Torchmark Corporation

2004 Annual Report

Torchmark Corporation

Corporate Headquarters

Torchmark Corporation
2001 Third Avenue South
Birmingham, Alabama 35233
(205) 325-4200
www.torchmarkcorp.com

Annual Meeting of Shareholders

10:00 a.m. CDT, Thursday, April 28, 2005
Westin Stonebriar Resort
1549 Legacy Drive
Frisco, Texas 75034

The proceedings will be webcast live and in replay on the Investor Relations page of the Torchmark Corporation website. The Company's Annual Meeting will be conducted in accordance with its Shareholder Rights Policy. A copy of this policy can be obtained on the Company's website, or by contacting the Corporate Secretary at the Torchmark Corporation headquarters address.

Investor Relations

Contact: Joyce L. Lane
Phone: (972) 569-3627
Fax: (972) 569-3282
E-Mail: jlane@torchmarkcorp.com
Individual Stock Ownership Information:
(205) 325-4270
Toll-Free Stock Transfer Number:
(866) 557-8699

Independent Auditors

Deloitte & Touche LLP
2200 Ross Avenue
Suite 1600
Dallas, Texas 75201

Stock Exchange Listings

New York Stock Exchange
Symbol: TMK

The International Stock Exchange,
London, England

Indenture Trustee for Senior Debentures and 7⅞% and 7⅜% Notes

J.P. Morgan Bondholder Services
P.O. Box 2320
Dallas, Texas 75221-2320
Toll-Free Number: (800) 275-2048
www.jpmorgan.com/bondholder

Indenture Trustee for 6¼% Notes

The Bank of New York
505 North 20th Street, Suite 950
Birmingham, Alabama 35203
Attention: Corporate Trust Administration
Toll-Free Number: (800) 254-2826
www.bankofny.com/corptrust

Torchmark Capital Trust Preferred Securities

Torchmark Capital Trust I and II, Delaware business trust subsidiaries of Torchmark, have issued a total of 5,000,000 7¾% Trust Preferred Securities (liquidation amount $25 per Trust Preferred Security). The Trust Preferred Securities trade through Depository Trust Company under global certificates listed on the New York Stock Exchange (Torchmark Capital Trust I NYSE symbol: TMKPRT; Torchmark Capital Trust II NYSE symbol: TMKPRS).

Stock Transfer Agent and Shareholder Assistance

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, New York 10286
Toll-Free Number: (866) 557-8699
Toll-Free Hearing
Impaired Number: (888) 269-5221
Outside the U.S.: (610) 382-7833
E-Mail: Shareowner@bankofny.com
www.stockbny.com

Dividend Reinvestment

Torchmark maintains a dividend reinvestment plan for all holders of its common stock. Under the plan, shareholders may reinvest all or part of their dividends in additional shares of common stock and may also make periodic additional cash payments of up to $3,000 toward the purchase of Torchmark stock. Participation is voluntary. More information on the plan may be obtained from the Stock Transfer Agent by calling: toll-free (866) 557-8699 or by writing: The Bank of New York, Dividend Reinvestment Department, P.O. Box 1958, Newark, NJ 07101.

Automatic Deposit of Dividends

Automatic deposit of dividends is available to shareholders who wish to have their dividends directly deposited into the financial institution of their choice. Authorization forms may be obtained from the Stock Transfer Agent by calling toll-free (866) 557-8699. Participation is voluntary.

Corporate Governance

The Company timely submitted to the New York Stock Exchange a Section 303A (12)(a) CEO Certification without qualification in 2004. In 2004, Torchmark also filed with the Securities and Exchange Commission the CEO/CFO Certifications required by Section 302 of the Sarbanes-Oxley Act as Exhibits to its Form 10-K.

Torchmark Corporation Website

On the home page at www.torchmarkcorp.com are links to the web pages of:

- Torchmark's principal subsidiaries
- Torchmark's Annual Reports
- Employment
- Investor Relations

The Investor Relations page contains a menu with links to many topics of interest to investors and other interested third parties:

- About Torchmark
- Annual Reports, SEC forms 10-K and Proxy Statements
- News Releases and Stock Quotes
- SEC Filings
- Financial Reports and Other Financial Information
- Officers and Directors
- Torchmark Calendar
- Management Presentations
- Conference Calls on the Web
- Corporate Governance including:
  - Shareholder Rights Policy
  - Code of Business Conduct and Ethics
  - Code of Ethics for CEO and Senior Financial Officers
  - Corporate Governance Guidelines
  - Audit Committee Charter
  - Compensation Committee Charter
  - Governance & Nominating Committee Charter
  - Employee Complaint Procedure
  - How to Contact the Board of Directors
- Annual Meeting of Shareholders
- Stock Transfer Agent and Shareholder Assistance
- Dividend Reinvestment
- Automatic Deposit of Dividends
- Contact Information

Torchmark Corporation

Financial Highlights*

In thousands, except percentage and per share amounts

	2004	2003	% CHNG.
OPERATIONS:			
Total Premium	$2,471,900	$2,375,783	4.0
Total Revenue	3,071,542	2,930,998	4.8
Net Operating Income	473,432	446,383	6.1
Annualized Life Premium in Force	1,523,335	1,449,290	5.1
Annualized Health Premium in Force	1,056,451	1,064,428	(0.7)
Diluted Average Shares Outstanding	111,908	115,377	(3.0)
Net Operating Income as a Return On Average Common Equity	16.2%	16.3%	
PER COMMON SHARE:			
Net Operating Income	$4.23	$3.87	9.3
Shareholders' Equity at Year End	27.45	25.06	9.5

* Certain financial data differ from the comparable GAAP financial data. Reconciliations to GAAP financial data are presented on pages 10-11.

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Torchmark Corporation

Letter to Shareholders*

2004 was another good year for Torchmark. Net operating income increased 6% to $473 million; on a per share basis, net operating income increased 9% to $4.23.

Underwriting income, which is premium income less the funding of current and future benefits and less expenses, increased 8%. Excess investment income, which is net investment income less the interest paid or credited on interest-bearing liabilities, increased 4%. Capital was managed effectively, including the repurchase of stock, which enhances the current and future value of the investment of our shareholders.

Financial Review

Key Components of Net Operating Income

	$ MILLIONS			DILUTED OPERATING EARNINGS PER SHARE		
	2004	2003	% CHNG	2004	2003	% CHNG
Insurance Underwriting Income	$400.9	$371.8	8	$3.58	$3.22	11
Excess Investment Income	330.5	317.6	4	2.95	2.75	7
Other	(9.6)	(10.2)	(6)	(0.09)	(0.09)	0
Income Tax	(248.5)	(232.8)	7	(2.22)	(2.02)	10
Net Operating Income	**$473.4**	**$446.4**	**6**	**$4.23**	**$3.87**	**9**

First year premiums are the premiums received for policies that are in their first policy year, and they are a measure of the new business generated within our distribution systems. Life insurance first year premiums increased 6% to $236 million, and health insurance first year premiums increased 13% to $165 million.

Total life insurance premiums increased 6% to $1.4 billion. Underwriting margin, which is the premium income less the amounts required to fund current and future benefits and to amortize acquisition expenses, increased 8% to $352 million.

Total health insurance premiums increased 1% to $1.0 billion, and underwriting margin increased 6% to $175 million.

Annuity margin increased 32% to $14 million, and other income was $2 million. Our administrative expenses increased 8% to $142 million. Underwriting income increased 8% to $401 million. Net investment income increased 4% to $577 million. Required interest on net policy liabilities increased 4% to $213 million, and financing costs increased 11% to $33 million. Therefore, excess investment income increased 4% to $331 million.

When valuing fixed maturity assets at amortized cost instead of market, our objective being to hold these assets until maturity, our book value was $27.45 per share, our debt to capital ratio was 22.3%, and our net operating income as a return on equity was 16.2%.

* Certain financial data differ from the comparable GAAP financial data. Reconciliations to GAAP financial data are presented on pages 10-11.

Direct Response Operation

In millions, except %

	LIFE				HEALTH			
	2004		2003		2004		2003	
	$	%*	$	%*	$	%*	$	%*
First Year Collected Premium	74		63		9		8	
Underwriting Margin:								
Premium	387		350		35		28	
Policy Obligations	181	47%	165	47%	27	79%	22	78%
Acquisition Expenses	109	28%	99	28%	3	10%	3	9%
Underwriting Margin	97	25%	86	25%	4	11%	3	12%

* Percent of Premium

First year premiums increased 18% to $83 million. Total premiums increased 11% to $422 million, and underwriting margin increased 12% to $101 million.

With respect to life insurance, ours is the largest direct response operation in the U. S., and the primary vehicle is direct mail. We obtain mailing lists that meet the selection criteria for the products we offer, and then we reduce the lists using our own demographic data related to household incomes and past response rates. All printing and lettershop work are done internally, including the making of envelopes. We pre-sort the mail into carrier route zip codes, and then truck it to the various regional postal centers throughout the country. The results are mailings that have the lowest possible packaging and postal costs and the highest probability of response rates that will generate the desired underwriting margin.

The life insurance issued in recent years has greater margins than the overall in force business. This has been a result of constant testing of products and pricing structures in order to maximize return on investment. The evidence is reflected in the financial results; for 2003 and 2004, premiums increased 11% and 10%, respectively, but underwriting margin increased 14% and 12%.

For 2005, we expect another outstanding year in our Direct Response operation, with continued impressive growth in premiums and even greater growth in underwriting margin.

American Income Agency Operation

In millions, except %

	LIFE				HEALTH			
	2004		2003		2004		2003	
	$	%*	$	%*	$	%*	$	%*
First Year Collected Premium	77		73		13		12	
Underwriting Margin:								
Premium	350		315		60		56	
Policy Obligations	117	33%	107	34%	25	42%	23	41%
Acquisition Expenses	127	36%	114	36%	15	26%	14	25%
Underwriting Margin	106	30%	93	30%	19	33%	19	34%

* Percent of Premium

First year premiums increased 5% to $90 million. Total premiums increased 10% to $409 million, and underwriting margin increased 11% to $125 million.

American Income is a "union label" company with union members not only in the home office, but also in the sales force. With the endorsement of unions at the local level, the sales force markets products to union membership. American Income is one of only two "union label" U. S. life insurance companies, and American Income is clearly the leader with respect to individual life and health insurance.

After growing the sales force by over 300 agents in 2003, the agent count dropped by over 200 agents in 2004; American Income ended the year with 2,090 agents. There are two means by which a sales force will decline: (1) agent dissatisfaction, and (2) reduced recruiting efforts. We were guilty on both counts in 2004. At the beginning of the year, we aggressively raised minimum production levels for agent bonuses, which are a significant portion of compensation. The result was an immediate drop in the agent count. Although we corrected the problem, the damage was done and we ended the first quarter with a net loss of 260 agents. To make matters worse, our recruiting efforts declined and resulted in only a net addition of 60 agents for the last nine months of the year. In short, we erred, and first year premiums grew only 5%.

The good news is that we accelerated the recruiting momentum late in the year, and we aren't changing the bonus standards for 2005. American Income is an excellent distribution system operating in a niche market. We are in position for impressive growth in agents for 2005, with increasing growth in first year premium and continuing growth in total premiums and underwriting margin.

Liberty National Exclusive Agency Operation

In millions, except %

	LIFE				HEALTH			
	2004		2003		2004		2003	
	$	%*	$	%*	$	%*	$	%*
First Year Collected Premium	40		40		10		9	
Underwriting Margin:								
Premium	304		304		164		164	
Policy Obligations	141	46%	144	47%	119	72%	125	76%
Acquisition Expenses	89	29%	93	31%	26	16%	30	18%
Underwriting Margin	74	24%	68	22%	19	11%	10	6%

* Percent of Premium

Although first year premiums were flat at $50 million and total premiums were flat at $468 million, underwriting margin increased 20% to $92 million.

Early in 2004 a significant change in the distribution system was implemented. The subsidization of new agent compensation, a practice that doesn't exist in our other agent distribution systems, was eliminated. The initial result was fewer new agents entering the sales force, and consequently, a decline in total agents since natural attrition wasn't being offset with new agents. Subsidizing new agent compensation was not achieving acceptable results with respect to growth in agents or associated costs. From the beginning of the year to the end of the third quarter, the agent count declined from almost 2,200 agents to 1,660 agents. It took awhile for the sales force management to adjust to hiring new agents without a minimum income guarantee. But recruiting efforts increased later in the year and the agent count at year end was 1,775.

The reduction in acquisition expenses favorably impacted the underwriting margin. Even though life insurance premiums were flat relative to the prior year, acquisition expenses declined by $4 million. And the lower acquisition expenses were a key factor in the 9% increase in life insurance underwriting margin.

In last year's annual report we described the changes in 2003 at Liberty National to improve the quality of business being issued. This year we have described some of the changes made to improve underwriting margin. For the most part, the major changes are behind us. Going forward into 2005, we expect growth in agents and growth in life insurance premiums. The life insurance underwriting margin is expected to grow not only in dollars, but also as a percentage of the premium income.

The health insurance underwriting margin improved in 2004. Nonetheless, the margin continued to be pressured by the cancer business subject to a 1994 class action settlement. This business, which represented over 40% of Liberty's health premiums, experienced a paid claims loss ratio equal to 109% of the premiums. At this writing, we are in the process of implementing a court-approved solution to problems that exist with respect to this closed block of business. The solution entails both reduced premiums paid by customers and reduced benefits paid by the company. This block of business will never be a source of profit to Liberty, but going forward it should no longer be a source of loss.

United American General Agency and Branch Office Operations

In millions, except %

	LIFE				HEALTH			
	2004		2003		2004		2003	
	$	%*	$	%*	$	%*	$	%*
First Year Collected Premium	10		14		134		117	
Underwriting Margin:								
Premium	68		71		791		786	
Policy Obligations	33	49%	34	48%	507	64%	502	64%
Acquisition Expenses	28	41%	29	40%	151	19%	151	19%
Underwriting Margin	6	9%	9	12%	133	17%	132	17%

* Percent of Premium

First year premiums increased 9% to $143 million. Total premiums were flat at $858 million, and underwriting margin declined 1% to $139 million.

With respect to health insurance, our operations market (a) supplemental health insurance products to individuals who are under the age of 65, and (b) Medicare supplement products to individuals age 65+ who are on Medicare.

First year premiums for underage 65 insurance increased 44% to $87 million. There are two reasons for the high demand for the products: (1) the availability of individual Major Medical insurance is disappearing as carriers withdraw these products from the marketplace, and (2) employers continue to cut back employee group health insurance benefits. The wide variety of products offered by United American provide either basic protection against the expenses of the majority of hospital confinements and out-patient hospital treatments or fill the gaps created by employer cutbacks.

Medicare supplement first year premiums declined 18% to $46 million. Since the standardized plans were introduced in 1992, which require all carriers to sell the same products, the most popular plan has been what is known as Plan F. Basically, it pays all hospital and medical expenses not paid by Medicare. The typical annual premium for a 65-year old has risen from $1,200 in 1992, to $2,500 in 2005, and as premiums have risen the product naturally has become extremely price sensitive. In fact, a trend is developing whereby seniors elect to self-insure, an election that was rare in the past. The real problem is the fact that the Plan F has evolved from an insurance plan to a very expensive "pre-payment" plan. Nearly all seniors have hospital/medical expenses in a calendar year, and providing 100% coverage for the first several hundreds of dollars of such expenses not paid by Medicare doesn't make good sense, especially if the carrier's premium is loaded for a 65% claims loss ratio.

The Medicare supplement problem hasn't been a sudden surprise. We have seen it developing for years, but unfortunately, the existing federally mandated standardized plans didn't provide a solution...until recently. In 2005 United American will begin introducing a High-Deductible Plan F (HDF). In round dollars, the first $1,700 of hospital/medical expenses in a calendar year not paid by Medicare will also not be covered by HDF, but all such expenses in excess of $1,700 will be paid by HDF. The annual premium for the product will be approximately $700. No matter if an individual has a few hundred dollars of hospital/medical expenses not paid by Medicare or if the expenses are thousands of dollars, the HDF is obviously superior to the old Plan F. United American will be back into the Medicare Supplement "insurance" business instead of the expensive "pre-payment" plan business.

Going forward into 2005, we expect continued demand for our underage 65 supplemental health insurance products, and we are excited about our prospects in the Medicare Supplement market.

Military and Other Life Agency Operations

In millions, except %

	LIFE				HEALTH			
	2004		2003		2004		2003	
	$	%*	$	%*	$	%*	$	%*
First Year Collected Premium	27		24		8		7	
Underwriting Margin:								
Premium	187		166		101		103	
Policy Obligations	88	47%	77	46%	41	40%	39	38%
Acquisition Expenses	57	30%	50	30%	33	32%	34	33%
Underwriting Margin	42	23%	39	24%	27	27%	30	29%

* Percent of Premium

With respect to our Military operations, first year premiums increased 13% to $27 million. Total premiums increased 12% to $187 million, and underwriting margin increased 7% to $42 million.

The underwriting margin was adversely affected by the continuing hostile activities in Iraq and Afghanistan. Paid claims directly related to these hostilities were $4.0 million in 2004 versus $1.1 million in 2003.

All of our Military business is generated through one independent agency, First Command, headquartered in Fort Worth, Texas. First Command is represented by almost 1,000 agents in over 200 offices located on or near military installations in the U. S. and abroad. The agency markets its products exclusively to commissioned and non-commissioned military officers and their families. The integrity of First Command and its commitment to customers is extraordinary. The quality of the business written is second to none in the industry. Current persistency rates (and they just keep improving with every passing year) are such that the 84% of the business issued will still be in force on its fifth policy anniversary. None of the other Torchmark distribution systems has 84% of the business issued still in force on its first, let alone fifth policy anniversary.

First Command and Torchmark have been partners since 1982, and although Torchmark is one of several companies represented by First Command, over the years we have earned an increasing portion of the new business produced by the agency. Going forward, we will continue to strive to earn even more of their business as they grow their operations.

Administrative Expenses

Insurance administrative expenses increased 8% to $142 million. As a percentage of premiums, administrative expenses were 5.7%, up slightly from last year due primarily to higher litigation expenses. Litigation expenses were $7.5 million versus $4.9 million in the prior year. But given that most of our Waddell & Reed litigation expenses, which were $4.3 million for the year, should be behind us, and noting the Liberty cancer class settlement, we expect a decline in litigation expenses for the coming year.

Investments

Our investment portfolio is concentrated in investment grade fixed-maturity assets. Fixed-maturity assets on an amortized cost basis represented 94% of our invested assets. Fixed-maturity assets will likely continue to be an increasing percentage of our invested assets; we simply aren't comfortable with alternative investments. The average credit rating quality of the fixed-maturity portfolio was BBB+ as rated by Standard & Poor's and Baa1 as rated by Moody's.

Net investment income increased 4% to $577 million. The interest required on net interest-bearing liabilities increased 5% to $246 million. Therefore, excess investment income was $331 million. Because of our stock repurchase program, comparing the yearly change in excess investment income is misleading. A better comparison is on a per-share basis; as such, excess investment income increased 7%.

2004 Investment Income

In millions, except percent and per share amounts

	TOTAL *	REQUIRED	EXCESS
(1) From Invested Assets Supporting:			
Net Interest-Bearing Policy Liabilities:			
Policy Reserves		$370	
DAC		(157)	
Net	$282	213	$69
Debt	59	56	3
Interest Rate Swaps	0	(23)	23
(2) From Remaining Invested Assets	236	0	236
	$577	**$246**	**$331**
Per Diluted Share	$5.15	$2.20	$2.95
Increase over 2003	8%	8%	7%

* For illustrative purposes only, total investment income has been allocated pro rata based upon the net liabilities. Torchmark does not specifically allocate assets to liabilities.

Share Repurchase Program

During the year we repurchased 5.2 million shares of our outstanding stock at a cost of $268 million. Since the stock repurchase program began in 1986, we have repurchased 134.5 million shares at a total cost of over $2.5 billion. In the past five years we have repurchased 26 million shares at a cost of almost $970 million.

Obviously, we believe our stock has been undervalued. We believe it still is, and we expect to continue the stock repurchase program since it is a means of increasing shareholder intrinsic value.

Outlook

In 2005, we expect increasing positive results in all of the distribution systems in Torchmark; premiums will increase, and the percentage growth in underwriting margins should exceed that in premiums. We will effectively manage our administrative expenses. We expect our investment operations will do well, but nevertheless, we will hope for higher interest rates that will give us a greater spread over the yields that we must pay/credit on our interest bearing liabilities. And, as previously stated, we expect further repurchases of our stock. We expect 2005 to be another good year for Torchmark.

Mark S. McAndrew
Chairman of Insurance Operations

C.B. Hudson
Chairman and Chief Executive Officer

Torchmark cautions you that this Letter to Shareholders may contain forward-looking statements within the meaning of the federal securities law. These prospective statements reflect management's current expectations, but are not guarantees of future performance. Accordingly, please refer to Torchmark's cautionary statement regarding forward-looking statements, and the business environment in which the Company operates, contained in the Company's Form 10-K for the period ended December 31, 2004, found on the following pages and on file with the Securities and Exchange Commission. Torchmark specifically disclaims any obligation to update or revise any forward-looking statement because of new information, future developments or otherwise.

Directors

Charles E. Adair
Partner of Cordova Ventures, Montgomery, Alabama

David L. Boren
President of the University of Oklahoma, Norman, Oklahoma

Joseph M. Farley
Of Counsel in the Birmingham, Alabama law firm of Balch & Bingham LLP

C.B. Hudson
Chairman and Chief Executive Officer of Torchmark

Joseph L. Lanier, Jr.
Chairman of the Board and Chief Executive Officer of Dan River Incorporated, Danville, Virginia

Mark S. McAndrew
Chairman of Insurance Operations of Torchmark

Harold T. McCormick
Chairman and Chief Executive Officer of Bay Point Yacht and Country Club, Panama City, Florida; Retired President of Wheelabrator Technologies, Inc.

Sam R. Perry
Attorney, Austin, Texas

George J. Records
Chairman of Midland Financial Co., Oklahoma City, Oklahoma

R.K. Richey
Chairman of the Executive Committee of the Board of Directors of Torchmark, Plano, Texas

Lamar C. Smith
Chairman and Chief Executive Officer of First Command Financial Services, Inc., Fort Worth, Texas

Paul J. Zucconi
Retired Partner of KPMG LLP, Plano, Texas

Officers

C.B. Hudson
Chairman and Chief Executive Officer

Mark S. McAndrew
Chairman of Insurance Operations

Tony G. Brill
Executive Vice President and Chief Administrative Officer

Gary L. Coleman
Executive Vice President and Chief Financial Officer

Larry M. Hutchison
Executive Vice President and General Counsel

Anthony L. McWhorter
Executive Vice President

Rosemary J. Montgomery
Executive Vice President and Chief Actuary

Russell B. Tucker
Executive Vice President and Chief Investment Officer

Michael J. Klyce
Vice President and Treasurer

Joyce L. Lane
Vice President, Investor Relations

Carol A. McCoy
Vice President, Associate Counsel and Secretary

Spencer H. Stone
Controller

Frank M. Svoboda
Vice President, Director of Tax

David F. Thorndike
Vice President

Officers of Subsidiaries

AMERICAN INCOME LIFE

Roger Smith
Chief Executive Officer and President

GLOBE LIFE

Mark S. McAndrew
President and Chief Executive Officer

Glenn D. Williams
Executive Vice President

LIBERTY NATIONAL LIFE

Anthony L. McWhorter
President and Chief Executive Officer

UNITED AMERICAN

Vern D. Herbel
President and Chief Executive Officer

Larry D. Strong
Executive Vice President and Chief Marketing Officer, General Agency Division

Andrew W. King
President of Branch Office Marketing Division

UNITED INVESTORS LIFE

Anthony L. McWhorter
President and Chief Executive Officer

Operating Summary

Unaudited and amounts in thousands except per share amounts

	Twelve Months Ended December 31, 2004	2003	% Incr (Decr)
Underwriting Income			
Life:			
Premium	$1,395,490	$1,310,460	6%
Net policy obligations	(600,889)	(566,567)	
Commissions and acquisition expenses	(442,424)	(418,342)	
Underwriting margin	352,177	325,551	8%
Health:			
Premium	1,048,666	1,034,031	1%
Net policy obligations	(678,143)	(671,998)	
Commissions and acquisition expenses	(195,941)	(197,669)	
Underwriting margin	174,582	164,364	6%
Annuity underwriting margin	13,964	10,607	
Total underwriting margin	540,723	500,522	
Other income	1,833	2,582	
Insurance administration expenses	(141,620)	(131,314)	8%
Underwriting income	400,936	371,790	8%
Excess Investment Income			
Tax-equivalent net investment income	576,675	552,973	4%
Required interest on:			
Net policy liabilities:			
Policy reserves	(370,128)	(351,177)	
Deferred acquisition costs	156,808	145,279	
Debt	(32,812)	(29,469)	
Total excess investment income	330,543	317,606	4%
Corporate expenses	(9,575)	(10,234)	
Pre-tax operating income	721,904	679,162	6%
Income tax	(248,472)	(232,779)	
Net Operating Income	**$473,432**	**$446,383**	**6%**
Operating EPS on a diluted basis	**$4.23**	**$3.87**	**9%**
Diluted average shares outstanding	**111,908**	**115,377**	
Reconciliation of Net Operating Income to Net Income:			
Net operating income	$473,432	$446,383	
Non operating items, net of tax:			
Realized gains/(losses)	4,615	(9,106)	
Realized gains/(losses) - interest rate swaps	(5,332)	(10,122)	
Tax refund	3,003	0	
Interest on tax settlements	0	3,511	
Realized gains/(losses) - sale of airplane	0	(525)	
Change in accounting principle	(7,163)	0	
Net Income	**$468,555**	**$430,141**	
EPS on a diluted basis	**$4.19**	**$3.73**	

The Operating Summary has been prepared in the manner Torchmark management uses to evaluate the operating results of the company. It differs from the Consolidated Statement of Operations found in the accompanying SEC Form 10-K.

Condensed Balance Sheet

Unaudited and amounts in thousands

	At December 31, 2004	2003
Assets:		
Fixed maturities at amortized cost *	$ 8,065,402	$ 7,472,003
Cash and short-term investments	98,863	64,354
Mortgages and real estate	46,508	130,185
Other investments	383,021	405,049
Deferred acquisition costs *	2,620,657	2,456,657
Goodwill	378,436	378,436
Other assets	453,048	270,932
Separate account assets	1,594,278	1,693,900
Total assets *	**$ 13,640,213**	**$ 12,871,516**
Liabilities and shareholders' equity:		
Policy liabilities	$ 7,063,723	$ 6,636,669
Accrued income taxes *	779,350	697,223
Short-term debt	170,354	182,448
Long-term debt and trust preferred securities	694,685	698,042
Other liabilities	315,760	109,241
Separate account liabilities	1,594,278	1,693,900
Shareholders' equity, excluding FAS 115 *	3,022,063	2,853,993
Total liabilities and shareholders' equity	**$ 13,640,213**	**$ 12,871,516**
Actual shares outstanding:		
Basic	107,944	112,715
Diluted	110,075	113,887
Book value (shareholders' equity, excluding FAS 115) per diluted share	$ 27.45	$ 25.06
Net operating income as a return on average equity, excluding FAS 115	16.2%	16.3%
Average equity, excluding FAS 115	$ 2,927,299	$ 2,740,959
Debt to capital ratio, excluding FAS 115	22.3%	23.6%

*Reconciliation of Torchmark management's view of selected financial measures to comparable GAAP measures:

	2004	2003
Shareholders' equity, excluding FAS 115	$ 3,022,063	$ 2,853,993
Effect of FAS 115:		
Increase fixed maturities	649,296	630,807
Decrease deferred acquisition costs	(37,325)	(36,798)
Increase accrued income taxes	(214,190)	(207,903)
Shareholders' equity	$ 3,419,844	$ 3,240,099
Other comparable GAAP measures:		
Fixed maturities	$ 8,714,698	$ 8,102,810
Deferred acquisition costs	2,583,332	2,419,859
Total assets	14,252,184	13,465,525
Shareholders' equity	3,419,844	3,240,099
Accrued income taxes	993,540	905,126
Book value (shareholders' equity) per diluted share	31.07	28.45
Net income as a return on average equity	14.1%	14.0%
Average equity	$ 3,311,563	$ 3,077,941
Debt to capital ratio	20.2%	21.4%

This Condensed Balance Sheet has been prepared in the manner Torchmark management, industry analysts, rating agencies and financial institutions use to evaluate the financial position of the company. It differs from the Consolidated Balance Sheets found in the accompanying SEC Form 10-K.

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