
Separate account assets			2,425,262					2,425,262
Other assets					$187,657			187,657
Total assets	$1,390,030	$190,285	$2,518,098	$6,548,300	$187,657	$414,658		$11,249,028

Note 20—Related Party Transactions

Transactions Regarding Vesta: Since 1993, Torchmark has held a passive investment in Vesta, a property insurance carrier. Torchmark held 5.1 million shares of Vesta stock, or approximately 28% of the outstanding shares of Vesta, until December, 1998. Torchmark carried its investment in Vesta during this period on the equity method of accounting. In June, 1998, Vesta announced that (a) an investigation of accounting irregularities that occurred during the fourth quarter of 1997 and the first quarter of 1998 would result in an aggregate $14 million net after-tax reduction in previously reported net income, and, in addition, that (b) it would restate its historical financial statements for the period of 1993 through the first quarter of 1998, reflecting reductions in reported net after-tax earnings of $49 million for the period of 1993 through 1997 and $10 million for the first quarter of 1998. To reflect its pro rata share of Vesta's cumulative reported financial corrections, Torchmark recorded a pre-tax charge of $20 million ($13 million after tax) or $.09 per diluted share in the second quarter of 1998. As a result of the announcements relating to Vesta and the decline in value of Vesta stock, Vesta is currently subject to numerous class action lawsuits in state and Federal courts filed subsequent to such announcements.

In the fourth quarter of 1998, Torchmark announced its intention to dispose of its holdings in Vesta and to sell Vesta shares under satisfactory terms. In December, 1998, Torchmark sold 680 thousand Vesta shares at a price of $4.75 per share, recording a loss of $3 million after tax. In 1999, Vesta filed a registration statement with the Securities and Exchange Commission for the public offering of its shares held by Torchmark. To facilitate the registration of Vesta shares, Torchmark reacquired the previously sold 680 thousand shares at a price of $5 per share. On November 5, 1999, the registration statement was filed by Vesta to offer all of Torchmark's holdings in Vesta.

Because of its intention to dispose of Vesta, Torchmark wrote its carrying value of Vesta down to net realizable amount effective September 30, 1998. The adjustment produced an after-tax realized loss of $24 million, or $.17 per diluted Torchmark share. Net realizable value was $32 million at December 31, 1998. During 1998, Torchmark recorded a pretax loss of $27 million ($18 million after tax or $.13 per diluted share) on Vesta operations, including its pro rata share of Vesta's cumulative accounting corrections.

During the first quarter of 1999, the two Torchmark directors who occupied seats on the Vesta Board of Directors resigned from those Vesta seats. Due to the vacating of the Vesta board seats and the absence of significant influence regarding Vesta, Torchmark discontinued the equity method of accounting for Vesta and has included Vesta in equity securities at market value subsequent to December 31, 1998. Torchmark carried Vesta at a value of $20 million at December 31, 1999.

Transactions with Directors and Officers: Lamar C. Smith, elected a director of Torchmark in October 1999, is an officer, director and 15% owner of Independent Research Agency for Life Insurance, Inc. (IRA), which receives commissions as the Military Agency distribution system for selling certain life insurance products offered by Torchmark's insurance subsidiaries.

On October 1, 1999, Torchmark sold the majority of its investment real estate in two transactions. One transaction involved sales to Elgin Development Company and other investors for total consideration of $97.4 million. The Chairman of the Executive Committee of Torchmark is a one-third investor in Elgin Development Company. His investment in Elgin Development was approximately $1.5 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Dollar amounts in thousands except per share data)

Note 21—Selected Quarterly Data (Unaudited)

The following is a summary of quarterly results for the two years ended December 31, 1999. The information is unaudited but includes all adjustments (consisting of normal accruals) which management considers necessary for a fair presentation of the results of operations for these periods.

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
1999:				
Premium and policy charges	$462,764	$470,010	$471,850	$479,462
Net investment income	111,396	110,538	111,758	113,645
Realized investment losses	(7,116)	(78,803)	(18,128)	(6,924)
Total revenues	567,510	507,228	565,779	586,378
Policy benefits	303,446	308,718	309,113	315,270
Amortization of acquisition expenses	59,570	62,082	62,921	63,227
Pretax income from continuing operations	125,042	57,171	113,688	106,507
Income (Loss) from discontinued operations	-0-	(1,060)	-0-	-0-
Net income	96,434	35,246	73,312	68,964
Basic net income per common share from continuing operations	.59	.27	.55	.52
Basic net income per common share	.71	.26	.55	.52
Diluted net income per common share from continuing operations	.59	.27	.55	.52
Diluted net income per common share	.71	.26	.55	.52
Diluted net income per common share from continuing operations excluding realized losses, related acquisition cost adjustment, and equity in earnings of Vesta	.62	.63	.64	.56
1998:				
Premium and policy charges	$433,017	$439,364	$437,964	$443,285
Net investment income	119,800	117,881	112,165	109,712
Realized investment losses	(3,173)	(1,854)	(39,750)	(12,860)
Total revenues	550,032	556,048	511,271	540,525
Policy benefits	287,024	291,826	285,217	286,209
Amortization of acquisition expenses	57,334	57,755	57,248	58,687
Pretax income from continuing operations	117,799	123,856	87,054	118,282
Income (Loss) from discontinued operations	14,766	15,222	(38,607)	2,246
Net income	92,918	63,142	14,546	73,835
Basic net income per common share from continuing operations	.56	.34	.38	.51
Basic net income per common share	.66	.45	.10	.53
Diluted net income per common share from continuing operations	.55	.34	.38	.51
Diluted net income per common share	.66	.45	.10	.53
Diluted net income per common share from continuing operations excluding realized losses, related acquisition cost adjustment, and equity in earnings of Vesta	.55	.57	.58	.60

Item 9. Disagreements on Accounting and Financial Disclosure

On October 21, 1998, with the approval of the Audit Committee of the Board of Directors of Torchmark, Torchmark engaged Deloitte & Touche LLP as its principal accountants as of January 1, 1999, effective upon the issuance of KPMG Peat Marwick LLP's (''KPMG'') reports on the consolidated financial statements of Torchmark and subsidiaries and the separately issued financial statements of Torchmark's subsidiaries, unit investment trust accounts and benefit plans as of and for the year ending December 31, 1998. (KPMG completed its engagement as Torchmark's principal accountants on October 14, 1999, the date upon which the last of the audit reports as of and for the year ended December 31, 1998 for the entities noted above were issued.) The reports of KPMG on the financial statements of Torchmark for either of the two most recent fiscal years did not contain any adverse opinion or disclaimer of opinion. Such reports were not qualified or modified as to uncertainty, audit scope or accounting principles. During such years and during the period between December 31, 1998 and the date of the completion of KPMG's engagement, there was no disagreement between KPMG and Torchmark on any matter of accounting principals or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG, would have caused that firm to make reference to the subject matter of such disagreement in connection with its report on Torchmark's financial statements.

PART III

Item 10. Directors and Executive Officers of Registrant

Information required by this item is incorporated by reference from the sections entitled ''Election of Directors,'' ''Profiles of Directors and Nominees,'' ''Executive Officers'' and Section 16(a) ''Beneficial Ownership Reporting Compliance'' of the Securities Exchange Act in the Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2000 (the ''Proxy Statement''), which is to be filed with the Securities and Exchange Commission.

Item 11. Executive Compensation

Information required by this item is incorporated by reference from the section entitled *Compensation and Other Transactions with Executive Officers and Directors* in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners of Management

(a) Security ownership of certain beneficial owners:

Information required by this item is incorporated by reference from the section entitled ''Principal Stockholders'' in the Proxy Statement.

(b) Security ownership of management:

Information required by this item is incorporated by reference from the section entitled ''Stock Ownership'' in the Proxy Statement.

(c) Changes in control:

Torchmark knows of no arrangements, including any pledges by any person of its securities, the operation of which may at a subsequent date result in a change of control.

Item 13. Certain Relationships and Related Transactions

Information required by this item is incorporated by reference from the section entitled *Compensation and Other Transactions with Executive Officers and Directors* in the Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statements Schedules, and Reports on Form 8-K

(a) Index of documents filed as a part of this report:

Schedules not referred to have been omitted as inapplicable or not required by Regulation S-X.

(b) Reports on Form 8-K.

The following Form 8-K was filed by the registrant during the fourth quarter of 1999:

(1) Form 8-K dated October 21, 1999, reporting completion of the change of Registrant's certifying accountant.

No financial statements were required in the Form 8-K.

(c) Exhibits

EXHIBITS

		Page of this Report
(3)(i)	Restated Certificate of Incorporation of Torchmark Corporation, as amended (incorporated by reference from Exhibit 3(i) to Form 10-K for the fiscal year ended December 31, 1998)	
(ii)	By-Laws of Torchmark Corporation, as amended (incorporated by reference from Exhibit 3(b) to Form 10-K for the fiscal year ended December 31, 1989)	
(4)(a)	Specimen Common Stock Certificate (incorporated by reference from Exhibit 4(a) to Form 10-K for the fiscal year ended December 31, 1989)	
(b)	Trust Indenture dated as of February 1, 1987 between Torchmark Corporation and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4(b) to Form S-3 for $300,000,000 of Torchmark Corporation Debt Securities and Warrants (Registration No. 33-11816))	
(10)(a)	Torchmark Corporation and Affiliates Retired Lives Reserve Agreement, as amended, and Trust (incorporated by reference from Exhibit 10(b) to Form 10-K for the fiscal year ended December 31, 1991)	
(b)	Capital Accumulation and Bonus Plan of Torchmark Corporation, as amended, (incorporated by reference from Exhibit 10(c) to Form 10-K for the fiscal year ended December 31, 1988)	
(c)	Torchmark Corporation Supplementary Retirement Plan (incorporated by reference from Exhibit 10(c) to Form 10-K for the fiscal year ended December 31, 1992)	
(d)	Certified Copies of Resolutions Establishing Retirement Policy for Officers and Directors of Torchmark Corporation and Providing Retirement Benefits for Directors (incorporated by reference from Exhibit 10(d) to Form 10-K for the fiscal year ended December 31, 1998)	
(e)	Certified Copy of Resolution Regarding Director Retirement Benefit Program	
(f)	Torchmark Corporation Restated Deferred Compensation Plan for Directors, Advisory Directors, Directors Emeritus and Officers, as amended (incorporated by reference from Exhibit 10(e) to Form 10-K for the fiscal year ended December 31, 1992)	
(g)	The Torchmark Corporation 1987 Stock Incentive Plan (incorporated by reference from Exhibit 10(f) to Form 10-K for the fiscal year ended December 31, 1998)	
(h)	General Agency Contract between Liberty National Life Insurance Company and Independent Research Agency For Life Insurance, Inc. (incorporated by reference from Exhibit 10(i) to Form 10-K for the fiscal year ended December 31, 1990)	
(i)	Form of Marketing and Administrative Services Agreement between Liberty National Fire Insurance Company, Liberty National Insurance Corporation and Liberty National Life Insurance Company (incorporated by reference from Exhibit 10.2 to Form S-1 Registration Statement No. 33-68114)	
(j)	Form of Deferred Compensation Agreement Between Torchmark Corporation or Subsidiary and Officer at the Level of Vice President or Above Eligible to Participate in the Torchmark Corporation and Affiliates Retired Lives Reserve Agreement and to Retire Prior to December 31, 1986 (incorporated by reference from Exhibit 10(k) to Form 10-K for the fiscal year ended December 31, 1991)	

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(k)	Form of Deferred Compensation Agreement between Torchmark Corporation or Subsidiary and Officer at the Level of Vice President or Above Eligible to Participate in the Torchmark Corporation and Affiliates Retired Lives Reserve Agreement and Not Eligible to Retire Prior to December 31, 1986 (incorporated by reference from Exhibit 10(l) to Form 10-K for the fiscal year ended December 31, 1991)	
(l)	Torchmark Corporation Supplemental Savings and Investment Plan (incorporated by reference from Exhibit 10(m) to Form 10-K for the fiscal year ended December 31, 1992)	
(m)	Service Agreement, dated as of January 1, 1991, between Torchmark Corporation and Liberty National Life Insurance Company (prototype for agreements between Torchmark Corporation and other principal operating subsidiaries) (incorporated by reference from Exhibit 10(n) to Form 10-K for the fiscal year ended December 31, 1992)	
(n)	The Torchmark Corporation Pension Plan (incorporated by reference from Exhibit 10(o) to Form 10-K for the fiscal year ended December 31, 1992)	
(o)	The Torchmark Corporation 1998 Stock Incentive Plan (incorporated by reference from Exhibit 10(n) to Form 10-K for the fiscal year ended December 31, 1998)	
(p)	The Torchmark Corporation Savings and Investment Plan (incorporated by reference from Exhibit 10(s) to Form 10-K for the fiscal year ended December 31, 1992)	
(q)	Credit Agreements dated as of October 24, 1996 among Torchmark Corporation, the Lenders and The First National Bank of Chicago, as Agent (364 Day and Five Year) (incorporated by reference from Exhibit 10(t) to Form 10-K for the fiscal year ended December 31, 1996)	
(r)	Coinsurance and Servicing Agreement between Security Benefit Life Insurance Company and Liberty National Life Insurance Company, effective as of December 31, 1995 (incorporated by reference from Exhibit 10(u) to Form 10-K for the fiscal year ended December 31, 1995)	
(s)	Form of Deferred Compensation Agreement Between Torchmark Corporation or Subsidiary and Officer at the Level of Vice President or Above Not Eligible to Participate in Torchmark Corporation and Affiliates Retired Lives Reserve Agreement (incorporated by reference from Exhibit 10(j) to Form 10-K for the fiscal year ended December 31, 1991)	
(t)	Torchmark Corporation 1996 Non-Employee Director Stock Option Plan (incorporated by reference from Exhibit 10(w) to Form 10-K for the fiscal year ended December 31, 1996)	
(u)	Torchmark Corporation 1996 Executive Deferred Compensation Stock Option Plan (incorporated by reference from Exhibit 10(x) to Form 10-K for the fiscal year ended December 31, 1996)	
(v)	The Liberty National Life Insurance Company Pension Plan for Non-Commissioned Employees	
(x)	Receivables Purchase Agreement dated as of December 21, 1999 among AILIC Receivables Corporation, American Income Life Insurance Company, Preferred Receivables Funding Corporation and BankOne, NA	
(11)	Statement re computation of per share earnings	86
(20)	Proxy Statement for Annual Meeting of Stockholders to be held April 27, 2000	
(21)	Subsidiaries of the registrant	87
(23)(a)	Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 28, 2000, into Form S-8 of The Torchmark Corporation Savings and Investment Plan (Registration No. 2-76378)	

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(b) Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 28, 2000, into Form S-8 and the accompanying Form S-3 Prospectus of the Torchmark Corporation 1996 Non-Employee Director Stock Option Plan (Registration No. 2-93760)

(c) Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 28, 2000, into Form S-8 and the accompanying Form S-3 Prospectus of the Torchmark Corporation 1987 Stock Incentive Plan (Registration No. 33-23580)

(d) Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 28, 2000, into Form S-8 and the accompanying Form S-3 Prospectus of The Capital Accumulation and Bonus Plan of Torchmark Corporation (Registration No. 33-1032)

(e) Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 28, 2000, into Form S-8 of the Liberty National Life Insurance Company 401(k) Plan (Registration No. 33-65507)

(f) Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 28, 2000, into Form S-8 and accompanying Form S-3 Prospectus of the Torchmark Corporation 1996 Executive Deferred Compensation Stock Option Plan (Registration No. 333-27111)

(g) Consent of KPMG LLP to incorporation by reference of their audit report dated January 29, 1999, except for Note 18, which is as of February 10, 1999, into Form S-8 and The Torchmark Corporation Savings and Investment Plan (Registration No. 2-76378)

(h) Consent of KPMG LLP to incorporation by reference of their audit report dated January 29, 1999, except for Note 18, which is as of February 10, 1999, into Form S-8 and the accompanying Form S-3 Prospectus of the Torchmark Corporation 1996 Non-Employee Stock Option Plan (Registration No. 2-93760)

(i) Consent of KPMG LLP to incorporation by reference of their audit report dated January 29, 1999, except for Note 18, which is as of February 10, 1999, into Form S-8 and the accompanying Form S-3 Prospectus of the Torchmark Corporation 1987 Stock Incentive Plan (Registration No. 33-23580)

(j) Consent of KPMG LLP to incorporation by reference of their audit report dated January 29, 1999, except for Note 18, which is as of February 10, 1999, into Form S-8 and the accompanying Form S-3 Prospectus of the Capital Accumulation and Bonus Plan of Torchmark Corporation (Registration No. 33-1032)

(k) Consent of KPMG LLP to incorporation by reference of their audit report dated January 29, 1999, except for Note 18, which is as of February 10, 1999, into Form S-8 and the Liberty National Life Insurance Company 401(k) Plan (Registration No. 33-65507)

(l) Consent of KPMG LLP to incorporation by reference of their audit report dated January 29, 1999, except for Note 18, which is as of February 10, 1999, into Form S-8 and accompanying Form S-3 Prospectus of the Torchmark Corporation 1996 Executive Deferred Compensation Stock Plan (Registration No. 333-27111)

(24) Powers of attorney

(27) Financial Data Schedule

Exhibit 11. Statement re computation of per share earnings

TORCHMARK CORPORATION
COMPUTATION OF EARNINGS PER SHARE

	Twelve months ended December 31,		
	1999	1998	1997
Net income from continuing operations	$258,930,000	$255,776,000	$260,429,000
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	47,868,000	77,314,000
Loss on disposal	(1,060,000)	(54,241,000)	-0-
Net income before extraordinary item and cumulative effect of change in accounting principle	257,870,000	249,403,000	337,743,000
Loss on redemption of debt	-0-	(4,962,000)	-0-
Net income before cumulative effect of change in accounting principle	257,870,000	244,441,000	337,743,000
Cumulative effect of change in accounting principle	16,086,000	-0-	-0-
Net income	$273,956,000	$244,441,000	$337,743,000
Basic weighted average shares outstanding	133,197,023	139,998,671	139,202,354
Diluted weighted average shares outstanding	133,985,943	141,351,912	141,431,156
Basic earnings per share:			
Net income from continuing operations	$ 1.95	$ 1.83	$ 1.87
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	.34	.56
Loss on disposal	(.01)	(.39)	-0-
Net income before extraordinary item and cumulative effect of change in accounting principle	1.94	1.78	2.43
Loss on redemption of debt	-0-	(.03)	-0-
Net income before cumulative effect of change in accounting principle	1.94	1.75	2.43
Cumulative effect of change in accounting principle	.12	-0-	-0-
Net income	$ 2.06	$ 1.75	$ 2.43
Diluted earnings per share:			
Net income from continuing operations	$ 1.93	$ 1.81	$ 1.84
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	.34	.55
Loss on disposal	(.01)	(.38)	-0-
Net income before extraordinary item and cumulative effect of change in accounting principle	1.92	1.77	2.39
Loss on redemption of debt	-0-	(.04)	-0-
Net income before cumulative effect of change in accounting principle	1.92	1.73	2.39
Cumulative effect of change in accounting principle	.12	-0-	-0-
Net income	$ 2.04	$ 1.73	$ 2.39

Exhibit 21. Subsidiaries of the Registrant

The following table lists subsidiaries of the registrant which meet the definition of ''significant subsidiary'' according to Regulation S-X:

Company	State of Incorporation	Name Under Which Company Does Business
American Income Life Insurance Company	Indiana	American Income Life Insurance Company
Globe Life And Accident Insurance Company	Delaware	Globe Life And Accident Insurance Company
Liberty National Life Insurance Company	Alabama	Liberty National Life Insurance Company
United American Insurance Company	Delaware	United American Insurance Company
United Investors Life Insurance Company	Missouri	United Investors Life Insurance Company

All other exhibits required by Regulation S-K are listed as to location in the ''Index of documents filed as a part of this report'' on pages 83 through 85 of this report. Exhibits not referred to have been omitted as inapplicable or not required.

TORCHMARK CORPORATION
(PARENT COMPANY)
SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED BALANCE SHEET
(Amounts in thousands)

	December 31, 1999	December 31, 1998
Assets:		
Investments:		
Long-term investments	$ 200,843	$ 105,703
Short-term investments	2,899	1,714
Total investments	203,742	107,417
Cash	1,059	7,724
Investment in affiliates	2,851,913	3,156,322
Due from affiliates	-0-	53,207
Accrued investment income	2,360	1,731
Other assets	44,404	35,377
Total assets	$3,103,478	$3,361,778
Liabilities and shareholders' equity:		
Liabilities:		
Short-term debt	$ 418,394	$ 355,242
Long-term debt	394,160	394,048
Taxes payable	-0-	8,683
Due to affiliates	51,724	61,542
Other liabilities	52,539	89,476
Total liabilities	916,817	908,991
Monthly income preferred securities	193,324	193,259
Shareholders' equity:		
Preferred stock	279	299
Common stock	147,801	147,801
Additional paid-in capital	901,532	910,119
Accumulated other comprehensive income	(174,222)	144,501
Retained earnings	1,910,487	1,707,933
Treasury stock	(792,540)	(651,125)
Total shareholders' equity	1,993,337	2,259,528
Total liabilities and shareholders' equity	$3,103,478	$3,361,778

See accompanying Independent Auditors' Report.

TORCHMARK CORPORATION
(PARENT COMPANY)
SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT (continued)
CONDENSED STATEMENT OF OPERATIONS
(Amounts in thousands)

	Year Ended December 31,		
	1999	**1998**	**1997**
Net investment income	$ 17,747	$ 20,024	$ 5,275
Realized investment losses	(24,179)	(54,855)	(19,706)
Total revenue	(6,432)	(34,831)	(14,431)
General operating expenses	10,169	10,406	13,880
Reimbursements from affiliates	(10,800)	(13,653)	(13,956)
Interest expense	58,119	65,871	96,402
Total expenses	57,488	62,624	96,326
Operating loss before income taxes and equity in earnings of affiliates	(63,920)	(97,455)	(110,757)
Income taxes	22,834	44,132	38,189
Net operating loss before equity in earnings of affiliates	(41,086)	(53,323)	(72,568)
Equity in earnings of affiliates	308,114	327,984	420,186
Adjustment to carrying value of Vesta	-0-	(20,234)	-0-
Monthly income preferred securities dividend (net of tax)	(9,158)	(9,777)	(9,875)
Net income from continuing operations	257,870	244,650	337,743
Discontinued operations of Waddell & Reed:			
Income from operations	-0-	9,154	-0-
Loss on disposal	-0-	(4,401)	-0-
Net income before extraordinary item and cumulative effect of change in accounting principle	257,870	249,403	337,743
Loss on redemption of debt (net of tax)	-0-	(4,962)	-0-
Net income before cumulative effect of change in accounting principle	257,870	244,441	337,743
Cumulative effect of change in accounting principle	16,086	-0-	-0-
Net Income	$273,956	$244,441	$337,743

See accompanying Independent Auditors' Report.

TORCHMARK CORPORATION
(PARENT COMPANY)
SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT—(continued)
CONDENSED STATEMENT OF CASH FLOW
(Amounts in thousands)

	Year Ended December 31,		
	1999	1998	1997
Cash provided from operations before dividends from subsidiaries	$ (60,364)	$ (46,825)	$ (35,284)
Cash dividends from subsidiaries	284,881	462,267	370,032
Cash provided from operations	224,517	415,442	334,748
Cash provided from (used for) investing activities:			
Disposition of investments	43,436	217,323	-0-
Acquisition of investments	(49,260)	(311,784)	(2,150)
Investment in subsidiaries	(172)	(710)	(174,799)
Loans to subsidiaries	(77,476)	(48,723)	(117,392)
Repayments on loans to subsidiaries	75,400	120,079	28,242
Net decrease (increase) in temporary investments	(1,185)	(1,378)	5,604
Additions to properties	(1,298)	(48)	(454)
Other	13	-0-	(7,460)
Cash used for investing activities	(10,542)	(25,241)	(268,409)
Cash provided from (used for) financing activities:			
Issuance of debt	63,152	216,279	98,185
Sale of Vesta shares	-0-	3,056	-0-
Repayments of debt	-0-	(380,000)	(20,000)
Issuance of stock	37,163	3,957	93,973
Redemption of preferred stock	(20,000)	-0-	(2,767)
Acquisitions of treasury stock	(221,878)	(125,875)	(182,904)
Borrowed from subsidiaries	138,800	-0-	133,880
Repayment on borrowings from subsidiaries	(150,885)	-0-	(93,060)
Payment of dividends	(66,992)	(107,166)	(86,530)
Cash provided from (used for) financing activities	(220,640)	(389,749)	(59,223)
Net increase in cash	(6,665)	452	7,116
Cash balance at beginning of period	7,724	7,272	156
Cash balance at end of period	$ 1,059	$ 7,724	$ 7,272

TORCHMARK CORPORATION
(PARENT COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Amounts in thousands)

Note A—Dividends from Subsidiaries

Cash dividends paid to Torchmark from the consolidated subsidiaries were as follows:

	1999	1998	1997
Consolidated subsidiaries	$284,881	$462,267	$370,032

See accompanying Independent Auditors' Report.

TORCHMARK CORPORATION
SCHEDULE IV. REINSURANCE (CONSOLIDATED)
(Amounts in thousands)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
For the Year Ended December 31, 1999:					
Life insurance in force	$99,741,126	$872,720	$2,377,705	$101,246,111	2.3 %
Premiums:*					
Life insurance	$ 919,779	$ 5,622	$ 32,713	$ 946,870	3.5 %
Health insurance	831,984	7,180	12	824,816	0 %
Total premiums	$ 1,751,763	$ 12,802	$ 32,725	$ 1,771,686	1.8 %
For the Year Ended December 31, 1998:					
Life insurance in force	$93,904,622	$718,777	$2,434,438	$ 95,620,283	2.5 %
Premiums:*					
Life insurance	$ 862,101	$ 5,090	$ 31,503	$ 888,514	3.5 %
Health insurance	768,874	7,873	(1,092)	759,909	(.1)%
Total premiums	$ 1,630,975	$ 12,963	$ 30,411	$ 1,648,423	1.8 %
For the Year Ended December 31, 1997:					
Life insurance in force	$89,372,206	$728,843	$2,497,790	$ 91,141,153	2.7 %
Premiums:*					
Life insurance	$ 813,918	$ 4,232	$ 28,363	$ 838,049	3.4 %
Health insurance	748,375	8,889	-0-	739,486	0 %
Total premiums	$ 1,562,293	$ 13,121	$ 28,363	$ 1,577,535	1.8 %

* Excludes policy charges

See accompanying Independent Auditors' Report.

SIGNATURES

Pursuant to the requirements of Section 12 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TORCHMARK CORPORATION

By: /s/ C.B. HUDSON
C.B. Hudson, Chairman, President, Chief Executive Officer and Director

By: /s/ GARY L. COLEMAN
Gary L. Coleman, Executive Vice President and Chief Financial Officer (Principal Accounting Officer)

Date: March 9, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ DAVID L. BOREN *
David L. Boren
Director

By: /s/ MARK S. MCANDREW *
Mark S. McAndrew
Director

By: /s/ JOSEPH M. FARLEY *
Joseph M. Farley
Director

By: /s/ HAROLD T. MCCORMICK *
Harold T. McCormick
Director

By: /s/ LOUIS T. HAGOPIAN *
Louis T. Hagopian
Director

By: /s/ GEORGE J. RECORDS *
George J. Records
Director

By: /s/ JOSEPH L. LANIER, JR. *
Joseph L. Lanier, Jr.
Director

By: /s/ R.K. RICHEY *
R.K. Richey
Director

By: /s/ LAMAR C. SMITH *
Lamar C. Smith
Director

Date: March 9, 2000

*By: /s/ GARY L. COLEMAN
Gary L. Coleman
Attorney-in-fact