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	Commission file number
December 31, 2000	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 $4,382,303,511

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT'S CLASSES OF COMMON STOCK, AS OF FEBRUARY 28, 2001: 126,000,676.

DOCUMENTS INCORPORATED BY REFERENCE

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 26, 2001, PART III

INDEX OF EXHIBITS (PAGES 85 through 88)
TOTAL NUMBER OF PAGES INCLUDED ARE 95

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 in 1998.

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

Primary Distribution Method	Company	Products	Distribution
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, mail, television,magazine; nationwide.
Liberty National Exclusive Agency	**Liberty National Life Insurance Company** Birmingham, Alabama	Individual life and supplemental health insurance.	2,032 full-time sales representatives; 107 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.	1,352 agents in the U.S., Canada, and New Zealand.
United Investors Agency	**United Investors Life Insurance Company** Birmingham, Alabama	Individual life insurance and annuities.	2,865 Waddell & Reed representatives; independent agents; 223 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.	41,252 independent agents in the U.S., Puerto Rico and Canada; 3,661 exclusive agents in 87 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		
	2000	1999	1998	2000	1999	1998
Whole life:						
Traditional	$133,413	$119,799	$115,154	$ 652,195	$ 612,964	$ 575,888
Interest-sensitive	13,907	18,348	17,131	160,865	168,805	162,046
Term	139,990	115,592	108,469	368,045	330,533	306,785
Other	3,433	3,468	3,713	19,039	18,307	17,928
	$290,743	$257,207	$244,467	$1,200,144	$1,130,609	$1,062,647

The distribution methods for life insurance products include sales 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		
	2000	1999	1998	2000	1999	1998
Direct response	$112,918	$ 96,091	$ 93,500	$ 306,162	$ 283,406	$ 260,320
Exclusive Agents:						
Liberty National	53,608	51,467	45,532	312,173	307,495	298,082
American Income	56,560	54,045	53,576	245,433	231,490	216,291
United American	4,730	5,315	5,481	21,362	21,800	21,390
Independent Agents:						
United American	25,708	13,319	9,401	53,269	43,394	41,078
Other	37,219	36,970	36,977	261,745	243,024	225,486
	$290,743	$257,207	$244,467	$1,200,144	$1,130,609	$1,062,647

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, 2000 was $255 million and the average interest rate earned on these loans was 6.8% in 2000. Interest income earned on policy loans was $17.0 million in 2000, $16.3 million in 1999, and $15.3 million in 1998.

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 17.8% in 2000, 17.0% in 1999, and 17.0% in 1998.

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

(Amounts in thousands)

	2000		1999		1998	
	Number of policies	Amount of Insurance	Number of policies	Amount of Insurance	Number of policies	Amount of Insurance
In force at January 1,	9,654	$101,846,461	9,622	$ 96,339,059	9,630	$ 91,869,995
New issues	1,292	25,754,400	1,332	22,846,100	1,452	21,448,243
Other increases	-0-	69,187	-0-	105,271	1	75,849
Death benefits	(114)	(355,728)	(105)	(327,733)	(107)	(323,393)
Lapses	(994)	(17,175,351)	(1,023)	(15,352,225)	(1,006)	(14,589,649)
Surrenders	(141)	(1,568,313)	(145)	(1,505,248)	(151)	(1,438,085)
Other decreases	(26)	(251,666)	(27)	(258,763)	(197)	(703,901)
In force at December 31,	9,671	$108,318,990	9,654	$101,846,461	9,622	$ 96,339,059
Average policy size (in dollar amounts):						
Direct response—Juvenile		$ 6,766		$ 6,690		$ 6,688
Other		12,985		12,146		11,411

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 electronically 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, 2000 by marketing method:

(Amounts in thousands)

	Annualized Premium Issued			Annualized Premium in Force		
	2000	**1999**	**1998**	**2000**	**1999**	**1998**
Direct response	$3,572	$ 4,323	$ 3,884	$16,167	$ 12,785	$ 9,617
Exclusive agents:						
Liberty National	10,081	9,859	11,124	163,387	149,447	143,668
American Income	8,615	8,039	9,138	47,659	46,691	44,300
United American	145,089	102,583	64,245	310,526	231,034	172,927
Independent agents:						
United American	85,115	68,022	50,508	466,560	444,401	426,351
	$252,472	$192,826	$138,899	$1,004,299	$884,358	$796,863

The following table presents supplemental health annualized premium information for the three years ended December 31, 2000 by product category:

(Amounts in thousands)

	Annualized Premium Issued			Annualized Premium in Force		
	2000	**1999**	**1998**	**2000**	**1999**	**1998**
Medicare Supplement	$201,396	$152,518	$102,421	$728,918	$630,915	$553,737
Cancer	10,073	10,637	10,248	169,013	153,777	144,900
Other health related policies	41,003	29,671	26,230	106,368	99,666	98,226
	$252,472	$192,826	$138,899	$1,004,299	$884,358	$796,863

The number of individual health policies in force were 1.64 million, 1.58 million, and 1.59 million at December 31, 2000, 1999, and 1998, 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 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,		
	2000	1999	1998	2000	1999	1998
Fixed annuities	$ 41,617	$ 71,696	$ 64,687	$ 661.6	$ 677.5	$ 647.3
Variable annuities	608,251	392,769	299,005	3,583.6	3,274.9	2,343.5
	$649,868	$464,465	$363,692	$4,245.2	$3,952.4	$2,990.8

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, 2000. Approximately 6% 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. Most 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, 2000 on the basis of ratings as determined primarily by Standard & Poor's Corporation. The lower of Moody's Investors Services' or Standard & Poor's bond ratings are used when the two differ. Ratings of BBB and higher (or their equivalent) are considered investment grade by the rating services.

Rating	Amount (in thousands)	%
AAA	$ 827,606	13.9%
AA	495,204	8.3
A	2,901,272	48.8
BBB	1,379,001	23.2
BB	220,741	3.7
B	50,512	0.8
Less than B	381	0.0
Not rated	74,798	1.3
	$5,949,515	100.0%

The following table presents the market value of fixed maturity investments of Torchmark's insurance subsidiaries at December 31, 2000 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*	$4,372,772	73.9%
2. High quality	1,265,858	21.4
3. Medium quality	190,804	3.2
4. Low quality	61,858	1.0
5. Lower quality	28,781	0.5
6. In or near default	29	0.0
	$5,920,102	100.0%

* Includes $345 million of exempt securities or 5.8% 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 continue 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. The number of independent and exclusive agents below are presented as of December 31, 2000.

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 2,032 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 1,352 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.

The United American Exclusive Agency specializes in the sale of Medicare Supplement and other life and health products for the over-age 50 market through 3,661 agents in 87 branch offices throughout the United States. This agency is Torchmark's fastest growing agency-based distribution unit.

The Waddell & Reed sales force, consisting of 2,865 sales representatives, markets United Investors Life insurance products, fixed annuities, and variable annuities.

Independent Agents. Torchmark insurance companies offer a variety of life and health insurance policies through 41,252 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.

Torchmark 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, American Income, 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 their peer companies, allowing Torchmark to have competitive rates while maintaining underwriting margins. In the case of Medicare Supplement business, having low expense levels is necessary in order to meet federally mandated loss ratios and achieve the desired underwriting margins. Torchmark's years of experience in the direct response business are a valuable asset in implementing direct response marketing operations.

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 1999 and 1998.

Company	Ratio Name	Usual Range	Reported Value
1999:			
American Income	Net change in Capital and Surplus	50 to -10	114
	Gross change in Capital and Surplus	50 to -10	114
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

Explanation of Ratios:

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 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 in 1999.

Change in Capital and Surplus—These ratios, calculated on both a gross and net basis, are a measure of improvement or deterioration in a 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. American Income's ratio of 114 in 1999 was caused by the sale in that year of its agents' balances to an unaffiliated financial institution. These transactions did not affect the consolidated equity of Torchmark at December 31, 1998 or December 31, 1999. Also, these transactions did not affect Globe's or American Income's ability to conduct 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 2000, Torchmark had 1,957 employees and 2,501 licensed employees under sales contracts. Additionally, approximately 52,000 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, 2000, Torchmark retained $15 million of investment real estate, which included $7 million of properties that were partially occupied by Torchmark subsidiaries and $7 million of undeveloped land in Liberty Park.

Information Technology Computing Equipment

Torchmark and its primary subsidiaries have significant information technology capabilities at their disposal. The corporation uses centralized mainframe computer systems, a corporate wide-area network, 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 the corporation's 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. Bespeaking caution is the fact that the likelihood or extent of a punitive damage award in any given case is currently impossible to predict. As of December 31, 2000, Liberty was a party to approximately 80 active lawsuits (including 10 employment related cases and excluding interpleaders and stayed cases), 71 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.

As previously reported, *Dismukes v. Torchmark Corporation* (Case No. CV-94-1006-P-M), which was filed on December 30, 1994 in the U.S. District Court for the Northern District of Alabama, was the only remaining purported class action litigation brought by Torchmark shareholders alleging untimely and inadequate disclosure of material contingent liabilities arising out of insurance policy litigation involving Liberty. The U.S. District Court entered an order granting partial summary judgment on behalf of the defendants on April 16, 1996. Claims for damages based on Section 10b-5 of the Securities Exchange Act, on state securities laws and for common law fraud remained pending in the case following the U.S. District Court's 1996 order. On September 28, 2000, the District Court granted defendants' motions for summary judgment declaring plaintiffs' claims as time-barred by the statute of limitations and denying class certification. Plaintiffs appealed the District Court's orders to the Eleventh Circuit Court of Appeals. On December 19, 2000, the *Dismukes* case was settled on an individual basis and the plaintiffs' appeal was dismissed.

As previously reported, Torchmark, its insurance subsidiaries Globe and United American, and certain Torchmark officers were named as defendants in purported class action litigation filed in the District Court of Oklahoma City, Oklahoma (*Moore v. Torchmark Corporation*, Case No. CJ-94-2784-65, subsequently amended and restyled *Tabor v. Torchmark Corporation*). This suit claims damages on behalf of individual health policyholders who are alleged to have been induced to terminate such policies and to purchase Medicare Supplement and/or other insurance coverages. On February 6, 1998, the defendants renewed their motion to dismiss the class claims for failure to prosecute. The District Court, in an order dated April 2, 1998, allowed bifurcation of *Tabor* into Medicare Supplement policy claims and non-Medicare Supplement policy claims. The non-Medicare Supplement claims were stayed pending disposition of a related case involving the same plaintiffs filed in Mississippi while discovery was allowed to proceed on plaintiff's motion to certify a class of Medicare Supplement policyholders' claims. On August 23, 2000, the non-Medicare Supplement claims were dismissed with prejudice. Plaintiff's motion to certify a class of Medicare Supplement policyholders' claims remains pending.

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 were 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. Defendants filed a motion for summary judgment on the remaining individual claims in the *Smith* case on May 1, 2000 and this motion was granted by the District Court on January 4, 2001. The plaintiffs filed a notice of appeal shortly thereafter, which defendants have moved to dismiss as premature.

Torchmark has previously reported the filing of purported class action litigation on January 2, 1996 against Torchmark, Torch Energy Advisors Incorporated, and certain Torch Energy subsidiaries and affiliated limited partnerships in the Circuit Court of Pickens County, Alabama (*Pearson v. Torchmark Corporation,* Case No. CV-95-140). The plaintiff alleged improper payment of royalties and overriding royalties on coalbed methane gas produced and sold from wells in Robinson's Bend Coal Degasification Field, sought certification of a class and claimed unspecified compensatory and punitive damages on behalf of such class. On April 11, 1996, Torchmark's motion to change venue was granted and the case was transferred to the Circuit Court of Tuscaloosa County, Alabama. Torchmark filed a motion to dismiss, which remained pending while discovery proceeded. On February 10, 1999, the plaintiffs filed a request for a class certification hearing and to set a trial date for the *Pearson* case. After extensive negotiations, a tentative settlement was reached by the parties. On January 8, 2001 the Circuit Court held a settlement and fairness hearing on the stipulation and agreement of compromise and settlement executed by counsel for all parties. The Circuit Court approved this settlement and entered an order and final judgment of dismissal with prejudice on January 10, 2001. The settlement fund of $6 million, to which Torchmark contributed pursuant to a litigation indemnity given at the time of its 1996 sale of Torch Energy, was distributed in March 2001.

It has been previously reported that purported class action litigation was filed against Torchmark's subsidiary, American Income Life Insurance Company and certain of its employee benefit plans (*Peet, et al. v. American Income Life Insurance Company, et al.,* Case No. C-99-2283) on May 18, 1999 in the U.S. District Court for the Northern District of California, which was subsequently transferred to the U.S. District Court for the Western District of Texas. Plaintiffs, individually and on behalf of all current and former public relations representatives of American Income, asserted that they had been improperly classified as independent contractors rather than employees and thus denied participation in certain of American Income's employee benefit plans. The lawsuit alleged breach of fiduciary duty and wrongful denial of access to plan documents and other information under the Employee Retirement Income Security Act. Declaratory and injunctive relief together with restitution, disgorgement and statutory penalties were sought. On September 12, 2000, the District Court granted the defendants' motions for partial summary judgment and denied plaintiffs' motion for class certification with leave to renew plaintiffs' class certification motion if they provided the Court with information regarding additional benefit plans from which they had been improperly excluded. Subsequently, in September 2000, plaintiffs submitted additional information to the Court alleging additional benefit plans from which plaintiffs had allegedly been improperly excluded, and plaintiffs also filed a motion for reconsideration of the order granting defendants' motion for summary judgment with respect to American Income's defined benefit plan.

As previously reported, Liberty was served on October 28, 1999 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. Liberty has also received similar subpoenas from the Alabama, Georgia, Kentucky, Texas, South Carolina and Minnesota Insurance Departments regarding its industrial life insurance and other low face-amount life insurance policies sold in those states. Specific inquiry is made into the historical use of race-based mortality, a practice discontinued by Liberty many years ago. Liberty has been and continues responding to these subpoenas in a timely fashion. In July 2000, the Florida and Georgia Insurance Departments issued cease and desist orders to all companies reporting premium income from industrial life insurance, including Liberty, stating that, to the extent that any company is currently collecting any race-based insurance premiums from Florida and Georgia residents, respectively, it immediately cease and desist from collecting any premium differential based on the race of the policyholders. On August 22, 2000, the Florida First District Court of Appeal issued an order staying the Florida Insurance Department's immediate final cease and desist order. At present, Liberty, as an Alabama domestic company, is being examined by representatives of the Alabama Department of Insurance with regard to issues parallel to those raised by the State of Florida.

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. The alleged class period covers virtually the entire twentieth century. 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. On April 7, 2000, the District Court entered an order granting Liberty's motion for judgment on the pleadings and dismissing plaintiffs' claims under 42 U.S.C. § 1981 with prejudice as time-barred and dismissing their state law claims without prejudice to re-file in state court if desired. Plaintiffs subsequently filed motions with the District Court to reconsider its April 17, 2000 order and for permission to file an amended complaint adding similar claims under 24 U.S.C. § 1982. Liberty opposed this motion. On June 22, 2000, purported class action litigation with allegations comparable to those in the *Moore* case was filed against Liberty in the Circuit Court of Jefferson County, Alabama (*Baldwin v. Liberty National Life Insurance Company*, Case No. CV-00-684). The *Baldwin* case is currently stayed pending disposition of the *Moore* case.

On July 3, 2000, the District Court issued an order in the *Moore* case granting in part and denying in part the plaintiffs' motions. The District Court ordered the *Moore* plaintiffs to file an amended complaint setting forth their claims under 28 U.S.C. §§ 1981 and 1982 and, if such claims are timely, any state law claims for breach of contract related to the discontinuance of debit collections, and dismissed with prejudice all remaining state law claims of the plaintiffs as time-barred by the common law rule of repose. On July 14, 2000, plaintiffs filed their amended complaint with the District Court and Liberty filed a motion to alter or amend the District Court's July order or, in the alternative, requested that the District Court certify for purposes of appeal the issue whether the state law doctrine of repose should be applied to and bar plaintiffs' actions under §§ 1981 and 1982. The District Court entered such an order on July 21, 2000 and stayed proceedings in *Moore* pending resolution of Liberty's petition to the U.S. Circuit Court of Appeals for the Eleventh Circuit. Liberty filed a petition on July 30, 2000 with the Eleventh Circuit seeking that Court's permission to appeal the portions of the District Court's July order in *Moore* granting the plaintiffs the right to file the amended complaint. The Eleventh Circuit Court granted Liberty's motion and will consider Liberty's arguments regarding the applicability of the state law of repose to actions under

§§ 1981 and 1982. Five individual cases with similar allegations to those in the *Moore* case have been filed against Liberty in various Circuit Courts in the State of Alabama. In the earliest filed of these individual state court actions, *Walter Moore v. Liberty National Life Insurance Company* (Circuit Court of Dallas County, Alabama, CV-00-306) the Court has entered an order granting summary judgment in favor of Liberty based upon the doctrine of repose.

It has been previously reported that on August 18, 2000, a jury in Barbour County, Alabama Circuit Court returned a verdict of $100,000 compensatory damages and $3.5 million in punitive damages against Torchmark's subsidiary, Liberty in *Carter v. Liberty National Life Insurance Company* (Civil Action No. CV-99-026). An individual lawsuit filed in March 1999, the *Carter* case involved allegations of fraud, misrepresentation, suppression and negligent/wanton agent hiring, training and supervision practices by Liberty in connection with the sale of an interest-sensitive life insurance policy. The plaintiff had asserted that the policy had been purchased based upon agent representations that it would become paid-up or self sustaining after a specified number of years. Liberty pursued available motions for post trial relief in this case and on February 15, 2001, the Circuit Court reduced the *Carter* verdict to $100,000 compensatory damages and $700,000 in punitive damages. Liberty will pursue additional appellate relief in the *Carter* case.

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 2000.

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 5,991 shareholders of record on December 31, 2000, excluding shareholder accounts held in nominee form. 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:

	2000 Market Price		
Quarter	**High**	**Low**	**Dividends Per Share**
1	$28.9375	$18.7500	$ .0900
2	28.7500	21.6250	.0900
3	29.5625	24.0625	.0900
4	41.1875	27.0625	.0900
Year-end closing price	$38.4375		

	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		

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,	2000	1999	1998	1997	1996
Premium revenue:					
Life	$1,082,125	$1,018,301	$ 959,766	$ 909,992	$ 854,897
Health	911,156	824,816	759,910	739,485	732,618
Other	52,929	40,969	33,954	28,527	22,404
Total	2,046,210	1,884,086	1,753,630	1,678,004	1,609,919
Net investment income	472,426	447,337	459,558	429,116	399,551
Realized investment gains (losses)	(5,322)	(110,971)	(57,637)	(36,979)	5,830
Total revenue	2,515,894	2,226,895	2,157,876	2,071,103	2,016,416
Net operating income(1)	365,292	341,167	324,315	273,730	240,637
Net income from continuing operations	361,833	258,930	255,776	260,429	252,815
Net income	362,035	273,956	244,441	337,743	311,372
Annualized premium issued:					
Life	290,743	257,207	244,467	230,379	214,741
Health	252,472	192,826	138,899	106,853	100,981
Total	543,215	450,033	383,366	337,232	315,722
Per common share:					
Basic earnings:					
Net operating income(1)	2.85	2.56	2.32	1.97	1.69
Net income from continuing operations	2.83	1.95	1.83	1.87	1.78
Net income	2.83	2.06	1.75	2.43	2.19
Diluted earnings:					
Net operating income(1)	2.85	2.55	2.29	1.94	1.67
Net income from continuing operations	2.82	1.93	1.81	1.84	1.76
Net income	2.82	2.04	1.73	2.39	2.17
Cash dividends paid	0.36	0.36	0.58	0.59	0.58
Return on average common equity, excluding effect of SFAS 115, Vesta earnings, discontinued operations, and nonrecurring charge	16.3%	16.2%	15.1%	18.2%	18.4%
Basic average shares outstanding	128,089	133,197	139,999	139,202	142,460
Diluted average shares outstanding	128,353	133,986	141,352	141,431	143,783

As of December 31,	2000	1999	1998	1997	1996
Cash and invested assets	$ 6,506,292	$ 6,202,251	$ 6,417,511	$ 6,473,096	$5,863,163
Total assets	12,962,558	12,131,664	11,249,028	11,127,648	9,893,964
Short-term debt	329,148	418,394	355,392	347,152	40,910
Long-term debt	365,989	371,555	383,422	564,298	791,880
Shareholders' equity	2,202,360	1,993,337	2,259,528	1,932,736	1,629,343
Per common share	17.43	15.10	16.51	13.80	11.69
Per common share excluding effect of SFAS 115	18.53	16.32	15.43	12.90	11.42
Annualized premium in force:					
Life	1,200,145	1,130,609	1,062,647(2)	1,007,379	946,525
Health	1,004,298	884,358	796,863	762,052	748,153
Total	2,204,443	2,014,967	1,859,510(2)	1,769,431	1,694,678

(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) 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) Regulatory developments, including changes in governmental regulations (particularly those impacting taxes and changes to the federal Medicare program that would affect Medicare Supplement insurance) and regulatory inquiries regarding industrial life insurance;

3) Increased pricing competition;

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

5) The inability of Torchmark to obtain timely and appropriate premium rate increases for health insurance;

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

7) Adverse litigation results;

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

9) The customer response to new products and marketing initiatives; and

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

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, 2000. In the analysis and comparison of Torchmark's operating results for 1999 and 2000 with 1998, 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 29, *Liquidity* on page 33, and *Capital Resources* on page 33 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.

Sale of Family Service. On June 1, 1998, Torchmark sold Family Service, a preneed funeral insurer, to an unaffiliated insurance carrier. 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. 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." Torchmark's management focuses on net operating income in evaluating the operating performance 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 and nonoperating 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 in 1998;

4) The nonrecurring loss from the redemption by Torchmark of its debt in 1998 in the amount of $5 million net of tax and the gain from redemption of debt in 2000 of $.2 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 in 1999; 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 in 1999.

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 21 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*

	2000	1999	1998
Net operating income before nonrecurring charge	$2.85	$2.55	$2.29
Nonrecurring charge	—	(.10)	—
Net operating income	2.85	2.45	2.29
Realized investment losses, net of tax	(.03)	(.54)	(.36)
Gain on sale of equipment, net of tax	—	.02	—
Equity in Vesta earnings (losses), net of tax	—	—	(.12)
Discontinued operations of Waddell & Reed, net of tax	—	(.01)	(.04)
Gain (loss) on redemption of debt, net of tax	—	—	(.04)
Change in accounting principle, net of tax	—	.12	—
Net income	$2.82	$2.04	$1.73

* Diluted share basis

Net realized investment losses in 2000 were $3.5 million after-tax. Gross losses from investments were partially offset by an after-tax gain in the amount of $4.9 million from the increase in value of Torchmark's interest rate swap relating to its MIPS, as discussed under the caption *Capital Resources* on page 34 of this report. The majority of the 2000 realized losses resulted from the sale of fixed maturities. See the discussion under the caption *Investments* beginning on page 29 of this report for more information on invested assets.

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. Realized losses in 1999 also included a $12 million after-tax loss from the reduction in value of Torchmark's interest rate swap.

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.

The Vesta transactions are discussed on page 36 and the redemption of Torchmark debt is discussed under the caption *Capital Resources* on page 34 of this report. The change in accounting principle is discussed in *Note 15—Change in Accounting Principle* in the *Notes to the Consolidated Financial Statements* on page 65 of this report.

Torchmark reports basic and diluted earnings per share. 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,		
	2000	1999	1998
Net operating income before nonrecurring charge:			
Amount	$365,292	$341,167	$324,315
Per Share:			
Basic	2.85	2.56	2.32
Diluted	2.85	2.55	2.29
Net operating income:			
Amount	365,292	327,744	324,315
Per Share:			
Basic	2.85	2.46	2.32
Diluted	2.85	2.45	2.29
Net income:			
Amount	362,035	273,956	244,441
Per Share:			
Basic	2.83	2.06	1.75
Diluted	2.82	2.04	1.73

Torchmark's revenues in 2000 were $2.52 billion, a 13% increase over 1999 revenues of $2.23 billion. Revenues rose 3% in 1999 over 1998 revenues of $2.16 billion. After adjustment for realized investment gains and losses in each year, revenues grew 8% to $2.52 billion in 2000 from $2.33 billion in 1999. They also increased 5% in 1999 over the prior year. Total premium rose $162 million, or 9%, to $2.05 billion in 2000. Total premium increased 7% in 1999 to $1.88 billion. Life insurance premium grew 6% in 2000 to $1.08 billion, an increase of $64 million. Health premium in 2000 rose 10% to $911 million, an increase of $86 million. Net investment income increased $25 million, or 6%, in 2000 to $472 million. Life premium increased 6% to $1.02 billion and health premium grew 9% to $825 million in 1999. Net investment income declined 3% in 1999 to $447 million, due primarily to the sale of Family Service.

Other operating expenses, which consist of insurance administrative expenses and expenses of the parent company, were $121 million in 2000, compared with $115 million in 1999 and $117 million in 1998. Other operating expenses as a percentage of revenues, excluding realized gains and losses, declined in each period and were 4.8% in 2000, 4.9% in 1999, and 5.3% in 1998. The components of Torchmark's revenues and operations are described in more detail in the discussion of Insurance and Investment segments found on pages 21 through 32 of this report.

The following table is a summary of Torchmark's 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)

	2000		1999		1998	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Insurance underwriting income before other income, administrative expenses, and nonrecurring charge:						
Life	$ 270,663	58.5%	$ 263,269	60.5%	$ 252,556	60.8%
Health	161,116	34.8	144,632	33.3	139,445	33.6
Annuity	30,959	6.7	26,831	6.2	23,423	5.6
Total	462,738	100.0%	434,732	100.0%	415,424	100.0%
Other income	4,650		3,348		4,488	
Administrative expenses	(111,817)		(104,903)		(102,559)	
Insurance underwriting income excluding Family Service	355,571		333,177		317,353	
Insurance underwriting income—Family Service	-0-		-0-		1,393	
Excess investment income (tax equivalent basis)	226,986		215,387		206,119	
Corporate expense	(9,369)		(10,166)		(12,061)	
Goodwill amortization	(12,075)		(12,075)		(12,075)	
Tax equivalency adjustment	(8,655)		(11,487)		(11,143)	
Pretax net operating income	552,458		514,836		489,586	
Income tax	(187,166)		(173,669)		(165,271)	
Net operating income before nonrecurring charge	365,292		341,167		324,315	
Nonrecurring charge, net of tax	-0-		(13,423)		-0-	
Net operating income	$ 365,292		$ 327,744		$ 324,315	
Net operating income before nonrecurring charge per diluted share	$ 2.85		$ 2.55		$ 2.29	
Net operating income per diluted share	$ 2.85		$ 2.45		$ 2.29	

On a per share basis, Torchmark's net operating income before nonrecurring charge grew 12% in 2000 and 11% in 1999. In dollar amounts, Torchmark's net operating income before nonrecurring charge rose 7% in 2000 after a 5% increase in 1999. Per share growth exceeded growth in the dollar amounts as a result of share buybacks in both periods. Contributing to the growth in net operating income were gains in insurance underwriting income and excess investment income. Insurance underwriting income grew 7% in 2000 to $356 million. Excluding Family Service in 1998, insurance underwriting income rose 5% in 1999 to $333 million. Excess investment income also grew in both 2000 and 1999. The 2000 increase of 5% in excess investment income was a result of the 5% growth in net investment income. Excess investment income increased in 1999 because of lower policy requirements and lower financing costs in 1999. 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 53% of total premium and with life underwriting income before other income, administrative expense, and nonrecurring charge, representing 59% of the total.

Because Family Service was sold on June 1, 1998, information for 1998 in the following discussions of Torchmark's life insurance operations exclude Family Service for comparability.

Life insurance premium rose 6% in 2000 to $1.08 billion from $1.02 billion in 1999. Life premium increased 6% in 1999 from $957 million. Sales of life insurance, in terms of annualized premium, were $291 million in 2000, increasing 13% over 1999 sales of $257 million. This compares with 5% growth in 1999 sales over 1998 sales of $244 million. Annualized life premium in force was $1.20 billion at December 31, 2000, compared with $1.13 billion at 1999 year end, an increase of 6%. Annualized premium in force grew 6% in 1999 from $1.06 billion at year-end 1998. 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, 2000.

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

	2000		1999		1998	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Liberty National Exclusive Agency	$ 294,197	27.2%	$ 288,330	28.3%	$282,389	29.5%
Direct Response	267,899	24.7	245,824	24.1	221,371	23.1
American Income Exclusive Agency	231,149	21.4	217,367	21.3	204,310	21.3
United American Independent Agency	42,305	3.9	37,375	3.7	36,925	3.9
United American Exclusive Agency	19,393	1.8	19,318	1.9	18,798	2.0
Other	227,182	21.0	210,087	20.7	193,481	20.2
	$1,082,125	100.0%	$1,018,301	100.0%	$957,274	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, their parents, and other adults over age 50 with face amounts of around $10 thousand on average. The Direct Response operation is characterized by lower acquisition costs than Torchmark's agency-based marketing systems. It accounted for almost 25% of Torchmark's life insurance premium during 2000. In each of the three years 1998 through 2000, the Direct Response distribution center had Torchmark's highest growth in life insurance premium in dollar amount. Direct Response life premium was $268 million in 2000, increasing 9% over 1999 premium of $246 million. Direct Response life premium in 1999 grew 11% over 1998 premium of $221 million.

Annualized premium sold by the Direct Response operation was $113 million in 2000, increasing 18% over 1999 sales of $96 million, due in part to a higher average premium per policy issued. Sales in 1999 rose 3% over 1998 sales of $94 million. Sales growth in 1999 had declined from 1998 due in part to the withdrawal from the under-age 40 adult direct mail market because of unfavorable financial results from that market. 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 39% of Torchmark's total life sales in 2000. Direct Response annualized life premium in force rose 8% to $306 million at December 31, 2000 from $283 million a year earlier. At December 31, 2000, Direct Response life annualized premium in force was 26% of Torchmark's total, second only to that of the Liberty National Exclusive Agency. Direct Response life insurance annualized premium in force grew 9% in 1999.

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 2000 premium of $294 million representing 27% of Torchmark's total life premium. The annualized life premium in force of the Liberty Agency was $312 million at year-end 2000, compared with $307 million and $298 million at year-ends 1999 and 1998, respectively. Life premium sales, in terms of annualized premium issued, grew 4% during 2000 to $54 million, compared with 13% growth in 1999. Sales growth in the Liberty Agency is largely attributable to growth in the number of agents. Liberty's agent count increased from 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 and 7% to 2,032 at year end 2000. Ongoing agent recruitment efforts and training programs, which help to improve agent retention, have been responsible for the growth in this Agency. 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 profit margin business characterized by lower policy obligation ratios. At December 31, 2000, premium from this system accounted for 21% of Torchmark's total life premium. In 2000, American Income's premium rose 6% to $231 million, after a 6% increase in 1999 to $217 million. Annualized life premium in force was $245 million at year-end 2000, an increase of 6% over 1999 premium in force of $231 million. Annualized life premium in force rose 7% in 1999. Sales, in terms of annualized premium issued, were $57 million in 2000, compared with $54 million in both 1999 and 1998. These sales represented a 5% increase in 2000, compared with a 1% increase in 1999 and a 3% decrease in 1998. The turnaround in sales for this agency was a result of 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 and 1,352 agents at year-end 2000, representing a 3% increase in the second half of 1999 and a 13% increase in agency size in 2000. American Income's marketing organization continues to implement efforts to improve agent recruiting, retention, and productivity in order to increase the size of this Agency.

The United American Independent and Exclusive Agencies together represented about 6% of Torchmark's total life premium in 2000. On a combined basis, life premium rose 9% to $62 million in 2000 after a 2% increase in 1999 from $56 million to $57 million. Annualized life premium issued in 2000 was $30 million, increasing 63% over 1999 issues of $19 million. The United American Independent Agency represented Torchmark's largest growth on a percentage basis of any component agency in life premium income and life sales in 2000. Life premium income rose 13% to $42 million and life sales gained 93% to $26 million.

Torchmark's Other life insurance distribution system consists of its Military Agency, United Investors Agency, and other small miscellaneous sales agencies. Torchmark's Military Agency consists of 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 low lapse rates. The United Investors Agency is comprised of several independent agencies, including the sales representatives of Waddell & Reed. Life premium income from the Other distribution category grew 8% to $227 million in 2000 and 9% to $210 million in 1999. Life premium income from the Other group accounted for 21% of Torchmark's total life insurance premium income. Annualized life premium in force grew 8% in 2000 to $262 million, after having increased 8% to $243 million in 1999. A major factor in the growth of premium income and in-force premium relates to the high persistency associated with the Military business. Annualized premium sold during 2000 in the Other distribution category was $37 million, flat with both 1999 and 1998 sales which were also $37 million in each year.

In addition to the growth in life insurance sales, this agency has also increased production of variable life collections. In 2000, collections were $41 million, representing a 28% increase over 1999 collections of $32 million. In 1999, these collections rose 77%. 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. At December 31, 2000, the variable life account balance was $158 million, rising 14% over the prior year end.

LIFE INSURANCE
Summary of Results
(Dollar amounts in thousands)

	2000		1999		1998	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium and policy charges	$1,082,125	100.0%	$1,018,301	100.0%	$ 957,274	100.0%
Policy obligations	711,833	65.8	666,122	65.4	618,867	64.7
Required interest on reserves	(246,989)	(22.8)	(229,287)	(22.5)	(215,185)	(22.5)
Net policy obligations	464,844	43.0	436,835	42.9	403,682	42.2
Commissions and premium taxes	59,754	5.5	56,341	5.5	57,364	6.0
Amortization of acquisition costs	188,268	17.4	170,444	16.7	158,298	16.5
Required interest on deferred acquisition costs	98,596	9.1	91,412	9.0	85,374	8.9
Total expense	811,462	75.0	755,032	74.1	704,718	73.6
Insurance underwriting income before other income and administrative expenses, excluding Family Service and nonrecurring charge	270,663	25.0%	263,269	25.9%	252,556	26.4%
Nonrecurring charge	-0-		(20,650)		-0-	
Family Service insurance underwriting income before other income and administrative expenses	-0-		-0-		2,187	
Insurance underwriting income before other income and administrative expenses	$ 270,663		$ 242,619		$ 254,743	

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 has maintained its relationship with Reader's Digest and has used its subscriber lists in selective marketing of Torchmark insurance products and intends to continue to do so. However, 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 in 1998 and the 1999 nonrecurring charge, which distort comparisons. Excluding these items, gross margins, as indicated by insurance underwriting income before other income and administrative expense, increased 3% in 2000 to $271 million after having risen 4% in 1999 to $263 million. As a percentage of life insurance premium, life insurance gross margins were 26% in both 1999 and 1998, but were 25% in 2000. One factor in the 1% decline in 2000 is the reduction in underwriting income margins for Direct Response. As a percentage of premium, Direct Response underwriting income was 26.3% in 2000, compared with 27.9% a year earlier. Additionally, an increase in policy obligation ratios was experienced in the Other Category in the first half of 2000, which appears to have been a short-term aberration. Fluctuations in obligation ratios are normal in the life insurance industry.

Health Insurance. Torchmark markets its supplemental health insurance products through a number of distribution channels. The following table indicates health insurance premium income by distribution method during each of the three years ended December 31, 2000.

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

	2000		1999		1998	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
United American Independent Agency	$442,370	48.6%	$ 427,023	51.8%	$417,556	54.9%
United American Exclusive Agency	254,267	27.9	194,594	23.6	150,602	19.8
Liberty National Exclusive Agency	151,363	16.6	143,857	17.4	135,861	17.9
American Income Exclusive Agency	48,296	5.3	47,564	5.8	47,074	6.2
Direct Response	14,860	1.6	11,778	1.4	8,817	1.2
	$911,156	100.0%	$ 824,816	100.0%	$759,910	100.0%

Premium for the health insurance segment increased 10% to $911 million in 2000 over 1999 and 9% to $825 million in 1999. Annualized health premium in force grew 14% to $1.00 billion at December 31, 2000 over the previous year-end balance of $884 million. Health premium in force rose 11% during 1999. Sales of health insurance, in terms of annualized premium issued, were $252 million in 2000, increasing 31% over 1999 sales of $193 million. Sales in 1999 rose 39% over the prior year. Sales for 2000 marked the third consecutive year of 30% or more growth in health insurance sales. Sales of health insurance have accelerated greatly in these years due to increases in sales of Medicare Supplement policies.

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, 2000, Medicare Supplement accounted for 73% and cancer 17%. The table below presents Torchmark's health insurance annualized premium in force by major product category at December 31, 2000 and for the two preceding years.

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

	December 31,					
	2000		1999		1998	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Medicare Supplement	$ 728,918	72.6%	$630,915	71.3%	$553,737	69.5%
Cancer	169,013	16.8	153,777	17.4	144,900	18.2
Other	106,368	10.6	99,666	11.3	98,226	12.3
Total	$1,004,299	100.0%	$884,358	100.0%	$796,863	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 United American Exclusive Agency is Torchmark's fastest growing agency in terms of health premium sales. The Exclusive Agency sold $145 million in annualized health premium in 2000, a 41% increase over the prior year. Health sales for this Agency rose 60% in 1999 to $103 million after having increased 62% in 1998. This Agency accounted for $60 million of the $86 million in health premium growth in 2000, or 69%, adding primarily Medicare Supplement premium. It also was instrumental in the growth of health annualized premium in force in both 2000 and 1999, accounting for $79 million of the $120 million growth in 2000 and adding $58 million to health premium in force in 1999. This Agency represented 31% of Torchmark's annualized health premium in force at December 31, 2000, compared with 26% one year earlier and 22% two years ago. The United American Exclusive Agency has grown very rapidly in recent years. At December 31, 2000, there were 3,661 agents, compared with 2,354 agents at year-end 1999 and 1,752 agents at year-end 1998. This represents an increase in Agency size of 56% in 2000 and 34% in 1999.

The United American Independent Agency continues to represent the largest amount of Torchmark's health premium in force and is also growing rapidly. The Agency's $467 million of annualized health premium in force at December 31, 2000, of which $436 million was Medicare Supplement premium in force, was 46% of Torchmark's total health premium in force. Health sales by the United American Independent Agency, in terms of annualized premium issued, were $85 million in 2000, a 25% increase over 1999. Sales rose 35% to $68 million in 1999.

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. Use of 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. Therefore, it is likely that changes will be made to the Medicare program at sometime in the future. However, 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 rose 10% in 2000 to $169 million, compared with 6% growth in 1999. Sales of this product declined in 2000 to $10 million from $11 million in sales in 1999. Sales in 1998 were also $10 million. A portion of the growth in cancer annualized premium in force has been 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 86% of Torchmark's total cancer annualized premium in force at December 31, 2000.

Annualized premium in force for other health products grew 7% in 2000 to $106 million, after rising 1% in 1999 to $100 million. Other health sales rose 38% in 2000 to $41 million, after having increased 13% in 1999.

HEALTH INSURANCE
Summary of Results
(Dollar amounts in thousands)

	2000		1999		1998	
	Amount	% of Premium	Amount	% of Premium	Amount	% of Premium
Premium	$911,156	100.0%	$824,816	100.0%	$759,910	100.0%
Policy obligations	591,022	64.9	535,901	65.0	482,496	63.5
Required interest on reserves	(15,736)	(1.7)	(17,383)	(2.1)	(20,440)	(2.7)
Net policy obligations	575,286	63.2	518,518	62.9	462,056	60.8
Commissions and premium taxes	91,069	10.0	84,913	10.3	87,828	11.5
Amortization of acquisition costs	68,778	7.5	64,046	7.8	59,208	7.8
Required interest on deferred acquisition costs	14,907	1.6	12,707	1.5	11,373	1.5
Total expense	750,040	82.3	680,184	82.5	620,465	81.6
Insurance underwriting income before other income and administrative expenses	$161,116	17.7%	$144,632	17.5%	$139,445	18.4%

Health insurance underwriting income before other income and administrative expense rose 11% in 2000 to $161 million, after having increased 4% in 1999. As a percentage of premium, underwriting income before other income and administrative expense remained steady at approximately 18% throughout the three-year period ending in 2000. Medicare Supplement margins are restrained by the federally mandated minimum loss ratio of 65% and by competition. Cancer product obligation ratios have increased in recent years primarily due to higher loss ratios experienced on a closed block of business. Management has actively sought timely and adequate premium rate increases from regulatory authorities to offset these cost increases. As a result, margins on cancer business improved slightly in 2000. Torchmark continues to seek such rate increases to maintain margins on this business.

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, a component of Torchmark's Other distribution category. This Agency consists of the Waddell & Reed sales force which markets United Investors annuities and other products under a marketing agreement. In 2000, this Agency collected $622 million of Torchmark's total $650 million in annuity collections, or 96%. The United Investors Agency accounted for almost 99% of total annuity policy charges in 2000. Annuities are also marketed by the United American Independent Agency, which collected $24 million in annuity deposits in 2000, compared with $56 million 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, 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)		
	2000	**1999**	**1998**	**2000**	**1999**	**1998**
Fixed	$ 661.6	$ 677.5	$ 647.3	$ 41,617	$ 71,696	$ 64,687
Variable	3,583.6	3,274.9	2,343.5	608,251	392,769	299,005
Total	$4,245.2	$3,952.4	$2,990.8	$649,868	$464,465	$363,692

Collections of fixed annuity premium were $42 million in 2000, compared with $72 million in 1999, a 42% decrease. Fixed annuity premium collections rose 11% in 1999 from $65 million in 1998. Management believes that the interest-rate environment is one factor in the sales of fixed annuities. As rates fall, alternative investments including variable annuities become more attractive. In 1999, as interest rates increased, fixed annuities became more desirable relative to alternative investments. Even though rates continued to rise in 2000, a decline in fixed annuity sales resulted from the loss of a key independent agent from the United American Independent Agency. This decline is expected to be temporary as management is in the process of redirecting annuity sales efforts in this Agency. The fixed annuity deposit balance declined 2% in 2000 to $662 million at year end. It rose 5% in the prior year from $647 million at year-end 1998 to $677 million at the end of 1999.

Variable annuity collections rose 55% to $608 million in 2000, from $393 million in the prior year. Variable collections rose 31% from $299 million in 1998. The strength in financial markets throughout most of 2000 and the two preceding years has had a positive influence on sales of variable annuities in each period. The variable annuity account balance continues to grow. This balance increased 9% in 2000 from $3.3 billion at December 31, 1999 to $3.6 billion at year-end 2000. This balance had previously increased 40% in 1999 and 29% in 1998. Strong financial markets in all of these periods contributed greatly to the growth, although some weakening in markets was experienced in the latter part of 2000. 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)

	2000	1999	1998
Policy charges	$ 52,929	$ 40,969	$ 33,594
Policy obligations	36,627	34,524	34,662
Required interest on reserves	(42,688)	(40,991)	(42,171)
Net policy obligations	(6,061)	(6,467)	(7,509)
Commissions and premium taxes	2,116	759	510
Amortization of acquisition costs	17,791	13,310	11,561
Required interest on deferred acquisition costs	8,124	6,536	5,609
Total expense	21,970	14,138	10,171
Insurance underwriting income before other income and administrative expenses, excluding Family Service	30,959	26,831	23,423
Family Service insurance underwriting income before other income and administrative expenses	-0-	-0-	98
Insurance underwriting income before other income and administrative expenses	$ 30,959	$ 26,831	$ 23,521

Annuity underwriting income excluding Family Service and before other income and administrative expense has grown steadily throughout each of the years 1998 through 2000. This underwriting income was $31 million in 2000 and $27 million in 1999, each representing a 15% increase over the prior year. Policy charges have also grown in each period, rising 29% in 2000 and 22% in 1999. 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)

	2000	1999	1998
Net investment income	$ 472,426	$ 447,337	$ 459,558
Tax equivalency adjustment	8,655	11,487	11,143
Tax equivalent investment income	481,081	458,824	470,701
Required interest on net insurance policy liabilities:			
Interest on reserves	(305,413)	(287,661)	(296,696)
Interest on deferred acquisition costs	121,627	110,655	103,481
Net required	(183,786)	(177,006)	(193,215)
Financing costs	(70,309)	(66,431)	(71,367)
Excess investment income	$ 226,986	$ 215,387	$ 206,119
Mean invested assets (at amortized cost)	$6,581,601	$6,319,465	$6,353,279
Average net insurance policy liabilities	3,129,892	3,066,351	3,261,982
Average debt (including MIPS)	924,729	965,728	1,000,063

Excess investment income represents the profit margin attributable to investment operations and cash flow management. It is defined as net investment income on a tax-equivalent basis 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 increased 6% to $472 million in 2000. In 1999, net investment income declined 3% to $447 million after rising 7% to $460 million in 1998. 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 gained 5% in 2000, after declining 3% in 1999 and rising 7% in 1998. The 2000 increase in investment income resulted from a combination of the growth in mean invested assets and an increase in yield. Mean invested assets, computed based on book value, rose 4% to $6.6 billion in 2000 over the prior year, as new cash flow was invested primarily in taxable fixed maturities. The mean fixed maturity balance rose $381 million or 7% to $6.1 billion for 2000. The 2000 growth in mean invested assets was achieved even though $147 million was used to buy Torchmark stock and $95 million was used to pay down long and short-term debt. Higher interest rates in financial markets caused yields on the fixed maturity portfolio to rise 8 basis points in 2000 to 7.47%. 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 included in 1999. Mean invested assets were flat in 1999, as the growth in 1999 invested assets from reinvested cash flows was essentially offset by the loss of Family Service's $778 million in invested assets when compared with the prior year.

Excess investment income increased 5% in both 2000 and 1999. Because of the effect of repurchases of Torchmark stock, excess investment income on a per share basis increased 10% in both 2000 and 1999. The 5% increase in 2000 correlated closely with the change in tax-equivalent investment income for the same period. While the 1998 sale of Family Service caused a reduction in 1999 investment income when compared with 1998, it had little effect on the excess investment income comparison in 1999 with 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, due to debt paydowns.

During 1999, Torchmark entered into two transactions to dispose of the majority of its investment real estate. 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. At December 31, 2000, Torchmark held $15 million in investment real estate.

Portfolio adjustments resulting in $8 million in after-tax capital losses were taken in 2000. These losses were partially offset, however, by a $5 million after-tax gain from the increase in market value of the interest-rate swap associated with Torchmark's MIPS, discussed in more depth under the caption *Capital Resources* found on page 34 of this discussion. In 1999, in addition to the real estate capital losses, Torchmark 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 in 1999 also included a $12 million after-tax loss from the interest-rate swap on Torchmark's MIPS.

While yields as measured by returns on U.S. Treasury securities fell substantially during 2000, corporate spreads widened and afforded investors the opportunity to increase nominal and effective returns. New investments in fixed-maturity securities, which totaled $1.1 billion in 2000, $2.1 billion in 1999, and $1.8 billion in 1998, were made at an effective compounded yield of 8.07% in 2000, compared with an effective compounded yield of 7.54% in 1999 and 7.26% in 1998. These yields equate to nominal yields on acquisition of 7.87%, 7.38%, and 7.13%, respectively, for 2000, 1999, and 1998. The size of acquisitions in the current year is not comparable with the prior year since 1999 included proceeds from tax motivated bond sales and from the sale of real estate.

With the "flat" yield curve available much of the year, higher returns were possible in spite of a shortening of maturities. The average life of 2000 acquisitions was 7.7 years, compared with 14.9 years in 1999 and 20.7 years in 1998. Purchases of fixed-maturity investments with shorter maturities caused the average life of the portfolio to decline to 11.8 years at year end 2000, compared with 12.7 years at year-end 1999 but above the year-end 1998 level of 8.8 years.

With 2000 acquisitions made at yields in excess of the portfolio average, the nominal portfolio yield increased to 7.47%, compared with 7.39% during 1999 and 7.42% in 1998. Emphasis continues to be on marketable, medium quality investments. Approximately 92% of invested assets are fixed-maturity securities, and 94% of these holdings are classified as investment grade by the rating agencies. The NAIC considers 95% of the portfolio investment grade. The portfolio is highly marketable, although its value fluctuates with changes in interest rates. At year end 2000, the unrealized loss of $236 million compares with an unrealized loss of $275 million at the end of 1999 and an unrealized gain of $249 million at the end of 1998. Distribution of maturities is as follows:

	2000	1999
Short terms and under 1 year	4.5%	4.2%
2-5 years	15.6	13.6
6-10 years	43.7	39.7
11-15 years	8.5	11.0
16-20 years	3.7	5.8
Over 20 years	24.0	25.7
	100.0%	100.0%

With an emphasis on fixed-maturity investments, the percentage of holdings in other types of securities is inconsistent with industry data. 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	$6,050,061	93.6%	74.2%
Equities	543	-0-	5.2
Mortgage loans	118,642	1.8	12.0
Real estate	15,483	.2	1.3
Policy loans	255,320	3.9	5.2
Other invested assets	31,154	.5	2.1
	$6,471,203	100.0%	100.0%

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

Market Risk Sensitivity. Market risk is the 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-maturity holdings amount to 92% of total investments. The effects of 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 insurance liabilities, net of deferred acquisition costs, were $3.2 billion and debt was $.7 million at December 31, 2000, compared with fixed-maturity investments of $6.2 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. Insurance liabilities and debt 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-maturity holdings is reduced by maintaining a relatively short-term portfolio, 20% of which matures within five years and 64% of which 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 by Torchmark in connection with its MIPS as discussed in the *Notes to the Consolidated Financial Statements* on page 65 of this report and in *Capital Resources* on page 34 of this report. A cap instrument was also previously 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, 2000 and December 31, 1999. 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, 2000**	**At December 31, 1999**
-200	$6,720	$6,455
-100	6,325	6,055
0	5,950	5,680
100	5,597	5,332
200	5,272	5,012

FINANCIAL CONDITION

Liquidity. Liquidity pertains to an institution's ability to meet on demand the cash commitments required by its business operations and financial obligations. Torchmark has very strong liquidity, 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 $533 million in 2000, compared with $512 million in 1999 and $389 million in 1998. In addition to operating cash flows, Torchmark received $226 million in investment maturities and repayments during 2000, adding to available cash flows. Such repayments were $413 million in 1999 and $474 million in 1998. 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 $136 million at December 31, 2000, compared with $115 million at year-end 1999. 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 $6.0 billion at December 31, 2000.

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, 2000. 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, 2000, $331 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, 2000, 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 2000 and 1999 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 2001, a maximum amount of $240 million is expected to 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 is primarily its funded debt and its commercial paper facility. An analysis of Torchmark's funded debt outstanding at year-ends 2000 and 1999 on the basis of par value was as follows:

Instrument	Year Due	Rate	2000 Principal Amount ($ thousands)	1999 Principal Amount ($ thousands)
Senior Debentures	2009	8¼	$ 99,450	$ 99,450
Notes	2023	7⅞	177,057	200,000
Notes	2013	7⅜	94,050	100,000
Total funded debt			370,557	399,450
Debt held by subsidiaries			-0-	(22,318)
Long-term debt			$370,557	$377,132

The carrying value of the funded debt was $366 million at December 31, 2000, compared with $372 million a year earlier.

During 1998 and 1999, Torchmark acquired a portion of its funded debt in the open market, through its insurance subsidiaries. In 1999, $7.5 million principal amount of its 7⅞% Notes due 2023 was acquired at a cost of $7.9 million. Also in 1999, $4.0 million principal amount of its 7⅜% Notes due 2013 was 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.

In 2000, all of the debt previously acquired by insurance subsidiaries was acquired from those subsidiaries by the parent company. Additionally, another $4.6 million principal amount of the 7⅞% Notes and $2.0 million principal amount of the 7⅜% Notes were acquired by Torchmark in 2000 at a cost of $4.2 million and $1.9 million, respectively. The redemption of this debt in 2000 resulted in an after-tax gain of $202 thousand.

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.

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, 2000, the variable rate was 8.0%. During 2000, Torchmark's after-tax dividend cost for the MIPS was $10.3 million, compared with $11.9 million that would have been incurred without the swap. Torchmark's after-tax cost in 1999 was $9.2 million and in 1998 was $9.8 million, saving $2.7 million and $2.1 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 principle. Market value of the swap, which is included as a component of Other Invested Assets, was $14.3 million and $6.7 million at December 31, 2000 and 1999, respectively.

During July, 1999, Torchmark filed a Form S-3 Registration Statement with the Securities and Exchange Commission 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. As of December 31, 2000, no capital securities have been issued under this Registration Statement.

Short-term debt consists of Torchmark's commercial paper outstanding. The commercial paper balance outstanding at December 31, 2000 was $329 million at carrying value, compared with a balance of $418 million a year earlier. The commercial paper borrowing balance fluctuates based on Torchmark's current cash needs.

Total debt as a percentage of total capitalization was 21.5% at December 31, 2000. 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 25.2% at year-end 1999 and 24.3% at year-end 1998. The decline in the debt-to-capitalization ratio at year-end 2000 was caused primarily by short-term debt paydowns. The 1999 increase in this ratio resulted from the increase in short-term borrowings. Torchmark's ratio of earnings before interest, taxes and discontinued operations to interest requirements was 11.3 in 2000, compared with 8.7 in 1999 and 8.9 in 1998. Torchmark's interest expense rose 4% to $54 million in 2000 after having declined 7% to $52 million in 1999. The increase in 2000 was due primarily to an increase in short-term borrowing costs which offset the lower amount of average debt outstanding. The 1999 decrease was caused by a larger portion of total debt being short-term debt that carries a lower borrowing cost.

Torchmark has made share purchases from time to time under its share repurchase program on the open market when market conditions were favorable. Torchmark purchased 6.1 million shares on the open market at a cost of $147 million in 2000 and 6.7 million shares at a cost of $222 million in 1999. Purchases of 3.4 million shares were made in 1998 at a cost of $126 million, subsequent to the Waddell & Reed spin off. Torchmark will continue to make share purchases under its share repurchase program when prices are attractive. Share purchases could have a favorable impact on earnings per share and return on equity.

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. A similar option exercise and restoration program was conducted on December 20, 2000 for two executives not able to participate in the 1999 program. Under the 2000 program, 433 thousand shares were issued but 283 thousand shares were sold to pay the exercise price and taxes. As a result of both of these restoration programs, management's ownership interest increased, and Torchmark received a significant current tax benefit from the exercise of the options.

Shareholders' equity rose 10% to $2.20 billion at December 31, 2000. Shareholders' equity declined 12% in 1999, from $2.26 billion at year-end 1998 to $1.99 billion at year-end 1999. The 2000 increase of $209 million in shareholders' equity resulted primarily from the addition of earnings, less the payment of dividends and $147 million of share purchases during the year. 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. Book value per share was $17.43 at 2000 year end, compared with $15.10 at year-end 1999. 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 $2.15 billion at year-end 1999 to $2.34 billion at year-end 2000. Book value per share was $18.53 at year-end 2000, an increase of 14% over $16.32 at year-end 1999. Return on common shareholders' equity was 16.3% in 2000, compared with 16.2% in 1999. 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 17 through 18 of this report.

OTHER ITEMS

Transactions Regarding Vesta Insurance Group. From 1993 until disposition in 2000, Torchmark 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 re-acquired 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.

Torchmark sold 3.75 million shares of Vesta during the second quarter of 2000. In early July, 2000, Torchmark sold the remaining 1.38 million shares of Vesta stock that it held. The sales provided proceeds of $33 million and resulted in an after-tax loss of $1.5 million. As of December 31, 2000, Torchmark no longer had any ownership interest in Vesta.

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 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. Bespeaking caution is the fact that 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 Statements No. 137 and 138, 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. For Torchmark, the Statement is effective as of January 1, 2001. 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 a free-standing derivative currently carried at fair market value, Torchmark's use of derivatives is limited.

Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FASB Statement No. 140) provides accounting and reporting standards for transfer and servicing of financial assets and extinguishments of liabilities. It replaces FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. While it revises certain of the provisions of that statement, it carries over most of Statement No. 125's provisions without reconsideration. Statement No. 140 also requires certain disclosures.

Statement No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. It is to be applied prospectively with certain exceptions. Other than those exceptions, earlier or retroactive application is not permitted. The adoption of Statement No. 140 should have an immaterial impact on Torchmark.

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 sheets of Torchmark Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flow for the years then ended. Our audit also included the financial statement schedules listed in the Index at Item 14 as of and for the years ended December 31, 2000 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Torchmark Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 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 30, 2001

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 year ended December 31, 1998. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedules as listed in Item 14(a) as of and for the year ended December 31, 1998. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Torchmark Corporation and subsidiaries for the year ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. 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, 2000	December 31, 1999
Assets:		
Investments:		
Fixed maturities—available for sale, at fair value (amortized cost: 2000—$6,185,500; 1999—$5,954,697)	$ 5,949,515	$ 5,679,795
Equity securities, at fair value (cost: 2000—$666; 1999—$37,121)	543	29,189
Mortgage loans on real estate, at cost (estimated fair value: 2000—$118,756; 1999—$94,716)	118,642	94,599
Investment real estate, at cost (less allowance for depreciation: 2000—$20,024; 1999—$19,490)	15,483	16,379
Policy loans	255,320	244,607
Other long-term investments	31,154	23,054
Short-term investments	100,546	100,187
Total investments	6,471,203	6,187,810
Cash	35,089	14,441
Accrued investment income	119,124	112,475
Other receivables	74,960	53,458
Deferred acquisition costs	1,942,161	1,741,570
Value of insurance purchased	133,158	151,752
Property and equipment, net of accumulated depreciation	38,694	38,761
Goodwill	390,509	402,584
Other assets	16,245	15,138
Separate account assets	3,741,415	3,413,675
Total assets	$12,962,558	$12,131,664
Liabilities:		
Future policy benefits	$ 5,111,730	$ 4,869,241
Unearned and advance premiums	90,310	85,344
Policy claims and other benefits payable	240,421	215,923
Other policyholders' funds	80,555	81,919
Total policy liabilities	5,523,016	5,252,427
Accrued income taxes	423,327	309,271
Other liabilities	183,908	179,681
Short-term debt	329,148	418,394
Long-term debt (estimated fair value: 2000—$362,276; 1999—$378,046)	365,989	371,555
Separate account liabilities	3,741,415	3,413,675
Total liabilities	10,566,803	9,945,003
Monthly income preferred securities (estimated fair value: 2000—$202,000; 1999—$193,040;)	193,395	193,324
Shareholders' equity:		
Preferred stock, par value $1 per share—Authorized 5,000,000 shares; outstanding: -0- in 2000 and in 1999	-0-	-0-
Common stock, par value $1 per share—Authorized 320,000,000 shares; outstanding: 147,800,908 issued, less 21,411,898 held in treasury in 2000 and 15,804,640 held in treasury in 1999	147,801	147,801
Additional paid-in capital	626,530	622,318
Accumulated other comprehensive income (loss)	(148,406)	(174,222)
Retained earnings	2,220,671	1,910,487
Treasury stock	(644,236)	(513,047)
Total shareholders' equity	2,202,360	1,993,337
Total liabilities and shareholders' equity	$12,962,558	$12,131,664

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2000	1999	1998
Revenue:			
Life premium	$1,082,125	$1,018,301	$ 959,766
Health premium	911,156	824,816	759,910
Other premium	52,929	40,969	33,954
Total premium	2,046,210	1,884,086	1,753,630
Net investment income	472,426	447,337	459,558
Realized investment losses	(5,322)	(110,971)	(57,637)
Other income	2,580	6,443	2,325
Total revenue	2,515,894	2,226,895	2,157,876
Benefits and expenses:			
Life policyholder benefits	711,833	666,122	625,272
Health policyholder benefits	591,022	535,901	482,496
Other policyholder benefits	36,627	34,524	42,508
Total policyholder benefits	1,339,482	1,236,547	1,150,276
Amortization of deferred acquisition costs	274,837	247,800	231,024
Commissions and premium taxes	150,869	160,655	143,747
Other operating expense	121,186	115,069	117,438
Amortization of goodwill	12,075	12,075	12,075
Interest expense	54,487	52,341	56,325
Total benefits and expenses	1,952,936	1,824,487	1,710,885
Income from continuing operations before income taxes, equity in earnings of Vesta, extraordinary item, monthly income preferred securities dividend, and cumulative effect of change in accounting principle	562,958	402,408	446,991
Income taxes	(190,841)	(134,320)	(154,338)
Equity in earnings (losses) of Vesta	-0-	-0-	(6,866)
Adjustment to carrying value of Vesta	-0-	-0-	(20,234)
Monthly income preferred securities dividend (net of tax)	(10,284)	(9,158)	(9,777)
Net income from continuing operations	361,833	258,930	255,776
Discontinued operations of Waddell & Reed:			
Income from operations (less applicable income tax expense of $42,932 in 1998)	-0-	-0-	47,868
Loss on disposal (less applicable income tax benefit of $571 in 1999 and including income tax of $49,840 in 1998)	-0-	(1,060)	(54,241)
Net income before extraordinary item and cumulative effect of change in accounting principle	361,833	257,870	249,403
Gain (loss) on redemption of debt (less applicable income tax expense of $109 in 2000 and income tax benefit of $2,672 in 1998)	202	-0-	(4,962)
Net income before cumulative effect of change in accounting principle	362,035	257,870	244,441
Cumulative effect of change in accounting principle (less applicable income tax expense of $8,661)	-0-	16,086	-0-
Net income	$ 362,035	$ 273,956	$ 244,441

(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, 2000	1999	1998
Basic net income per share:			
Continuing operations	$2.83	$1.95	$1.83
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	-0-	.34
Loss on disposal	-0-	(.01)	(.39)
Net income before extraordinary item and cumulative effect of change in accounting principle	2.83	1.94	1.78
Loss on redemption of debt	-0-	-0-	(.03)
Net income before cumulative effect of change in accounting principle	2.83	1.94	1.75
Cumulative effect of change in accounting principle	-0-	.12	-0-
Net income	$2.83	$2.06	$1.75
Diluted net income per share:			
Continuing operations	$2.82	$1.93	$1.81
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	-0-	.34
Loss on disposal	-0-	(.01)	(.38)
Net income before extraordinary item and cumulative effect of change in accounting principle	2.82	1.92	1.77
Loss on redemption of debt	-0-	-0-	(.04)
Net income before cumulative effect of change in accounting principle	2.82	1.92	1.73
Cumulative effect of change in accounting principle	-0-	.12	-0-
Net income	$2.82	$2.04	$1.73

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2000	1999	1998
Net income	$362,035	$ 273,956	$244,441
Other comprehensive income:			
Unrealized investment gains (losses):			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	36,875	(568,398)	54,217
Reclassification adjustment for (gains) losses on securities included in net income	12,089	29,930	8,519
Reclassification adjustment for amortization of (discount) and premium	(3,710)	(1,266)	(2,999)
Foreign exchange adjustment on securities marked to market	1,333	(1,159)	1,958
Unrealized gains (losses) on securities	46,587	(540,893)	61,695
Unrealized gains (losses) on other investments	922	81	(7,551)
Unrealized gains (losses) on deferred acquisition costs	(5,340)	48,380	(3,092)
Total unrealized investment gains (losses)	42,169	(492,432)	51,052
Applicable tax	(14,764)	171,760	(17,524)
Unrealized investment gains (losses), net of tax	27,405	(320,672)	33,528
Foreign exchange translation adjustments, other than securities	(1,589)	1,949	(2,081)
Applicable tax	-0-	-0-	-0-
Foreign exchange translation adjustments, net of tax	(1,589)	1,949	(2,081)
Unrealized gains (losses) on discontinued operations	-0-	-0-	(12,100)
Applicable tax	-0-	-0-	4,235
Unrealized gains (losses) on discontinued operations, net of tax	-0-	-0-	(7,865)
Other comprehensive income (loss)	25,816	(318,723)	23,582
Comprehensive income (loss)	$387,851	$ (44,767)	$268,023

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, 1998							
Balance at January 1, 1998	$-0-	$ 147,849	$187,731	$ 136,926	$1,694,781	$(234,551)	$1,932,736
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-
Value 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-
Value 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
Year Ended December 31, 2000							
Comprehensive income				25,816	362,035		387,851
Common dividends declared ($0.36 a share)					(45,917)		(45,917)
Acquisition of treasury stock—common						(147,008)	(147,008)
Grant of deferred stock options			374				374
Value of restricted stock grants and options			675				675
Exercise of stock options			3,163		(5,934)	15,819	13,048
Balance at December 31, 2000	$-0-	$ 147,801	$626,530	$(148,406)	$2,220,671	$(644,236)	$2,202,360

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2000	1999	1998
Net income	$362,035	$273,956	$ 244,441
Adjustments to reconcile net income to cash provided from operations:			
Increase in future policy benefits	231,973	206,724	173,593
Increase (decrease) in other policy benefits	28,100	20,730	(30,593)
Deferral of policy acquisition costs	(462,174)	(419,590)	(356,493)
Amortization of deferred policy acquisition costs	274,837	247,800	231,024
Change in accrued income taxes	98,028	(30,434)	86,670
Depreciation	6,859	8,840	7,934
Realized (gains) losses on sale of investments, subsidiaries, and properties	5,322	110,971	57,637
Change in accounts payable and other liabilities	5,206	43,930	3,753
Change in receivables	(18,333)	70,119	(20,331)
Other accruals and adjustments	921	3,314	19,473
Adjustment to carrying value of Vesta	-0-	-0-	20,234
Minority interest in income of Waddell & Reed	-0-	-0-	20,869
Discontinued operations of Waddell & Reed	-0-	-0-	(68,737)
Change in accounting principle	-0-	(24,747)	-0-
Cash provided from operations	$532,774	$511,613	$ 389,474

(Continued)

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2000	1999	1998
Cash provided from operations	$ 532,774	$ 511,613	$ 389,474
Cash provided from (used for) investment activities:			
Investments sold or matured:			
Fixed maturities available for sale—sold	629,111	1,240,652	757,649
Fixed maturities available for sale—matured, called, and repaid	226,314	413,264	474,386
Equity securities	39,693	260	3,056
Mortgage loans	1,347	26,496	8,589
Real estate	2,471	124,173	12,220
Other long-term investments	109	11,338	51,903
Total investments sold or matured	899,045	1,816,183	1,307,803
Acquisition of investments:			
Fixed maturities—available for sale	(1,099,179)	(2,118,362)	(1,872,040)
Equity securities	-0-	(3,400)	-0-
Mortgage loans	(25,372)	(5,421)	(52,921)
Real estate	(1,398)	(29,639)	(35,944)
Net increase in policy loans	(10,713)	(10,842)	(13,445)
Other long-term investments	(547)	(10,949)	(20,298)
Total investments acquired	(1,137,209)	(2,178,613)	(1,994,648)
Net (increase) decrease in short-term investments	(302)	(24,343)	(19,168)
Repayment of loans to affiliates	-0-	-0-	(1,390)
Sale of Family Service	-0-	-0-	140,388
Dispositions of properties	1,266	8,091	1,033
Additions to properties	(6,508)	(8,494)	(6,170)
Dividends from Waddell & Reed	-0-	-0-	16,814
Cash used for investment activities	(243,708)	(387,176)	(555,338)
Cash provided from (used for) financing activities:			
Issuance of common stock	9,886	37,164	3,957
Additions to debt	-0-	63,152	216,429
Cash dividends paid to shareholders	(46,422)	(48,175)	(82,601)
Repayments of debt	(95,390)	(12,129)	(390,917)
Acquisition of treasury stock	(147,008)	(221,878)	(125,875)
Proceeds from Waddell & Reed offering	-0-	-0-	516,138
Offering proceeds retained by Waddell & Reed	-0-	-0-	(35,251)
Net receipts from deposit product operations	10,516	66,950	57,819
Cash provided from (used for) financing activities	(268,418)	(114,916)	159,699
Increase (decrease) in cash	20,648	9,521	(6,165)
Cash at beginning of year	14,441	4,920	11,085
Cash at end of year	$ 35,089	$ 14,441	$ 4,920

See accompanying Notes to Consolidated Financial Statements.

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 accounting principles generally accepted in the United States of America (''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 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, 2000, 1999, and 1998, included $305.4 million, $287.7 million, and $296.7 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 $71.4 million, $71.9 million, and $71.7 million for the years ended December 31, 2000, 1999, and 1998,

Note 1—Significant Accounting Policies (continued)

respectively. Other premium includes annuity policy charges for the years ended December 31, 2000, 1999, and 1998, of $52.2 million, $40.5 million, and $33.5 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. 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 54 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 81 of this report, there were no significant impairments in the three years ending 2000.

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.

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: 2000—128,089,235, 1999—133,197,023, 1998—139,998,671. 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: 2000—128,353,404, 1999—133,985,943, 1998—141,351,912.

(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,	
	2000	1999	1998	2000	1999
Life insurance subsidiaries	$239,804	$193,253	$260,847	$717,554	$667,168

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,		
	2000	1999	1998
Statutory net income	$ 239,804	$ 193,253	$ 260,847
Deferral of acquisition costs	462,174	419,590	356,493
Amortization of acquisition costs	(274,837)	(247,800)	(231,024)
Differences in insurance policy liabilities	37,771	80,088	96,412
Deferred income taxes	(84,585)	(63,576)	(107,384)
Income of noninsurance affiliates	(53,631)	(62,711)	(100,758)
Other	35,339	(44,888)	(30,145)
GAAP net income	$ 362,035	$ 273,956	$ 244,441

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

	Year Ended December 31,	
	2000	1999
Statutory shareholders' equity	$ 717,554	$ 667,168
Differences in insurance policy liabilities	591,535	587,619
Deferred acquisition costs	1,942,161	1,741,570
Value of insurance purchased	133,158	151,752
Deferred income taxes	(461,858)	(367,994)
Debt of parent company	(695,137)	(789,949)
Monthly income preferred securities	(193,395)	(193,324)
Asset valuation reserves	63,945	53,364
Nonadmitted assets	46,331	15,983
Goodwill	390,509	402,584
Market value adjustment on fixed maturities	(225,978)	(268,598)
Other	(106,465)	(6,838)
GAAP shareholders' equity	$2,202,360	$1,993,337

(Dollar amounts in thousands except per share data)

Note 3—Investments

	Year Ended December 31,		
	2000	1999	1998
Investment income is summarized as follows:			
Fixed maturities	$445,146	$ 409,695	$410,528
Equity securities	378	488	301
Mortgage loans on real estate	9,281	7,720	9,247
Investment real estate	2,693	7,889	8,332
Policy loans	16,981	16,308	15,301
Other long-term investments	7,637	11,245	19,755
Short-term investments	5,728	4,066	6,089
	487,844	457,411	469,553
Less investment expense	(15,418)	(10,074)	(9,995)
Net investment income	$472,426	$ 447,337	$459,558
An analysis of gains (losses) from investments is as follows:			
Realized investment gains (losses):			
Fixed maturities	$ (15,328)	$ (30,145)	$ (8,519)
Equity securities	3,239	215	-0-
Other	6,767	(81,041)	(49,118)
	(5,322)	(110,971)	(57,637)
Adjustment to deferred acquisition costs	-0-	-0-	-0-
	(5,322)	(110,971)	(57,637)
Applicable tax	1,863	38,840	20,173
Gains (losses) from investments, net of tax	$ (3,459)	$ (72,131)	$ (37,464)
An analysis of the net change in unrealized investment gains (losses) is as follows:			
Equity securities	$ 7,803	$ (15,519)	$ (1,080)
Fixed maturities available for sale	38,784	(525,374)	66,526
Other long-term investments and foreign exchange translation adjustments	(667)	2,028	(46,018)
Adjustment to deferred acquisition costs	(5,340)	48,382	(3,091)
	40,580	(490,483)	16,337
Applicable tax	(14,764)	171,760	(8,762)
Change in unrealized gains (losses), net of tax	$ 25,816	$(318,723)	$ 7,575

(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 fair value at December 31, 2000 and 1999 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amount per the Balance Sheet	% of Total Fixed Maturities
2000:						
Fixed maturities available for sale:						
Bonds:						
U.S. Government direct obligations and agencies	$ 73,838	$ 1,554	$ (4)	$ 75,388	$ 75,388	1.3%
GNMAs	258,172	10,387	(777)	267,782	267,782	4.5
Mortgage-backed securities, GNMA collateral	8,454	46	(12)	8,488	8,488	0.1
Other mortgage-backed securities	370,257	12,770	(332)	382,695	382,695	6.4
State, municipalities and political subdivisions	309,812	11,345	(1,849)	319,308	319,308	5.4
Foreign governments	46,393	1,328	(2)	47,719	47,719	0.8
Public utilities	658,837	13,102	(23,753)	648,186	648,186	10.9
Industrial and miscellaneous	4,308,625	54,389	(301,684)	4,061,330	4,061,330	68.3
Asset-backed securities	148,600	645	(13,192)	136,053	136,053	2.3
Redeemable preferred stocks	2,512	54	-0-	2,566	2,566	0.0
Total fixed maturities	6,185,500	105,620	(341,605)	5,949,515	5,949,515	100%
Equity securities:						
Common stocks:						
Banks and insurance companies	427	81	(8)	500	500	
Industrial and all others	239	-0-	(196)	43	43	
Total equity securities	666	81	(204)	543	543	
Total fixed maturities and equity securities	$6,186,166	$105,701	$(341,809)	$5,950,058	$5,950,058	
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	3,761,683	6,600	(237,284)	3,530,998	3,530,998	62.2
Asset-backed securities	165,611	33	(22,055)	143,590	143,590	2.5
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	
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	

(Dollar amounts in thousands except per share data)

Note 3—Investments (continued)

A schedule of fixed maturities by contractual maturity at December 31, 2000 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	$ 82,651	$ 82,925
Due from one to five years	732,004	720,939
Due from five to ten years	2,320,303	2,293,072
Due after ten years	2,262,547	2,054,995
	5,397,505	5,151,931
Redeemable preferred stocks	2,512	2,566
Mortgage-backed and asset-backed securities	785,483	795,018
	$6,185,500	$5,949,515

Proceeds from sales of fixed maturities available for sale were $629 million in 2000, $1.24 billion in 1999, and $758 million in 1998. Gross gains realized on those sales were $8.2 million in 2000, $4.3 million in 1999, and $6.1 million in 1998. Gross losses were $10.7 million in 2000, $36.5 million in 1999, and $20.1 million in 1998. Proceeds from sales of equity securities available for sale were $39.7 million in 2000, $260 thousand in 1999, and -0- in 1998. Gross gains realized on those sales were $6.5 million in 2000, $215 thousand in 1999, and -0- in 1998. Gross losses were $3.2 million in 2000, -0- in 1999, and -0- in 1998.

Torchmark had $6.7 million and $7.0 million in investment real estate at December 31, 2000 and 1999, respectively, which was nonincome producing during the previous twelve months. These properties consisted primarily of undeveloped land. Torchmark had $3.4 million and $118 thousand in nonincome producing mortgages as of December 31, 2000 and 1999, respectively. As of year-end 2000, Torchmark had $410 thousand in nonincome producing fixed maturities. There were no other long-term investments which were nonincome producing at December 31, 2000.

In 1999, Torchmark disposed 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 collateralized note. After the sales, Torchmark retained $16.4 million in investment real estate, of which $8 million was included with properties partially occupied by Torchmark subsidiaries. At December 31, 2000, Torchmark owned $15.5 million in investment real estate, of which $7.1 million was included with properties partially occupied by Torchmark subsidiaries.

(Dollar amounts in thousands except per share data)

Note 4—Property and Equipment

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

	December 31, 2000		December 31, 1999	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Company occupied real estate	$ 59,920	$29,956	$ 58,042	$28,440
Data processing equipment	22,206	20,884	20,823	19,185
Transportation equipment	7,430	2,995	7,128	2,525
Furniture and office equipment	19,315	16,342	17,083	14,165
	$108,871	$70,177	$103,076	$64,315

Depreciation expense on property used in the business was $6.3 million, $5.6 million, and $4.2 million in each of the years 2000, 1999, and 1998, respectively.

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:

	2000		1999		1998	
	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	$1,741,570	$151,752	$1,502,512	$170,640	$1,371,131	$216,988
Additions:						
Deferred during period:						
Commissions	290,597	-0-	246,174	-0-	207,864	-0-
Other expenses	171,577	-0-	173,416	-0-	148,629	-0-
Total deferred	462,174	-0-	419,590	-0-	356,493	-0-
Adjustment attributable to unrealized investment losses(1)	-0-	-0-	48,380	-0-	-0-	-0-
Total additions	462,174	-0-	467,970	-0-	356,493	-0-
Deductions:						
Amortized during period	(256,243)	(18,594)	(228,912)	(18,888)	(210,287)	(20,737)
Adjustment attributable to unrealized investment gains(1)	(5,340)	-0-	-0-	-0-	(3,092)	-0-
Business disposed	-0-	-0-	-0-	-0-	(11,734)	(25,611)
Total deductions	(261,583)	(18,594)	(228,912)	(18,888)	(225,113)	(46,348)
Balance at end of year	$1,942,161	$133,158	$1,741,570	$151,752	$1,502,511	$170,640

(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 $9.1 million, $10.5 million, and $13.2 million, for the years ended December 31, 2000, 1999, and 1998, respectively. The average interest rates used for the years ended December 31, 2000, 1999, and 1998, were 6.4%, 6.5%, and 6.8%, respectively. The estimated amortization, net of interest accrued, on the unamortized balance at December 31, 2000 during each of the next five years is: 2001, $16.3 million; 2002, $13.7 million; 2003, $11.8 million; 2004, $10.2 million; and 2005, $8.9 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.

(Dollar amounts in thousands except per share data)

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.

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 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. 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. 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,		
	2000	1999	1998
Paid-in capital from tax benefit for stock option exercises	$3,163	$9,750	$ 933
Deferred option grants	374	482	582
Distribution of Waddell & Reed stock	-0-	-0-	174,113

The following table summarizes certain amounts paid during the period:

	Year Ended December 31,		
	2000	1999	1998
Interest paid	$54,748	$ 52,704	$ 66,911
Income taxes paid	79,241	148,223	102,753

(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, 2000 is as follows:

Individual Life Insurance

Interest assumptions:

Years of Issue	Interest Rates	Percent of Liability
1917-2000	3.00%	2%
1947-1954	3.25%	1
1927-1989	3.50%	1
1955-1961	3.75%	1
1925-2000	4.00%	10
1962-1969	4.50% graded to 4.00%	2
1970-1980	5.50% graded to 4.00%	3
1970-2000	5.50%	1
1929-2000	6.00%	20
1986-1994	7.00% graded to 6.00%	12
1954-2000	8.00% graded to 6.00%	12
1951-1985	8.50% graded to 6.00%	8
2000	7.00%	1
1980-1987	8.50% graded to 7.00%	1
1984-2000	Interest Sensitive	25
		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
1962-2000	3.00%	4%
1982-2000	4.50%	3
1993-2000	6.00%	23
1986-1992	7.00% graded to 6.00%	44
1955-2000	8.00% graded to 6.00%	20
1951-1986	8.50% graded to 6.00%	6
		100%

(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 2000 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,		
	2000	1999	1998
Balance at beginning of year:	$162,137	$145,802	$178,989
Incurred related to:			
Current year	603,641	555,595	518,993
Prior year	6,365	8,297	(2,670)
Total incurred	610,006	563,892	516,323
Paid related to:			
Current year	440,370	364,623	342,084
Prior year	148,626	182,934	207,426
Total paid	588,996	547,557	549,510
Balance at end of year	$183,147	$162,137	$145,802

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

(Dollar amounts in thousands except per share data)

Note 11—Income Taxes

Torchmark and its subsidiaries file a life-nonlife consolidated federal income tax return.

Total income taxes were allocated as follows:

	Year Ended December 31,		
	2000	1999	1998
Income from continuing operations	$190,841	$ 134,320	$154,338
Discontinued operations	-0-	(571)	92,772
Monthly income preferred securities dividend	(5,538)	(4,932)	(5,265)
Shareholders' equity:			
Unrealized gains (losses)	14,807	(171,757)	8,540
Tax basis compensation expense (from the exercise of stock options) in excess of amounts recognized for financial reporting purposes	(3,164)	(9,751)	(933)
Other	(3,803)	(1,274)	(1,964)
	$193,143	$ (53,965)	$247,488

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

	Year ended December 31,		
	2000	1999	1998
Current income tax expense	$116,773	$ 85,917	$118,827
Deferred income tax expense	74,068	48,403	35,511
	$190,841	$134,320	$154,338

In 2000, 1999, and 1998, 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,					
	2000	%	1999	%	1998	%
Expected income taxes	$197,035	35%	$140,843	35%	$156,447	35%
Increase (reduction) in income taxes resulting from:						
Tax-exempt investment income	(9,546)	(2)	(8,798)	(2)	(7,111)	(2)
Equity in earnings of Vesta	-0-		-0-		(9,485)	(2)
Sale of Family Service	-0-		-0-		13,460	3
Other	3,352	1	2,275	1	1,027	1
Income taxes	$190,841	34%	$134,320	34%	$154,338	35%

(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, 2000	December 31, 1999
Deferred tax assets:		
Unrealized investment losses	$ 74,626	$ 89,433
Present value of future policy surrender charges	39,964	28,534
Carryover of nonlife net operating losses and life-nonlife capital losses	28,227	18,044
Other assets and other liabilities, principally due to the current nondeductibility of certain accrued expenses for tax purposes	30,062	42,458
Total gross deferred tax assets	172,879	178,469
Deferred tax liabilities:		
Deferred acquisition costs	492,267	445,266
Future policy benefits, unearned and advance premiums, and policy claims	104,314	69,314
Other	14,666	12,553
Total gross deferred tax liabilities	611,247	527,133
Net deferred tax liability	$438,368	$348,664

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.

(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
2000	$3,097	$2,148	$462
1999	2,775	2,889	480
1998	1,530	2,875	399

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 $9.5 million and $7.5 million at December 31, 2000 and 1999, 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 $4.6 million and $4.7 million at December 31, 2000 and 1999, respectively.

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

	Year Ended December 31,		
	2000	1999	1998
Service cost—benefits earned during the period	$ 5,142	$ 5,133	$ 4,555
Interest cost on projected benefit obligation	8,763	8,260	7,595
Expected return on assets	(10,639)	(9,892)	(8,598)
Amortization of prior service cost	78	59	56
Recognition of net actuarial (gain)/loss	(734)	(191)	(334)
Net periodic pension cost	$ 2,610	$ 3,369	$ 3,274

(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,* that was effective for year-end 1998. 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,	
	2000	1999
Changes in benefit obligation:		
Obligation at beginning of year	$104,581	$109,720
Service cost	5,142	5,133
Interest cost	8,763	8,260
Amendments	-0-	74
Actuarial loss (gain)	7,812	(5,430)
Benefits paid	(12,076)	(13,176)
Obligation at end of year	114,222	104,581
Changes in plan assets:		
Fair value at beginning of year	132,779	123,289
Return on assets	18,038	20,381
Contributions	577	2,285
Benefits paid	(12,076)	(13,176)
Fair value at end of year	139,318	132,779
Funded status at year end	25,096	28,198
Unrecognized amounts at year end:		
Unrecognized actuarial loss (gain)	(39,657)	(40,764)
Unrecognized prior service cost	787	865
Unrecognized transition obligation	(75)	(115)
Net amount recognized at year end	$ (13,849)	$ (11,816)
Amounts recognized consist of:		
Prepaid benefit cost	$ 323	$ 243
Accrued benefit liability	(14,491)	(12,418)
Intangible asset	319	359
Net amount recognized at year end	$ (13,849)	$ (11,816)

The weighted average assumed discount rates used in determining the actuarial benefit obligations were 7.5% in both 2000 and 1999. The rate of assumed compensation increase was 4.5% in both 2000 and 1999 and the expected long-term rate of return on plan assets was 9.2% in both 2000 and 1999.

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.

(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,		
	2000	1999	1998
Service cost	$ 301	$239	$249
Interest cost on accumulated postretirement benefit obligation	508	380	493
Expected return on plan assets	-0-	-0-	-0-
Amortization of prior service cost	(161)	(216)	(206)
Recognition of net actuarial (gain)/loss	(39)	(234)	(75)
Net periodic postretirement benefit cost	$ 609	$169	$461

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,	
	2000	1999
Changes in benefit obligation:		
Obligation at beginning of year	$ 5,615	$ 6,849
Service cost	301	239
Interest cost	508	380
Amendments	-0-	-0-
Actuarial loss (gain)	1,780	(1,324)
Benefits paid	(674)	(529)
Obligation at end of year	7,530	5,615
Changes in plan assets:		
Fair value at beginning of year	-0-	-0-
Return on assets	-0-	-0-
Contributions	674	529
Benefits paid	(674)	(529)
Fair value at end of year	-0-	-0-
Funded status at year end	(7,530)	(5,615)
Unrecognized amounts at year end:		
Unrecognized actuarial loss (gain)	(530)	(2,349)
Unrecognized prior service cost	(129)	(290)
Net amount recognized at year end as accrued benefit liability	$(8,189)	$(8,254)

For measurement purposes, a range of 7.0% to 10.0% annual rate of increase in per capita cost of covered healthcare benefits was assumed for 2000. 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	$ 77	$ 68
Benefit obligation	609	536

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5% in 2000 and 7.15% in 1999.

(Dollar amounts in thousands except per share data)

Note 13—Debt

An analysis of debt at carrying value is as follows:

	December 31,			
	2000		1999	
	Short-term Debt	Long-term Debt	Short-term Debt	Long-term Debt
Senior Debentures, due 2009		$ 99,450		$ 99,450
Notes, due 2023		173,675		177,540
Notes, due 2013		92,864		94,565
Commercial paper	$329,148		$418,394	
	$329,148	$365,989	$418,394	$371,555

The amount of debt that becomes due during each of the next five years is: 2001, $329,148, and 2002-2005, $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 $7.6 million principal amount were purchased in the open market at a cost of $10.6 million and $7.9 million respectively by Torchmark subsidiary companies, which in turn sold them to the parent company in 2000 for $16.6 million. An additional $4.6 million principal amount was purchased by the parent company in the open market at a cost of $4.2 million. An after-tax gain on the redemption of debt of $166 thousand was recorded in the fourth quarter of 2000. These notes are not callable 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 was purchased in the open market at a cost of $4.1 million by a Torchmark insurance subsidiary, which in turn sold it to the parent company in 2000 for $3.7 million. In the fourth quarter of 2000, Torchmark purchased $2.0 million principal amount in the open market at a cost of $1.9 million. An after-tax gain on the redemption of debt of $36 thousand was recorded in the fourth quarter of 2000. These notes are not callable 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, 2000 and December 31, 1999 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 $370 million during 2000, and were made at an average yield of 6.32%. At December 31, 2000, commercial paper was outstanding in the face amount of $331 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, 2000, and pays a facility fee based on size of the line. Including fees, the average borrowing cost during 2000 was 6.47%.

Note 13—Debt (continued)

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. The remaining $160 million principal amount was called by Torchmark 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.

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

Interest in the amount of $0, $284 thousand, and $2.4 million was capitalized during 2000, 1999, and 1998, 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 variable interest rate was 8.03% at December 31, 2000 and 7.00% at December 31, 1999. The swap is accounted for as a free-standing derivative and is marked to market value at the end of each accounting period. The market value of the swap agreement was a benefit of $14.3 million at December 31, 2000 and $6.7 million at December 31, 1999. 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).

(Dollar amounts in thousands except per share data)

Note 16—Shareholders' Equity

Share Data: A summary of preferred and common share activity is as follows:

	Preferred Stock		Common Stock	
	Issued	Treasury Stock	Issued	Treasury Stock
1998:				
Balance at January 1, 1998	-0-	-0-	147,848,908	(7,808,468)
Issuance of common stock due to exercise of stock options				175,240
Issuance of common stock due to restricted stock grant				117,500
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
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)
2000:				
Issuance of common stock due to exercise of stock options				523,742
Treasury stock acquired				(6,131,000)
Balance at December 31, 2000	-0-	-0-	147,800,908	(21,411,898)

	At December 31, 2000		At December 31, 1999	
	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 6.1 million shares at a cost of $147 million in 2000, 6.7 million shares at a cost of $222 million in 1999, and 3.4 million shares at a cost of $126 million in 1998.

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 2001, $240 million will be available to Torchmark for dividends from insurance subsidiaries in compliance with statutory regulations without prior regulatory approval.

(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:

	2000	1999	1998
Basic weighted average shares outstanding	128,089,235	133,197,023	139,998,671
Weighted average dilutive options outstanding	264,169	788,920	1,353,241
Diluted weighted average shares outstanding	128,353,404	133,985,943	141,351,912

Options outstanding considered to be anti-dilutive totaled 7,497,546, 5,013,990, and -0- as of December 31, 2000, 1999, and 1998, 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 for all optionees other than those subject to SEC Section 16(a) reporting, whose options vest in six months. A grant in December, 2000 vests in six months. 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 is as follows:

	Available for Grant		
	2000	1999	1998
Balance at January 1	10,869,220	13,192,506	2,434,004
1998 Stock Incentive Plan			14,000,000
Approval of Executive Deferred and Director Plan grants			(216,481)
Grant of restricted stock(1)			(117,500)
Lapse of restricted stock grants(1)		8,625	
Expired	1,100	70,760	13,700
Closure of option plans(2)			(2,113,723)
Other grants	(1,394,253)	(2,402,671)	(807,494)
Balance at December 31	9,476,067	10,869,220	13,192,506

(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. This standard 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.

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 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 for Torchmark's option grants 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 2000, 1999, and 1998:

	2000	1999	1998
Risk-free interest rate	5.1%	6.0%	4.8%
Dividend yield	1.0%	1.2%	1.1%
Volatility factor	32.5	25.6	22.8
Weighted average expected life (in years)	4.77	4.66	4.71

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):

	2000	1999	1998
Pro forma net income	$357,423	$262,433	$245,383
Pro forma basic net income per share	2.79	1.97	1.75
Pro forma diluted net income per share	2.78	1.96	1.74

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 current market price. This program resulted in the issuance of 1.8 million shares, of which 1.2 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 December 20, 2000 involving two employees who were not able to participate in the 1999 restoration program. They exercised vested options for 433 thousand shares, resulting in the issuance of 433 thousand shares, of which 283 thousand shares were 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.

(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, 2000, 1999, and 1998 follows:

	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding-beginning of year	7,661,787	$30.14	7,228,400	$27.04	7,241,050	$29.76
Granted	1,394,253	36.37	2,402,671	31.36	1,023,975	34.97
Exercised	(523,742)	18.89	(1,898,524)	19.80	(175,240)	22.58
Expired	(1,100)	28.84	(70,760)	32.98	(13,700)	29.19
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	8,531,198	31.85	7,661,787	30.14	7,228,400	27.04
Exercisable at end of year	5,345,265	31.54	4,243,254	29.37	5,038,081	26.24

The weighted average fair value of options granted during the years ended December 31, 2000, 1999, and 1998 were $12.05, $9.29, and $8.88, respectively.

(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, 2000:

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
14.55172-14.58579	December 16, 1994	25,080	25,080	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
14.57573	October 1, 1993	1,526	1,526	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	46,000	10,000	December 18, 2007
16.42468	January 2, 1992	21,029	21,029	January 4, 2002
18.56413-18.5922	December 20, 1995	137,467	137,467	December 22, 2005
18.618	December 14, 1993	25,702	25,702	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
19.8125	February 29, 2000	22,355	22,355	March 2, 2010
19.8125	February 29, 2000	8,546	0	February 28, 2011
21.29257-21.30859	December 16, 1996	430,966	430,966	December 18, 2006
21.50657-21.50770	January 2, 1997	65,422	65,422	January 4, 2007
21.52056	January 2, 1997	14,534	1,817	January 2, 2008
22.14864-22.16198	January 31, 1997	140,927	34,629	January 31, 2008
22.25559	December 7, 1992	14,484	14,484	December 9, 2002
24.7174-24.72794	January 4, 1993	13,010	13,010	January 6, 2003
25.75	January 18, 2000	6,309	0	January 18, 2011
27.325	January 17, 2000	6,011	0	January 17, 2011
27.75	January 4, 2000	19,071	0	January 4, 2011
27.8125	December 21, 1999	1,059,150	0	December 23, 2009
27.8125	December 21, 1999	75,663	8,565	December 21, 2010
28.3125	January 3, 2000	11,315	0	January 3, 2011
28.3125	January 3, 2000	48,000	48,000	January 3, 2011
33.27631-33.28237	December 24, 1997	315,243	315,243	December 26, 2007
33.4375	December 16, 1998	648,600	334,550	December 18, 2008
33.4375	December 16, 1998	115,590	23,119	December 16, 2009
33.4903-33.497	September 25, 1997	2,419,322	2,419,322	September 27, 2007
33.54382	January 9, 1998	12,984	2,597	January 9, 2009
33.9375	January 11, 1999	51,025	5,103	January 11, 2010
34.50	November 15, 1999	1,173,733	1,173,733	November 17, 2009
34.75	December 30, 1998	39,659	7,932	December 30, 2009
35.63037	February 16, 1998	12,056	2,411	February 16, 2009
36.11175-36.11284	January 2, 1998	152,709	94,355	January 4, 2008
36.37928	February 10, 1998	11,357	2,271	February 10, 2009
36.43278	February 4, 1998	11,412	2,282	February 4, 2009
36.50	January 4, 1999	42,000	42,000	January 6, 2009
37.375	December 20, 2000	955,600	0	December 22, 2010
37.375	December 20, 2000	263,052	0	December 22, 2010
37.375	December 20, 2000	53,994	0	December 20, 2011
		8,531,198	5,345,265	

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

(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, 2000. Insurance ceded on life and accident and health products represents .7% of premium income for 2000. 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 2.2% of life insurance in force at December 31, 2000 and reinsurance assumed on life and accident and health products represents 1.7% of premium income for 2000.

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 $3.3 million in 2000, $3.4 million in 1999, and $3.2 million in 1998. Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year at December 31, 2000 are as follows: 2001, $1.9 million; 2002, $1.5 million; 2003, $911 thousand; 2004, $431 thousand; 2005, $227 thousand and in the aggregate, $5.2 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, 2000, the investment portfolio consisted of the following:

Type of Investment	Percent of Portfolio
Investment-grade corporate bonds	70%
Nongovernment-guaranteed mortgage-backed securities	6
Securities of the U.S. government or U.S. government-backed securities	5
Securities of state and municipal governments	5
Noninvestment-grade securities	5
Policy loans, which are secured by the underlying insurance policy values	4
Mortgages	2
Short-term investments, which generally mature within one month	2
Securities of foreign governments, 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 investments are made in a wide range of industries. At December 31, 2000, 3% or more of the portfolio was invested in the following industries:

Industry	Percent of Portfolio
Electric, gas, and sanitary services	11%
Depository institutions	10
Communications	6
Insurance carriers	5
Chemicals and allied products	4
Nondepository credit institutions	4
Food and kindred products	4
Transportation equipment	3

Otherwise, no individual industry represented 3% or more of Torchmark's investments. At year-end 2000, 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 $405

Note 18—Commitments and Contingencies (continued)

million, amortized cost was $393 million, and fair value was $302 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 Receivables 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. Bespeaking caution is the fact that the likelihood or extent of a punitive damage award in any given case is currently impossible to predict. As of December 31, 2000, Liberty was a party to approximately 80 active lawsuits (including 10 employment related cases and excluding interpleaders and stayed cases), 71 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.

As previously reported, *Dismukes v. Torchmark Corporation* (Case No. CV-94-1006-P-M), which was filed on December 30, 1994 in the U.S. District Court for the Northern District of Alabama, was the only remaining purported class action litigation brought by Torchmark shareholders alleging untimely and inadequate disclosure of material contingent liabilities arising out of insurance policy litigation involving Liberty. The U.S. District Court entered an order granting partial summary judgment on behalf of the defendants on April 16, 1996. Claims for damages based on Section 10b-5 of the Securities Exchange Act, on state securities laws and for common law fraud remained pending in the case following the U.S. District Court's 1996 order. On September 28, 2000, the District Court granted defendants' motions for summary judgment declaring plaintiffs claims as time-barred by the statute of limitations and denying class certification. Plaintiffs appealed the District Court's orders to the Eleventh Circuit Court of Appeals. On December 19, 2000, the *Dismukes* case was settled on an individual basis and the plaintiffs' appeal was dismissed.

As previously reported, Torchmark, its insurance subsidiaries Globe and United American, and certain Torchmark officers were named as defendants in purported class action litigation filed in the District Court of Oklahoma City, Oklahoma (*Moore v. Torchmark Corporation*, Case No. CJ-94-2784-65, subsequently amended and restyled *Tabor v. Torchmark Corporation*). This suit claims damages on

Note 18—Commitments and Contingencies (continued)

behalf of individual health policyholders who are alleged to have been induced to terminate such policies and to purchase Medicare Supplement and/or other insurance coverages. On February 6, 1998, the defendants renewed their motion to dismiss the class claims for failure to prosecute. The District Court, in an order dated April 2, 1998, allowed bifurcation of *Tabor* into Medicare Supplement policy claims and non-Medicare Supplement policy claims. The non-Medicare Supplement claims were stayed pending disposition of a related case involving the same plaintiffs filed in Mississippi while discovery was allowed to proceed on plaintiff's motion to certify a class of Medicare Supplement policyholders' claims. On August 23, 2000, the non-Medicare Supplement claims were dismissed with prejudice. Plaintiff's motion to certify a class of Medicare Supplement policyholders' claims remains pending.

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 were 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. Defendants filed a motion for summary judgment on the remaining individual claims in the *Smith* case on May 1, 2000 and this motion was granted by the District Court on January 4, 2001. The plaintiffs filed a notice of appeal shortly thereafter, which defendants have moved to dismiss as premature.

Torchmark has previously reported the filing of purported class action litigation on January 2, 1996 against Torchmark, Torch Energy Advisors Incorporated, and certain Torch Energy subsidiaries and affiliated limited partnerships in the Circuit Court of Pickens County, Alabama (*Pearson v. Torchmark Corporation,* Case No. CV-95-140). The plaintiff alleged improper payment of royalties and overriding royalties on coalbed methane gas produced and sold from wells in Robinson's Bend Coal Degasification Field, sought certification of a class and claimed unspecified compensatory and punitive damages on behalf of such class. On April 11, 1996, Torchmark's motion to change venue was granted and the case was transferred to the Circuit Court of Tuscaloosa County, Alabama. Torchmark filed a motion to dismiss, which remained pending while discovery proceeded. On February 10, 1999, the plaintiffs filed a request for a class certification hearing and to set a trial date for the *Pearson* case. After extensive negotiations, a tentative settlement was reached by the parties. On January 8, 2001 the Circuit Court held a settlement and fairness hearing on the stipulation and agreement of compromise and settlement executed by counsel for all parties. The Circuit Court approved this settlement and entered an order and final judgment of dismissal with prejudice on January 10, 2001. The settlement fund of $6 million, to which Torchmark contributed pursuant to a litigation indemnity given at the time of its 1996 sale of Torch Enery, was distributed in March 2001.

It has been previously reported that purported class action litigation was filed against Torchmark's subsidiary, American Income Life Insurance Company and certain of its employee benefit plans (*Peet, et al. v. American Income Life Insurance Company, et al.,* Case No. C-99-2283) on May 18, 1999 in the U.S. District Court for the Northern District of California, which was subsequently transferred to the U.S. District Court for the Western District of Texas. Plaintiffs, individually and on behalf of all current and former public relations representatives of American Income, asserted that they had been improperly classified as independent contractors rather than employees and thus denied participation in certain of

Note 18—Commitments and Contingencies (continued)

American Income's employee benefit plans. The lawsuit alleged breach of fiduciary duty and wrongful denial of access to plan documents and other information under the Employee Retirement Income Security Act. Declaratory and injunctive relief together with restitution, disgorgement and statutory penalties were sought. On September 12, 2000, the District Court granted the defendants' motions for partial summary judgment and denied plaintiffs' motion for class certification with leave to renew plaintiffs' class certification motion if they provided the Court with information regarding additional benefit plans from which they had been improperly excluded. Subsequently, in September 2000, plaintiffs submitted additional information to the Court alleging additional benefit plans from which plaintiffs had been improperly excluded, and plaintiffs also filed a motion for reconsideration of the order granting defendants' motion for summary judgment with respect to American Income's defined benefit plan.

As previously reported, Liberty was served on October 28, 1999 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. Liberty has also received similar subpoenas from the Alabama, Georgia, Kentucky, Texas, South Carolina and Minnesota Insurance Departments regarding its industrial life insurance and other low face-amount life insurance policies sold in those states. Specific inquiry is made into the historical use of race-based mortality, a practice discontinued by Liberty many years ago. Liberty has been and continues responding to these subpoenas in a timely fashion. In July 2000, the Florida and Georgia Insurance Departments issued cease and desist orders to all companies reporting premium income from industrial life insurance, including Liberty, stating that, to the extent that any company is currently collecting any race-based insurance premiums from Florida and Georgia residents, respectively, it immediately cease and desist from collecting any premium differential based on the race of the policyholders. On August 22, 2000, the Florida First District Court of Appeal issued an order staying the Florida Insurance Department's immediate final cease and desist order. At present, Liberty, as an Alabama domestic company, is being examined by representatives of the Alabama Department of Insurance with regard to issues parallel to those raised by the State of Florida.

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. The alleged class period covers virtually the entire twentieth century. 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. On April 7, 2000, the District Court entered an order granting Liberty's motion for judgment on the pleadings and dismissing plaintiffs' claims under 42 U.S.C. § 1981 with prejudice as time-barred and dismissing their state law claims without prejudice to re-file in state court if desired. Plaintiffs subsequently filed motions with the District Court to reconsider its April 17, 2000 order and for permission to file an amended complaint adding similar claims under 24 U.S.C. § 1982. Liberty opposed this motion. On June 22, 2000, purported class action litigation with allegations comparable to those in the *Moore* case was filed against Liberty in the Circuit Court of Jefferson County, Alabama (*Baldwin v. Liberty National Life Insurance Company*, Case No. CV-00-684). The *Baldwin* case is currently stayed pending disposition of the *Moore* case.

On July 3, 2000, the District Court issued an order in the *Moore* case granting in part and denying in part the plaintiffs' motions. The District Court ordered the *Moore* plaintiffs to file an amended complaint setting forth their claims under 28 U.S.C. §§ 1981 and 1982 and, if such claims are timely, any state law claims for breach of contract related to the discontinuance of debit collections, and dismissed with

Note 18—Commitments and Contingencies (continued)

prejudice all remaining state law claims of the plaintiffs as time-barred by the common law rule of repose. On July 14, 2000, plaintiffs filed their amended complaint with the District Court and Liberty filed a motion to alter or amend the District Court's July order or, in the alternative, requested that the District Court certify for purposes of appeal the issue whether the state law doctrine of repose should be applied to and bar plaintiffs' actions under §§ 1981 and 1982. The District Court entered such an order on July 21, 2000 and stayed proceedings in *Moore* pending resolution of Liberty's petition to the U.S. Circuit Court of Appeals for the Eleventh Circuit. Liberty filed a petition on July 30, 2000 with the Eleventh Circuit seeking that Court's permission to appeal the portions of the District Court's July order in *Moore* granting the plaintiffs the right to file the amended complaint. The Eleventh Circuit Court granted Liberty's motion and will consider Liberty's arguments regarding the applicability of the state law of repose to actions under §§ 1981 and 1982. Five individual cases with similar allegations to those in the *Moore* case have been filed against Liberty in various Circuit Courts in the state of Alabama. In the earliest filed of these individual state court actions, *Walter Moore v. Liberty National Life Insurance Company* (Circuit Court of Dallas County, Alabama, CV-00-306) the Court has entered an order granting summary judgment in favor of Liberty based upon the doctrine of repose.

It has been previously reported that on August 18, 2000, a jury in Barbour County, Alabama Circuit Court returned a verdict of $100,000 compensatory damages and $3.5 million in punitive damages against Torchmark's subsidiary, Liberty in *Carter v. Liberty National Life Insurance Company* (Civil Action No. CV-99-026). An individual lawsuit filed in March 1999, the *Carter* case involved allegations of fraud, misrepresentation, suppression and negligent/wanton agent hiring, training and supervision practices by Liberty in connection with the sale of an interest-sensitive life insurance policy. The plaintiff had asserted that the policy had been purchased based upon agent representations that it would become paid-up or self sustaining after a specified number of years. Liberty pursued available motions for post trial relief in this case and on February 15, 2001, the Circuit Court reduced the *Carter* verdict to $100,000 compensatory damages and $700,000 in punitive damages. Liberty will pursue additional appellate relief in the *Carter* case.

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.

(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 2000

Distribution Channel	Life Amount	Life % of Total	Health Amount	Health % of Total	Annuity Amount	Annuity % of Total	Total Amount	Total % of Total
United American Independent	$ 42,305	3.9%	$442,370	48.6%	$ 700	1.3%	$ 485,375	23.7%
Liberty National Exclusive	294,197	27.2	151,363	16.6	79	0.2	445,639	21.8
American Income Exclusive	231,149	21.4	48,296	5.3			279,445	13.7
Direct Response	267,899	24.7	14,860	1.6			282,759	13.8
United American Exclusive	19,393	1.8	254,267	27.9			273,660	13.4
Other	227,182	21.0			52,150	98.5	279,332	13.6
	$1,082,125	100.0%	$911,156	100.0%	$52,929	100.0%	$2,046,210	100.0%

For the Year 1999

Distribution Channel	Life Amount	Life % of Total	Health Amount	Health % of Total	Annuity Amount	Annuity % of Total	Total Amount	Total % 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	21.4	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
Other	210,087	20.6			40,401	98.6	250,488	13.2
	$1,018,301	100.0%	$824,816	100.0%	$40,969	100.0%	$1,884,086	100.0%

For the Year 1998

Distribution Channel	Life Amount	Life % of Total	Health Amount	Health % of Total	Annuity Amount	Annuity % of Total	Total Amount	Total % 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	14.4
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
Other	195,973	20.4			33,425	98.5	229,398	13.0
	$ 959,766	100.0%	$759,910	100.0%	$33,954	100.0%	$1,753,630	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 because interest credited to net policy liabilities (reserves less deferred acquisition costs and value of insurance purchased) is reflected as a component of the Investment segment in order to match this cost to the investment earnings from the assets supporting the net policy liabilities.

(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

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 2000							
	Life	Health	Annuity	Investment	Other	Corporate	Adjustments	Consolidated
Revenue:								
Premium	$1,082,125	$911,156	$ 52,929					$2,046,210
Net Investment income				$481,081			$ (8,655)	472,426
Other income					$ 4,650		(2,070)	2,580
Total revenue	1,082,125	911,156	52,929	481,081	4,650		(10,725)	2,521,216
Expenses:								
Policy benefits	711,833	591,022	36,627					1,339,482
Required interest on reserves	(246,989)	(15,736)	(42,688)	305,413				-0-
Amortization of acquisition costs	188,268	68,778	17,791					274,837
Commissions and premium tax	59,754	91,069	2,116				(2,070)	150,869
Required interest on acquisition costs	98,596	14,907	8,124	(121,627)				-0-
Financing costs*				70,309			(15,822)	54,487
Total expenses	811,462	750,040	21,970	254,095			(17,892)	1,819,675
Underwriting income before other income and administrative expense	270,663	161,116	30,959					462,738
Excess investment income				226,986				226,986
Subtotal adjustments					4,650		7,167	11,817
Subtotal	270,663	161,116	30,959	226,986	4,650		7,167	701,541
Administrative expense					(111,817)			(111,817)
Parent expense						$ (9,369)		(9,369)
Goodwill amortization						(12,075)		(12,075)
Pretax operating income	$ 270,663	$161,116	$ 30,959	$226,986	$(107,167)	$(21,444)	$ 7,167	568,280
Deduct realized investment losses and deferred acquisition cost adjustments								(5,322)
Pretax income								$ 562,958

* Investment segment includes MIPS dividend on a pretax basis.

(Dollar amounts in thousands except per share data)

Note 19—Business Segments (continued)

	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 interest on reserves	(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.

(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 interest on reserves	(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.

(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, 2000						
	Life	Health	Annuity	Investment	Other	Corporate	Consolidated
Cash and invested assets				$6,506,292			$ 6,506,292
Accrued investment income				119,124			119,124
Deferred acquisition costs	$1,653,567	$266,131	$ 155,621				2,075,319
Goodwill						$390,509	390,509
Separate account assets			3,741,415				3,741,415
Other assets					$129,899		129,899
Total assets	$1,653,567	$266,131	$3,897,036	$6,625,416	$129,899	$390,509	$12,962,558

	At December 31, 1999						
	Life	Health	Annuity	Investment	Other	Corporate	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

Note 20—Related Party Transactions

Transactions Regarding Vesta: From 1993 until disposition in 2000, Torchmark 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.

Torchmark sold 3.75 million shares of Vesta during the second quarter of 2000. In early July, 2000, Torchmark sold the remaining 1.38 million shares of Vesta stock that it held. The sales provided proceeds of $33 million and resulted in an after-tax loss of $1.5 million. As of December 31, 2000, Torchmark no longer had any ownership interest in Vesta.

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. These commissions were $43.5 million in 2000 and $39.2 million in 1999.

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, of which $85 million was paid in cash and the remainder in a ten year collaterialized note. The Chairman of the Executive Committee of Torchmark is a 25% investor in Stonegate Realty Co., LLC, the parent company of Elgin Development Company. His investment in Elgin Development was approximately $1.5 million.

(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, 2000. 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,**
2000:				
Premium and policy charges	$ 503,053	$506,834	$512,738	$523,585
Net investment income	117,111	117,427	118,073	119,815
Realized investment losses	(1,859)	(9,839)	9,092	(2,716)
Total revenues	619,017	615,133	640,554	641,190
Policy benefits	331,520	333,274	335,692	338,996
Amortization of acquisition expenses	66,357	67,277	69,061	72,142
Pretax income from continuing operations	137,910	129,774	151,836	143,438
Net income	88,882	83,294	97,736	92,123
Basic net income per common share from continuing operations	.68	.65	.77	.73
Basic net income per common share	.68	.65	.77	.73
Diluted net income per common share from continuing operations	.68	.65	.77	.72
Diluted net income per common share	.68	.65	.77	.73
Diluted net income per common share from continuing operations excluding realized losses, related acquisition cost adjustment, and gain on redemption of debt	.69	.70	.72	.74
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, and related acquisition cost adjustment	.62	.63	.64	.56

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 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 preceding their replacement 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 principles 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 26, 2001 (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:

Torchmark is not aware of any persons known to be the beneficial owner of more than five percent of the company's outstanding common stock as of December 31, 2000.

(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.

No reports on Form 8-K were filed by the registrant during the fourth quarter of 2000.

(c) Exhibits

EXHIBITS

		Page of this Report
(3)(i)	Restated Certificate of Incorporation of Torchmark Corporation, as amended	
(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)	Letter of Credit Agreement dated as of October 24, 2000 among TMK Re, Ltd., Torchmark Corporation, the Participants named therein, Bank One, NA and Fleet National Bank	
(e)	Certified Copy of Resolution Regarding Director Retirement Benefit Program (incorporated by reference from Exhibit 10(e) to Form 10-K for the fiscal year ended December 31, 1999)	
(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)	

		Page of this Report
(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 Agreement dated as of October 22, 1997 among Torchmark Corporation, the Lenders and The First National Bank of Chicago, as Agent, as amended	
(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 (incorporated by reference from Exhibit 10(v) to Form 10-K for the fiscal year ended December 31, 1999)	
(x)	Receivables Purchase Agreement dated as of December 21, 1999, as Amended and Restated as of March 31, 2000 among AILIC Receivables Corporation, American Income Life Insurance Company, Preferred Receivables Funding Corporation and Bank One, NA	
(11)	Statement re computation of per share earnings	89
(20)	Proxy Statement for Annual Meeting of Stockholders to be held April 26, 2001	
(21)	Subsidiaries of the registrant	90
(23)(a)	Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 30, 2001, into Form S-8 of The Torchmark Corporation Savings and Investment Plan (Registration No. 2-76378)	

(b) Consent of Deloitte & Touche LLP to incorporation by reference of their audit report dated January 30, 2001, 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 30, 2001, 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 30, 2001, 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 30, 2001, 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 30, 2001, 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 Deloitte & Touche LLP to incorporation by reference of their audit report dated January 30, 2001 into Form S-8 of the Profit Sharing and Retirement Plan of Liberty National Life Insurance Company (Registration No. 333-83317)

(h) Consent of Deloitte & Touche, LLP to incorporation by reference of their audit report dated January 30, 2001 into Form S-8 and the accompanying Form S-3 Prospectus of the Torchmark Corporation 1998 Stock Incentive Plan (Registration No. 333-40604)

(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 of the Torchmark Corporation Savings and Investment Plan (Registration No. 2-76378)

(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 Torchmark Corporation 1996 Non-Employee Director Stock Option Plan (Registration No. 2-93760)

(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 accompanying Form S-3 Prospectus of the Torchmark Corporation 1987 Stock Incentive Plan (Registration No. 33-23580)

(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 the accompanying Form S-3 Prospectus of the Capital Accumulation and Bonus Plan of Torchmark Corporation (Registration No. 33-1032)

(m) 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 of the Liberty National Life Insurance Company 401(k) Plan (Registration No. 33-65507)

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(n) 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 Executive Deferred Compensation Stock Option Plan (Registration No. 333-27111)

(o) 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 1998 Stock Incentive Plan (Registration No. 333-40604)

(p) 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 The Profit Sharing and Retirement Plan of Liberty National Life Insurance Company (Registration No. 333-83317)

(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,		
	2000	1999	1998
Net income from continuing operations	$361,833,000	$258,930,000	$255,776,000
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	-0-	47,868,000
Loss on disposal	-0-	(1,060,000)	(54,241,000)
Net income before extraordinary item and cumulative effect of change in accounting principle	361,833,000	257,870,000	249,403,000
Gain (loss) on redemption of debt	202,000	-0-	(4,962,000)
Net income before cumulative effect of change in accounting principle	362,035,000	257,870,000	244,441,000
Cumulative effect of change in accounting principle	-0-	16,086,000	-0-
Net income	$362,035,000	$273,956,000	$244,441,000
Basic weighted average shares outstanding	128,089,235	133,197,023	139,998,671
Diluted weighted average shares outstanding	128,353,404	133,985,943	141,351,912
Basic earnings per share:			
Net income from continuing operations	$ 2.83	$ 1.95	$ 1.83
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	-0-	.34
Loss on disposal	-0-	(.01)	(.39)
Net income before extraordinary item and cumulative effect of change in accounting principle	2.83	1.94	1.78
Loss on redemption of debt	-0-	-0-	(.03)
Net income before cumulative effect of change in accounting principle	2.83	1.94	1.75
Cumulative effect of change in accounting principle	-0-	.12	-0-
Net income	$ 2.83	$ 2.06	$ 1.75
Diluted earnings per share:			
Net income from continuing operations	$ 2.82	$ 1.93	$ 1.81
Discontinued operations of Waddell & Reed:			
Net income from operations	-0-	-0-	.34
Loss on disposal	-0-	(.01)	(.38)
Net income before extraordinary item and cumulative effect of change in accounting principle	2.82	1.92	1.77
Loss on redemption of debt	-0-	-0-	(.04)
Net income before cumulative effect of change in accounting principle	2.82	1.92	1.73
Cumulative effect of change in accounting principle	-0-	.12	-0-
Net income	$ 2.82	$ 2.04	$ 1.73

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 85 through 88 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, 2000	December 31, 1999
Assets:		
Investments:		
Long-term investments	$ 27,198	$ 200,843
Short-term investments	5,219	2,899
Total investments	32,417	203,742
Cash	-0-	1,059
Investment in affiliates	3,055,354	2,851,913
Due from affiliates	37	-0-
Accrued investment income	260	2,360
Taxes receivable	25,184	5,883
Other assets	26,552	38,521
Total assets	$3,139,804	$3,103,478
Liabilities and shareholders' equity:		
Liabilities:		
Short-term debt	$ 329,148	$ 418,394
Long-term debt	365,989	394,160
Due to affiliates	393	51,724
Other liabilities	48,519	52,539
Total liabilities	744,049	916,817
Monthly income preferred securities	193,395	193,324
Shareholders' equity:		
Preferred stock	351	279
Common stock	147,801	147,801
Additional paid-in capital	977,041	901,532
Accumulated other comprehensive income	(148,406)	(174,222)
Retained earnings	2,220,671	1,910,487
Treasury stock	(995,098)	(792,540)
Total shareholders' equity	2,202,360	1,993,337
Total liabilities and shareholders' equity	$3,139,804	$3,103,478

See Notes to Condensed Financial Statements and 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,		
	2000	**1999**	**1998**
Net investment income	$ 11,073	$ 17,747	$ 20,024
Realized investment losses	(81,724)	(24,179)	(54,855)
Total revenue	(70,651)	(6,432)	(34,831)
General operating expenses	9,296	10,169	10,406
Reimbursements from affiliates	(9,576)	(10,800)	(13,653)
Interest expense	58,734	58,119	65,871
Total expenses	58,454	57,488	62,624
Operating loss before income taxes and equity in earnings of affiliates	(129,105)	(63,920)	(97,455)
Income taxes	46,874	22,834	44,132
Net operating loss before equity in earnings of affiliates	(82,231)	(41,086)	(53,323)
Equity in earnings of affiliates	454,348	308,114	327,984
Adjustment to carrying value of Vesta	-0-	-0-	(20,234)
Monthly income preferred securities dividend (net of tax)	(10,284)	(9,158)	(9,777)
Net income from continuing operations	361,833	257,870	244,650
Discontinued operations of Waddell & Reed:			
Income from operations	-0-	-0-	9,154
Loss on disposal	-0-	-0-	(4,401)
Net income before extraordinary item and cumulative effect of change in accounting principle	361,833	257,870	249,403
Gain (loss) on redemption of debt (net of tax)	202	-0-	(4,962)
Net income before cumulative effect of change in accounting principle	362,035	257,870	244,441
Cumulative effect of change in accounting principle	-0-	16,086	-0-
Net Income	$362,035	$273,956	$244,441

See Notes to Condensed Financial Statements and 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,		
	2000	1999	1998
Cash provided from operations before dividends from subsidiaries	$ (44,603)	$ (60,364)	$ (46,825)
Cash dividends from subsidiaries	220,542	284,881	462,267
Cash provided from operations	175,939	224,517	415,442
Cash provided from (used for) investing activities:			
Disposition of investments	119,021	43,436	217,323
Acquisition of investments	-0-	(49,260)	(311,784)
Investment in subsidiaries	(1,000)	(172)	(710)
Loans to subsidiaries	(35,500)	(77,476)	(48,723)
Repayments on loans to subsidiaries	35,500	75,400	120,079
Net decrease (increase) in temporary investments	(2,320)	(1,185)	(1,378)
Additions to properties	(53)	(1,298)	(48)
Other	18	13	-0-
Cash used for investing activities	115,666	(10,542)	(25,241)
Cash provided from (used for) financing activities:			
Issuance of debt	-0-	63,152	216,279
Sale of Vesta shares	-0-	-0-	3,056
Repayments of debt	(95,390)	-0-	(380,000)
Issuance of stock	6,723	37,163	3,957
Redemption of preferred stock	-0-	(20,000)	-0-
Acquisitions of treasury stock	(147,008)	(221,878)	(125,875)
Borrowed from subsidiaries	85,450	138,800	-0-
Repayment on borrowings from subsidiaries	(85,450)	(150,885)	-0-
Payment of dividends	(65,965)	(66,992)	(107,166)
Cash provided from (used for) financing activities	(301,640)	(220,640)	(389,749)
Net increase (decrease) in cash	(10,035)	(6,665)	452
Cash balance at beginning of period	1,059	7,724	7,272
Cash balance at end of period	$ (8,976)	$ 1,059	$ 7,724

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:

	2000	1999	1998
Consolidated subsidiaries	$220,542	$284,881	$462,267

Note B—Exchange of Preferred Stock for Debt

During 2000, Torchmark exchanged 71,369 shares of its preferred stock with two Torchmark subsidiary companies for $22.3 million principal amount of Torchmark notes, valued at $20.3 million, and $51 million of intercompany debt.

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, 2000:					
Life insurance in force	$105,989,502	$974,566	$2,329,488	$107,344,424	2.2%
Premiums:*					
Life insurance	$ 984,506	$ 6,266	$ 33,153	$ 1,011,393	3.3%
Health insurance	917,552	6,397	-0-	911,155	0%
Total premiums	$ 1,902,058	$ 12,663	$ 33,153	$ 1,922,548	1.7%
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 %

* 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 21, 2001

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 21, 2001

*By: /s/ GARY L. COLEMAN

Gary L. Coleman
Attorney-in-fact