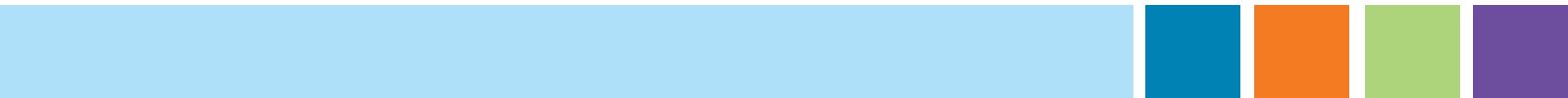




**About Torchmark**  
Corporation 





#### **CORPORATE HEADQUARTERS**

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3700 South Stonebridge Drive  
McKinney, TX 75070  
(972) 529-5085

#### **TORCHMARK CORPORATION WEBSITE**

Interested parties will find press releases, quarterly and annual financial reports, management presentations, SEC Filings, and calendar of events on the Investor Relations page of the Torchmark Corporation website: [www.torchmarkcorp.com](http://www.torchmarkcorp.com).

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#### **STOCK EXCHANGE LISTINGS**

New York Stock Exchange  
Symbol: TMK  
  
The London Stock Exchange,  
London, England

Torchmark cautions you that this document 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 10K for the period ended December 31, 2006, found in the 2006 Annual Report 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.

# About Torchmark Corporation

A life and supplemental health insurer specializing in the middle-income market through premier niche distribution systems . . .

Torchmark provides protection-oriented life and supplemental health insurance to middle-income Americans through its premier niche distribution organizations. We succeed in this market while many life insurers have moved upscale seeking the smaller high-income market focused on asset accumulation. To understand our successful strategy and how we use it to build a profitable, predictable, stable, cash-generating company, is to understand our market and products, as well as our expertise and discipline necessary to execute our strategy.

## OUR MARKETS

We market to financially under-served “middle-income” households, those with annual incomes of \$25,000 to \$75,000. These 51 million households comprise 46% of all U.S. households (U.S. Census Bureau, 2005 Income Statistics). In the last few decades, many other life insurers have followed other financial institutions by targeting the smaller, more affluent sector of the population with a focus on selling highly competitive, lower profit margin insurance products with asset accumulation features. The more affluent sector with household incomes exceeding \$75,000 comprises only 27% of total households (U.S.

Census Bureau, 2005 Income Statistics). Fewer insurers target potential customers who need a basic “protection” insurance program, those who are the largest segment of the population. We believe the exodus by many insurers from the middle-income market stems from a lack of expertise in profitably marketing protection-type insurance, as well as the lack of the necessary expense control discipline. Torchmark capitalizes on its expertise in these areas.

We further use our understanding of the middle-income market by segmenting our marketing efforts by various niche distribution methods. These include direct response and various types of agencies, as well as affinity groups within the broader market, for example, senior-age customers, and labor union members.

Torchmark is well-known in the industry as one of the most cost-efficient providers of life and health insurance, in part because of efficiencies gained

**Torchmark is well-known in the industry as one of the most cost-efficient providers of life and health insurance.**

from integrating administrative functions of its operating subsidiaries and focusing on protection life and health products. Lesser known is our corporate commitment to minimizing acquisition costs. But, the public image of which we are most proud is the reputation of our subsidiaries, and agencies in their niche markets. As a result, we market our products under the names of each subsidiary, rather than the Torchmark name, to take advantage of the strong market niche recognition that each of our subsidiaries already had developed before joining the Torchmark group. It would be difficult to overstate the value of the positive name recognition that our leading subsidiaries have as stable, high quality organizations.

## OUR PRODUCTS

### LIFE INSURANCE

The life insurance we write is designed to provide a basic financial benefit in the event of the death of the insured person, which is the foundation of all life insurance programs. For many of the customers we serve, it may well be the first and only life insurance they own. The policies are either simple, individual whole life policies, which will over time build modest cash surrender amounts, or simple term policies.

Very few of our life insurance products contain additional savings, or asset accumulation features that are dependent on outside financial market growth for their financial success. As a result, the reserves that we are required to put aside for paying future life insurance benefits are very stable and not subject to swings in financial markets.

These features of protection life insurance not only insulate the customer from swings in the market value of their insurance purchase, but also result in very predictable profits for us with little influence from outside financial market swings for which we have no control.

### HEALTH INSURANCE

The health insurance that we market is individual supplemental health insurance. The term “supplemental” means that the insured person has another primary health insurance program that pays most of the insured’s expenses. We also sell other types of limited-benefit health policies for which demand is growing.

### individual supplemental health insurance

These are popular with those who have no other health insurance, and who choose to self-fund much of their day-to-day routine healthcare. They can reduce the risks of self-funding by buying a limited-benefit health policy that helps pay for hospitalization and surgical costs only. We also sell supplemental policies that pay benefits only when the insured person contracts a critical illness such as cancer. Almost all of our health insurance policies are underwritten before issue for health risks on an individual basis. Torchmark does not sell comprehensive, major medical health insurance.

In addition, UA sells Medicare Supplement policies, which are designed to coordinate with traditional, fee-for-service Medicare by paying the deductibles and co-insurance required under Medicare. In 2006, we also began selling Medicare Part D prescription drug coverage for Medicare beneficiaries.

Health insurance, especially Medicare Supplement insurance, is highly regulated at both the state and federal level. As a result, it is characterized by lower profit margins than life insurance and requires strict administrative discipline and economies of scale for success. In recent decades, spiraling healthcare costs have caused somewhat unpredictable results for primary health insurers. But, for supplemental health insurance with its caps on benefits, and in the case of Medicare Supplements that benefit from the strict cost controls in the federal Medicare program, results are more controllable and predictable.

Because most of our health policies experience healthcare inflation every year, annual premium rate increases are necessary. While federal law controls some of the terms under which premiums may be increased, state laws and politics also affect the approvals required from state regulators. Obtaining timely rate increases is of critical importance to success in the health insurance market, and we have both the discipline and experience to successfully get our necessary rate approvals.

In managing this product line, we are dedicated to preserving our profit margins, even at the expense of top-line sales growth if necessary.

**Our expertise and discipline to execute our strategy resides in our niche distribution systems.**

## **AMERICAN INCOME LIFE**

**Waco, Texas**

American Income Life Insurance Company, one of Torchmark's wholly owned subsidiaries, is a great example of a life insurance distribution

organization that has a strong niche culture within the "middle-income America" demographic. AIL is a "union label" company that has endorsements at the local union level, which support our sales representatives' focus on selling to union members.

AIL, which was acquired by Torchmark in 1994, was founded in the early '50s by one of the more colorful insurance entrepreneurs of the time, Bernard Rapoport, well known as a philanthropist and as an activist in Democratic politics. The company began marketing to labor union members in the early '60s, a clear affinity given Mr. Rapoport's social and political orientation.

While Mr. Rapoport is no longer involved in day-to-day activities, the culture he established still pervades the organization, and since that time, union members have remained AIL's primary market focus. Those forty plus years of experience in the union market, coupled with the cultural support from the Home Office, give us a level of expertise in this niche that would be difficult for competitors to match. This market strategy takes full advantage of the close affinity union members have for their organizations. It translates into a strong tendency that a union endorsement greatly increases the likelihood that members will purchase one of our policies. Among all the niche markets in which Torchmark operates,

**We find the affinity of union members to be one of the strongest among our niche markets.**



we find the affinity of union members to be one of the strongest. Further, there really are no competitors attempting to sell life insurance to union members. Our success is governed by our discipline to efficiently market our products by growing and motivating our sales force, while maintaining our profit margins on our sales. Currently, AIL has the highest profit margin of all Torchmark companies.

Looking to the future, AIL is disciplined to develop the most modern and efficient methods of reaching labor union members and other similar

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A+ (Superior)

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Strength

Rating as of 6/07

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market niches, while maintaining the culture that gives us our advantage. In recent years, we have begun marketing to credit union members using similar techniques

and products, which have been successful in the labor union market. We have also implemented more streamlined administrative procedures, ones that we perfected at sister Torchmark companies, such as more cost-efficient direct response procedures used to initially contact potential customers. As a result, the labor union market is far from being maximized by AIL.

## **GLOBE LIFE AND ACCIDENT**

**Oklahoma City, Oklahoma**

Globe Life, Torchmark's premier direct response insurance company, began in 1951 much like our other operating companies, on a financial "shoestring" as the dream of local entrepreneurs. The company started as an agency operation that in 12 years was marketing

life insurance to "middle-income" Americans in 36 states. In 1964, the company began marketing life insurance by direct mail, tapping into the emerging juvenile life insurance market and setting the stage for the future of the company.

Today, Globe Life is the largest direct response marketer of life insurance in the United States, accounting for more than 20% of all direct mail life insurance. Globe specializes in direct response marketing of juvenile life insurance to parents and grandparents. These same parents and grandparents, who have purchased a "Young American" policy, are a valued secondary market because of their greater likelihood to buy an adult life insurance policy with the Globe Life name. This market continues to grow with 4 million babies born each year and the number of adults over age 45 expected to increase by more than 20% between 2000 and 2010.

Our primary marketing vehicle is demographically targeted individual mailings to potential customers. We obtain mailing lists of households that meet selection criteria for specific products, subscribers



**AND ACCIDENT  
INSURANCE CO.**

to magazines for parents, for example. Data is also modeled from previously compiled lists for specific products. We also use a variety of other direct response marketing vehicles including primarily insert media, but also Internet sites, television,

and other consumer publications.

With millions of mailings per year, as well as insert media, and other consumer advertising, Globe Life has high name recognition among the general population, especially for its "Young American" juvenile product.

The sale of insurance by direct response is an opportunistic sale, meaning that generally the recipients of a direct response solicitation are not contemplating the purchase of insurance. As a result, only a limited number of recipients of the

## Globe Life is the largest direct response marketer of life insurance in the United States.

solicitation respond. Success in this market requires strict control of acquisition expenses, e.g., the cost of the initial mailings; cost control through economies of scale; financial strength to fund the initial mailings because all the acquisition expenses are incurred before one policy is issued; and demographic expertise to obtain the highest possible response rates at an acceptable cost.

Globe Life is an industry leader in all these aspects of the direct response business. Its competitive advantages include an experienced management team, a vast customer base, and knowledge of demographics of the middle-income market, as well as its low cost, highly efficient production facilities. Globe has been marketing by direct response for more than 45 years. Most of the management team has been with Globe for almost 25 years. In a business where gains are made by extensive, ongoing testing and where solutions to challenges are often counterintuitive, the importance of the collective experience of management cannot be overstated.

Our extensive database of demographic information about prospective, existing, and former policyholders provides opportunities for new “add-on” sales. For example, we have learned that prospects who respond to a solicitation, but do not buy a policy, are

much more likely to buy in the future. Using these kinds of data has led to our success with follow-up mailings, one of our more profitable secondary markets.

The primary direct response production shop is in Oklahoma City with a union shop in Waco, Texas. Many direct response companies outsource most of their production, as did Globe at one time. But more than a decade ago, we brought all our operations in house, from making envelopes to trucking our mailings to Post Offices around the country. Since that time, our total cost-per-thousand of pieces mailed has

grown less than postage increases, because we have been able to bring down the non-postage costs by a greater amount. We also benefit from

the advantage of economies of scale. Our growing mail volume provides for increased price advantages in purchasing paper and other supplies, as well as increased postage savings as we presort our mailings for the Post Office.

## LIBERTY NATIONAL LIFE Birmingham, Alabama

Founded in Alabama in 1900, the company now known as Liberty National Life Insurance Company grew to become one of the best known traditional life and health insurers in the southeastern United States and the largest domestic life insurer in Alabama today. In its

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A+ (Superior)

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Strength

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early years, the company grew by first selling burial policies and later traditional life insurance to “lower middle-income” customers.

## **Liberty National** **Life Insurance Company**

As was the practice at the time, each week agents collected premiums in cash from their customers, known as “debit collections.” In the 1960s the company expanded into supplemental health policies, primarily cancer coverages, which also had market appeal to the company’s customer base. In the late 1970s, the formation of an upstream holding company and the acquisition of

### **The Liberty story began with the hometown culture in the southeast.**

methods. Liberty National emerged as a cost-efficient, career agent-based life and health insurer, whose “middle-income” target market is predominantly in the southeastern states, with almost one-half of its in-force business in Alabama.

The Liberty National agency story is about the hometown culture in the southeast, the same hometowns where our agents and their families live and are active in the community. With the median annual income per household in Alabama below \$50,000, it fits well in our target market of “middle-income” America.

Globe Life And Accident led to the incorporation of Torchmark Corporation. By the early '90s, debit collection was no longer efficient and was replaced by modern premium billing and collection

Operating from local branch offices, Liberty agents sit down with their laptop computers at their neighbors’ kitchen tables to plan for their life and supplemental health insurance needs. Working with a trusted, hometown agent keeps Liberty’s customers loyal, which translates into stable and predictable financial results.

Our Liberty National Agency has the highest concentration of agents Torchmark has in any state. This concentration emphasizes the importance of community visibility by Liberty agents. As a result, Liberty agents rely on their personal and community contacts to generate sales opportunities

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**A+ (Superior)**

**A.M. Best**  
Rating for Financial Strength

Rating as of 6/07

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rather than rely on “cold call” leads. But Liberty National has not maximized its market penetration even in Alabama, where it also has its highest policyholder concentration. Fewer than 20% of Alabama households own a Liberty policy.

## **UNITED AMERICAN**

### **McKinney, Texas**

United American, our leading health insurance company, is another excellent example of a company that has capitalized on a niche market – that of selling supplemental health insurance to individuals. It too was started mid-twentieth century by an opportunistic, young entrepreneur, Casey Dunlap, just returned from WWII. The company began selling health insurance to individuals using a megaphone to attract customers on the squares of Texas towns. When Medicare was signed into law in 1966, the company made a

decision to focus its attention on the senior market, and the Medicare Supplement policy was born. By 1981, the company was nationally recognized as a preeminent writer of Medicare Supplements. In 1982, United American was acquired by Torchmark.

New management from Torchmark recognized the strength of UA's marketing expertise, and immediately focused on bringing the company into the computer age. They knew that continued growth would require cost cutting and streamlined procedures if economies of scale were to be realized and the company's hard won reputation of top-notch customer service was to be maintained. By the mid '80s, the company had implemented the first national computer-to-computer claims system that brought Medicare claims directly from Medicare administrators to UA, eliminating the onerous paper claim filing by policyholders required by most health insurers.

Today, United American is known to be one of the most cost-efficient health insurers. Annually, we process millions of claim transactions. We also receive millions of telephone calls from customers of which most are answered within the first 30 seconds. We provide websites for both our customers and their healthcare providers to get pertinent information about claim status and other data. Most remarkably, we provide state-of-the-art customer service at the cost of less than 6% of premium, about half that of other companies.

United American writes various types of limited-benefit supplemental health insurance. These include hospital-surgical indemnity policies.

These pay a specific daily amount for a hospital confinement, a limited percentage of hospital miscellaneous charges, and have a prescribed schedule of payments for surgical procedures, critical illness coverage, and long-term care. These policies do not pay for routine doctors' office visits or maternity care. Hospital indemnity policies were once sold primarily to customers who wanted to supplement an employer's plan, or were in sole proprietor businesses with no group plan options. Today, growth in sales from these products comes primarily from customers without any health coverage, whose employers have either terminated their group health coverage, or from customers who previously would have purchased an individual full-coverage (major medical) policy.

United American's senior niche market is defined less by affinity and more by regulation. Because of the widely held perception that senior consumers require higher levels of consumer protections than other customers, regulation by both federal and state governments is higher than for other life or health insurance. For example, Medicare Supplement insurance is limited to several standardized benefit plans, and premium rates must meet a 65% loss ratio minimum, meaning that out of every \$1.00 of premium collected, \$.65 must be paid out in claims benefits.

**United American is another excellent example of a company that has capitalized on a niche market – that of selling supplemental health insurance to individuals.**



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United American writes various types of limited-benefit supplemental health insurance. These include hospital-surgical indemnity policies.

In addition, there are stringent limits on commissions paid to agents as well as exhaustive reporting to regulators. Further, as with many other types of health insurance, annual rate

## United American also writes various types of limited benefit supplemental health insurance.

As a result, all of these regulatory requirements have inhibited many insurers from entering, or staying in the business. Without strong financial underpinnings, strict expense control to maintain an underwriting profit, and a discipline to obtain timely rate increases, insurers are not long successful in the Medicare Supplement market. We have profitably remained one of the leaders in the individual Medicare Supplement market for more than 30 years, while many other companies have entered and left the market, some because of bankruptcy. Companies have attempted to enter this market by initially underpricing their policies, but we price to meet our underwriting profit goals and do not succumb to marketing pressures to cut prices in order to gain market share.

Beginning in 2003, our sales of new Medicare Supplement plans began to decline. The health insurance marketplace for Medicare beneficiaries had further broadened as more managed care and private-fee-for-service plans were offered to this group. These newer plans, which are characterized by federal government funding on capitated plans, would result in lower costs to the government; however, political pressures

have led to the capitated plans being reimbursed by Medicare at a higher per capita rate than Medicare pays for the traditional program. As a result, the capitated plans have been able to offer their programs to Medicare beneficiaries at a lower or no cost, resulting in declines in the sale of traditional fee-for-service supplemental plans. The future growth prospects of either the capitated plans or traditional fee-for-service Medicare Supplements depends on congressional action and may decline over time.

United American markets nationally through two distribution channels: independent broker agencies, as well as a captive Branch Office agency. We have learned through the years that supporting both types of agencies gives us the best access to distribute our niche market products. The Branch Office Division gives us the ability to direct our agents' full-time efforts to market specific products. Plus their full-time involvement in their communities under the UA logo further enhances our "brand" recognition.

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A+ (Superior)

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