

TORCHMARK CORP
Form 10-Q/A
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter Ended June 30, 2002 Commission File Number 1-8052

TORCHMARK CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

63-0780404
(I.R.S. Employer
Identification No.)

2001 3rd Avenue South, Birmingham, Alabama 35233
(Address of principal executive offices) (Zip Code)

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

NONE

Former name, former address and former fiscal year, if changed since last report.

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the last practicable date.

CLASS
Common Stock,
\$1.00 Par Value

OUTSTANDING AT July 31, 2002
119,178,913

Index of Exhibits (Page 36)
Total number of pages included are 37.

Part I Financial Information

Item 1. Financial Statements is amended to include in full the Company's Consolidated Statement of Operations, portions of which were inadvertently omitted through a clerical error from the earlier EDGAR filing of the Form 10-Q for the Second Quarter 2002 which was filed on August 13, 2002. All other items in Form 10-Q for the Second Quarter of 2002 as filed August 13, 2002 are correct and thus remain unchanged.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

TORCHMARK CORPORATION
CONSOLIDATED BALANCE SHEET
(Dollar amounts in thousands)

	June 30, 2002	December 31, 2001
	(Unaudited)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (amortized cost: 2002 \$6,679,081; 2001 \$6,528,244)	\$ 6,742,143	\$ 6,526,429
Equity securities, at fair value (cost: 2002 \$10,260; 2001 \$666)	10,133	571
Mortgage loans, at cost (fair value: 2002 \$118,198; 2001 \$111,407)	117,254	112,135
Investment real estate, at depreciated cost	13,651	14,133
Policy loans	271,394	266,979
Other long-term investments, at fair value	57,527	49,971
Short-term investments	24,807	134,156
	<u>7,236,909</u>	<u>7,104,374</u>
Total investments	7,236,909	7,104,374
Cash	3,068	3,714
Accrued investment income	127,681	125,210
Other receivables	74,975	67,549
Deferred acquisition costs	2,126,018	2,066,423
Value of insurance purchased	109,004	115,939
Property and equipment	34,309	36,137
Goodwill	378,436	378,436
Other assets	12,133	28,087
Separate account assets	1,988,871	2,502,284
	<u>12,091,404</u>	<u>12,428,153</u>
Total assets	\$ 12,091,404	\$ 12,428,153
Liabilities and Shareholders' Equity		
Liabilities:		
Future policy benefits	\$ 5,499,416	\$ 5,348,929
Unearned and advance premiums	94,712	93,624
Policy claims and other benefits payable	250,087	248,333
Other policyholders' funds	81,918	80,929
	<u>5,926,133</u>	<u>5,771,815</u>
Total policy liabilities	5,926,133	5,771,815
Accrued income taxes	613,348	580,287
Short-term debt	182,642	204,037
Long-term debt (fair value: 2002 \$583,861; 2001 \$543,275)	540,753	536,152
Other liabilities	130,784	191,894
Separate account liabilities	1,988,871	2,502,284
	<u>9,382,531</u>	<u>9,786,469</u>
Total liabilities	9,382,531	9,786,469
Trust preferred securities (fair value: 2002 \$153,100; 2001 \$150,660)	144,417	144,557
Shareholders' equity:		
Preferred stock	0	0
Common stock	126,801	126,801
Additional paid-in capital	553,974	552,634
Accumulated other comprehensive income (loss)	32,178	(12,314)
Retained earnings	2,116,857	1,978,903

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Treasury stock, at cost	(265,354)	(148,897)
Total shareholders' equity	2,564,456	2,497,127
Total liabilities and shareholders' equity	\$ 12,091,404	\$ 12,428,153

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited and in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenue:				
Life premium	\$ 306,537	\$ 288,768	\$ 604,881	\$ 569,920
Health premium	254,568	253,656	517,075	506,518
Other premium	10,431	18,794	20,821	31,646
Total premium	571,536	561,218	1,142,777	1,108,084
Net investment income	128,075	122,864	256,278	243,551
Realized investment gains (losses)	(66,704)	4,288	(76,953)	10,832
Other income	573	660	1,052	1,329
Total revenue	633,480	689,030	1,323,154	1,363,796
Benefits and expenses:				
Life policyholder benefits	206,500	192,081	406,345	377,642
Health policyholder benefits	167,652	165,363	340,490	329,404
Other policyholder benefits	7,938	9,363	16,134	18,640
Total policyholder benefits	382,090	366,807	762,969	725,686
Amortization of deferred acquisition costs	75,174	79,054	150,200	151,499
Commissions and premium taxes	41,716	40,477	84,223	80,670
Other operating expense	32,338	32,188	66,953	64,574
Amortization of goodwill	0	3,019	0	6,037
Interest expense	7,230	11,760	14,548	24,327
Total benefits and expenses	538,548	533,305	1,078,893	1,052,793
Income from continuing operations before income taxes, extraordinary item, and cumulative effect of change in accounting principle	94,932	155,725	244,261	311,003
Income taxes	(31,249)	(53,426)	(81,417)	(106,620)
Preferred securities dividends (net of tax)	(971)	(1,461)	(1,976)	(3,842)
Income from continuing operations before extraordinary item and cumulative effect of change in accounting principle	62,712	100,838	160,868	200,541
Loss from discontinued operations (net of applicable tax benefit of \$1,766)	0	0	0	(3,280)
Income before extraordinary item and cumulative effect of change in accounting principle	62,712	100,838	160,868	197,261
Loss on redemption of debt (net of applicable tax benefit of \$0, \$582, \$1, and \$595, respectively)	0	(1,080)	(2)	(1,105)
Income before cumulative effect of change in accounting principle	62,712	99,758	160,866	196,156
Cumulative effect of change in accounting principle (net of applicable tax benefit of \$14,315)	0	(26,584)	0	(26,584)

Net income	\$ 62,712	\$ 73,174	\$ 160,866	\$ 169,572
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TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited and in thousands except per share data)
(Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Basic earnings per share:				
Income from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$ 0.52	\$ 0.81	\$ 1.32	\$ 1.60
Loss from discontinued operations (net of applicable tax benefit)	0.00	0.00	0.00	(0.03)
Income before extraordinary item and cumulative effect of change in accounting principle	0.52	0.81	1.32	1.57
Loss on redemption of debt (net of applicable tax benefit)	0.00	(0.01)	0.00	(0.01)
Income before cumulative effect of change in accounting principle	0.52	0.80	1.32	1.56
Cumulative effect of change in accounting principle (net of applicable tax benefit)	0.00	(0.22)	0.00	(0.21)
Net income	\$ 0.52	\$ 0.58	\$ 1.32	\$ 1.35
Diluted earnings per share:				
Income from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$ 0.52	\$ 0.80	\$ 1.32	\$ 1.59
Loss from discontinued operations (net of applicable tax benefit)	0.00	0.00	0.00	(0.03)
Income before extraordinary item and cumulative effect of change in accounting principle	0.52	0.80	1.32	1.56
Loss on redemption of debt (net of applicable tax benefit)	0.00	(0.01)	0.00	(0.01)
Income before cumulative effect of change in accounting principle	0.52	0.79	1.32	1.55
Cumulative effect of change in accounting principle (net of applicable tax benefit)	0.00	(0.21)	0.00	(0.21)
Net income	\$ 0.52	\$ 0.58	\$ 1.32	\$ 1.34

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income	\$ 62,712	\$ 73,174	\$ 160,866	\$ 169,572
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	107,484	(62,629)	(8,002)	95,846
Less: reclassification adjustment for gains (losses) on securities included in net income	76,941	(6,169)	78,669	(9,642)
Less: reclassification adjustment for change in accounting principle	0	40,899	0	40,899
Less: reclassification adjustment for amortization of discount and premium	(1,212)	(2,068)	(2,702)	(3,103)
Less: foreign exchange adjustment on securities marked to market	(2,308)	(1,636)	(2,792)	352
	<u>180,905</u>	<u>(31,603)</u>	<u>65,173</u>	<u>124,352</u>
Unrealized gains (losses) on other investments	534	(640)	1,160	(451)
Unrealized gains (losses) on deferred acquisition costs	(13,173)	2,618	(4,295)	(13,502)
Foreign exchange translation adjustments	3,806	1,130	4,165	(572)
	<u>172,072</u>	<u>(28,495)</u>	<u>66,203</u>	<u>109,827</u>
Other comprehensive income (loss), before tax	172,072	(28,495)	66,203	109,827
Income tax benefit (expense) related to other comprehensive income (loss)	(58,891)	10,314	(21,711)	(38,636)
	<u>113,181</u>	<u>(18,181)</u>	<u>44,492</u>	<u>71,191</u>
Other comprehensive income (loss)	113,181	(18,181)	44,492	71,191
	<u>113,181</u>	<u>(18,181)</u>	<u>44,492</u>	<u>71,191</u>
Comprehensive income	<u>\$ 175,893</u>	<u>\$ 54,993</u>	<u>\$ 205,358</u>	<u>\$ 240,763</u>

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOW
(Unaudited and in thousands)

	Six Months Ended June 30,	
	2002	2001
Cash provided from operations	\$ 290,914	\$ 243,836
Cash provided from (used for) investment activities:		
Investments sold or matured:		
Fixed maturities available for sale sold	258,344	601,159
Fixed maturities available for sale matured, called, and repaid	132,127	134,608
Other long-term investments	3,759	3,339
Total investments sold or matured	394,230	739,106
Investments acquired:		
Fixed maturities	(614,950)	(845,354)
Other long-term investments	(21,767)	(5,001)
Total investments acquired	(636,717)	(850,355)
Net decrease in short-term investments	109,349	13,166
Disposition of properties	24	551
Additions to properties	(1,085)	(1,976)
Cash used for investment activities	(134,199)	(99,508)
Cash provided from (used for) financing activities:		
Issuance of common stock	3,500	3,338
Repayments of debt	(21,470)	(31,279)
Redemption of MIPS	0	(50,000)
Acquisition of treasury stock	(121,077)	(54,481)
Cash dividends paid to shareholders	(22,056)	(23,080)
Net receipts (withdrawals) from deposit product operations	3,742	(18,845)
Cash used for financing activities	(157,361)	(174,347)
Net decrease in cash	(646)	(30,019)
Cash at beginning of year	3,714	35,089
Cash at end of period	\$ 3,068	\$ 5,070

See accompanying Notes to Consolidated Financial Statements.

TORCHMARK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America. However, in the opinion of management, these statements include all adjustments, consisting of normal recurring accruals, which are necessary for a fair presentation of the consolidated financial position at June 30, 2002 and the consolidated results of operations, comprehensive income and cash flow for the periods ended June 30, 2002 and 2001.

Note B New Accounting Standards

Effective January 1, 2002, Torchmark adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment method. Accordingly, Torchmark no longer amortizes its goodwill after January 1, 2002, but carries it at the December 31, 2001 balance of \$378 million. Restatement of prior year results to exclude the amortization of goodwill is not permitted. Goodwill is subject to impairment testing upon implementation and annually thereafter based on the procedures outlined in SFAS 142.

In accordance with SFAS No.142, Torchmark has tested its goodwill as of December 31, 2001 for impairment. The test involved dividing the Company's operations into reporting units as defined by the statement. For Torchmark, these reporting units are subdivisions of Torchmark's operating segments. Assets and liabilities were then assigned to these units. Each of these units was then valued under the procedures outlined in the Statement. The resulting fair market values for each unit were then compared with the underlying carrying values of the net assets assigned to that unit (including goodwill). Because the fair value of each unit exceeded the carrying values assigned to each of those units, there was no goodwill impairment.

Note C Business Segments

Torchmark's segments are based on the insurance product lines it markets and administers: life insurance, health insurance, and annuities. There is also an investment segment, which manages the Company's investment portfolio, debt, and cash flow. The

TORCHMARK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(UNAUDITED)

measure of profitability for insurance segments is underwriting income before other income and administrative expenses. It represents the gross profit margin on insurance products before administrative expenses, and is calculated by deducting net policy obligations and acquisition expenses from premium revenue. The measure of profitability for the investment segment is excess investment income, which is the income earned on the investment portfolio in excess of net policy requirements and financing costs associated with Torchmark's debt and preferred securities. The tables below set forth revenue (excluding realized investment gains and losses) and measures of profitability by segment, as well as provide reconciliations from the total measures of profitability to income before income taxes for the six-month periods ended June 30, 2002 and June 30, 2001, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(UNAUDITED)**

Selected Segment Information

(Amounts in thousands)

Six months ended June 30, 2002

	<u>Life</u>	<u>Health</u>	<u>Annuity</u>	<u>Investment</u>	<u>Other</u>	<u>Adjustments</u>	<u>Consolidated</u>
Revenue:							
Premium	\$ 604,881	\$ 517,075	\$ 20,821				\$ 1,142,777
Net investment income				\$ 258,194		\$ (1,916)	256,278
Other income					\$ 1,909	(857)	1,052
Total revenue*	\$ 604,881	\$ 517,075	\$ 20,821	\$ 258,194	\$ 1,909	\$ (2,773)	\$ 1,400,107
Measure of profitability:							
Underwriting income before other income and administrative expense	\$ 144,772	\$ 86,220	\$ 8,635				\$ 239,627
Excess investment income				\$ 145,507			145,507
Total measure of profitability	\$ 144,772	\$ 86,220	\$ 8,635	\$ 145,507	\$ 0	\$ 0	\$ 385,134

Six months ended June 30, 2001

	<u>Life</u>	<u>Health</u>	<u>Annuity</u>	<u>Investment</u>	<u>Other</u>	<u>Adjustments</u>	<u>Consolidated</u>
Revenue:							
Premium	\$ 569,920	\$ 506,518	\$ 31,646				\$ 1,108,084
Net investment income				\$ 245,930		\$ (2,379)	243,551
Other income					\$ 2,300	(971)	1,329
Total revenue*	\$ 569,920	\$ 506,518	\$ 31,646	\$ 245,930	\$ 2,300	\$ (3,350)	\$ 1,352,964
Measure of profitability:							
Underwriting income before other income and administrative expense	\$ 139,349	\$ 89,897	\$ 13,684				\$ 242,930
Excess investment income				\$ 122,020			122,020
Total measure of profitability	\$ 139,349	\$ 89,897	\$ 13,684	\$ 122,020	\$ 0	\$ 0	\$ 364,950

*Excludes realized investment gains (losses)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(UNAUDITED)**

Reconciliation of Measure of Profitability to Income Before Income Taxes
(Amounts in thousands)

	For the six months ended June 30,	
	2002	2001
Total measure of profitability	\$ 385,134	\$ 364,950
Other income	1,909	2,300
Insurance administrative expense	(61,496)	(59,466)
Parent expense	(5,457)	(5,108)
Tax equivalent adjustment	(1,916)	(2,379)
Goodwill amortization	0	(6,037)
Realized investment gains/(losses)	(76,953)	10,832
Pretax cost of Trust Preferred/MIPS dividends	3,040	5,911
	\$ 244,261	\$ 311,003

**Income from continuing operations before income taxes, extraordinary item, and cumulative effect of change in accounting principle

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 14, 2002

TORCHMARK CORPORATION

/s/ C. B. HUDSON

C. B. Hudson, Chairman of the
Board and Chief Executive Officer

Date: August 14, 2002

/s/ GARY L. COLEMAN

Gary L. Coleman, Executive Vice
President and Chief Financial Officer
(Chief Accounting Officer)