

FUNERAL DIRECTORS LIFE INSURANCE COMPANY

*Annual Report 2010*



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## To Our Stakeholders

2010, FDLIC's Sabbath Year, can be summed up with several adjectives that our staff has passed along to me – INSPIRATIONAL, INCREDIBLE, AWESOME, and POWERFUL, just to name a few. What started out as a “harebrained,” crazy idea turned into a year that will not be soon forgotten by any of us in or around our company! Our Sabbath Year has inspired us to think more broadly, to dream more deeply, and to walk more purposefully.

As we close our Sabbath Year, we can reflect on what we learned in 2010 and plan our future with a renewed spirit. Using our Sabbath Year as a foundation, we have established 2011 as a year to focus on our mind, our body, and our soul. For years, we have heard business gurus talk of “continuous improvement,” centered around always looking to improve business processes. We are choosing to get more fundamental – it is difficult to improve business processes if the people who drive these processes are not continually growing and developing themselves. Our people desire to become better – to grow and to transform into what God intends for them. This desire leads to not only an improved individual, but also an improved company. With our focus in 2011 on improving our mind, body, and soul, I want to address our corporate mind, body, and soul in this letter.

I am asked often by our clients, “What separates FDLIC from the other companies in

the preneed funeral business?” My answer always centers around three things: 1) Our commitment to the funeral profession (*our mind*), 2) Our financial strength and stability (*our body*), and 3) Our organizational integrity (*our soul*). The remainder of my letter will address these important facets of our business.

### OUR COMMITMENT TO THE FUNERAL PROFESSION

#### *Our Mind*

Over my 25 years at FDLIC, I have seen a number of insurance companies enter and leave the preneed funeral market. For whatever reason, life insurance companies believe that the preneed funeral business will be easy and profitable, and what they find is that this business is much more difficult than they ever expected.

Most companies that enter the preneed funeral market consider the individual policyholder to be their customer, but they soon learn that the real customer is the funeral home. FDLIC has known this fact from the very beginning. In fact, this company was started by four funeral home owners who were concerned that other insurance companies were not representing their funeral homes appropriately in their respective communities. Consequently, they started FDLIC under the firm commitment to always treat the funeral home as the customer.

*Our Sabbath Year has inspired us to think more broadly, to dream more deeply, and to walk more purposefully.*





That commitment holds true today, and with 13 of the 15 members of the Board of Directors of our holding company being licensed funeral directors, the funeral home emphasis is not forgotten.

In addition, most other life insurance companies sell preneed funeral plans as one of their many offerings – in other words, they have more than one product line and preneed funerals just happen to be one of them. At FDLIC, we only focus on one thing – prearranging funerals. This emphasis provides clear direction for every decision we make about the future of our business. Consequently, every product or service we offer centers around our singular focus on being the leading provider of service to the funeral profession. Our mind tells us to remain true to the funeral profession, to stay focused on our customer – the funeral home – and to develop innovative approaches to benefit our profession.

**OUR FINANCIAL STRENGTH AND STABILITY**

*Our Body*

Let’s face it, what our funeral home clients really want is for us to be around to provide the death benefit to them at the time of a contract holder’s death – the same death benefit that we promised at the beginning of the preneed funeral contract. It’s really that simple. So, our

job at FDLIC is to ensure that our company has the financial strength, stability, and focus on longevity in order to be there throughout the years – no matter what economic conditions come our way.

It sounds like a simple concept – take in payments, invest wisely, pay death claims as promised. Well, as we have seen over the years, it is not as simple as it may appear. I have found that it is easy for insurance company executives to get caught up in the desire for “more” – more sales, more investment income, more capital and surplus, more customers, more, more, more...(you name it!). This desire for more has translated into many companies having financial hardship and, in some cases, financial ruin. As a leader of a life insurance company, I can say that I have been tempted by the desire for more. Fortunately, I have a personal board of directors and a strong management team behind me, and the temptations for more have been averted by the wisdom of those around me and by the power of prayer. However, some of the other companies in our industry have not been so fortunate.

Even through the financial crisis of 2008, FDLIC stood firm, and for 2009 and 2010, FDLIC grew stronger and more stable. Our commitment to an “old school” style of management has paid dividends through some shaky national economic times.

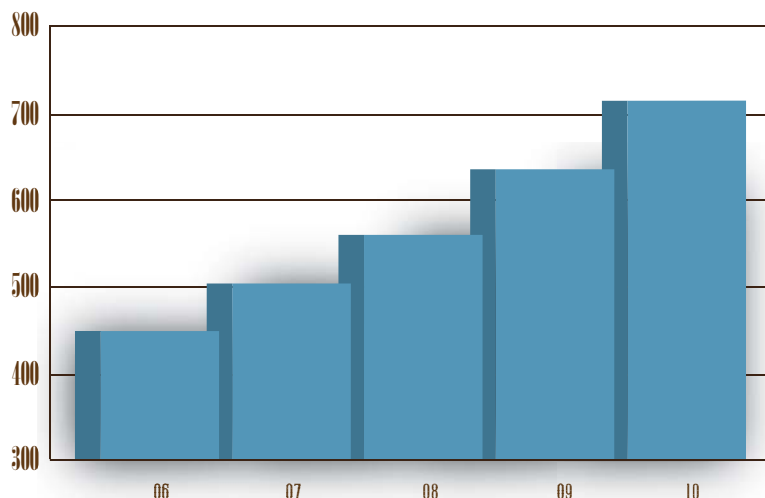
*Our mind tells us to remain true to the funeral profession, to stay focused on our customer – the funeral home – and to develop innovative approaches to benefit our profession.*





As the graph below indicates, we have had controlled asset growth over the past two years. In 2009, assets grew by \$75.87 million or 13.63%, and in 2010 assets grew \$81.98 million or 12.96%.

## TOTAL ASSETS IN MILLIONS

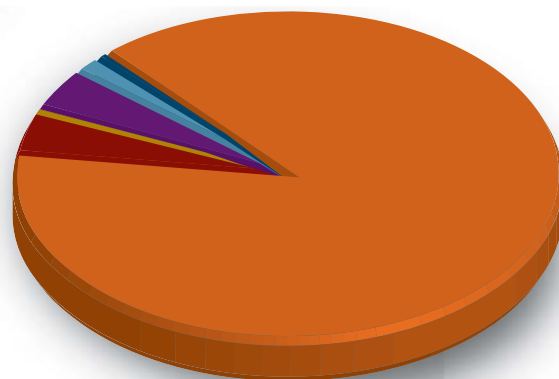
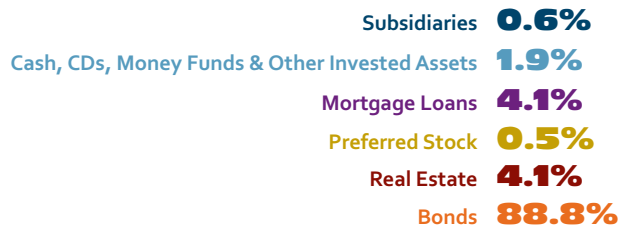


Results through December 31, 2010

This solid asset growth is a result of two factors: 1) Our continued sales growth and 2) Our time-tested rock-solid investment strategy. Sales grew 20.35% in 2009 and an additional 12.33% in 2010 to reach \$173.7 million. Improved sales relates to improved premium income, improved premium income translates to more money available for investments, and increased investments naturally relate to total assets growth.

We are continuing to employ the investment strategy that has brought us through so many economic ups and downs over the past 20 years. That philosophy is based on matching the future cash flow generated from our assets with the cash flow needed to fund death benefits at claim time. Here is how FDLIC's invested assets were distributed at year-end 2010:

## ASSET MIX



Results through December 31, 2010

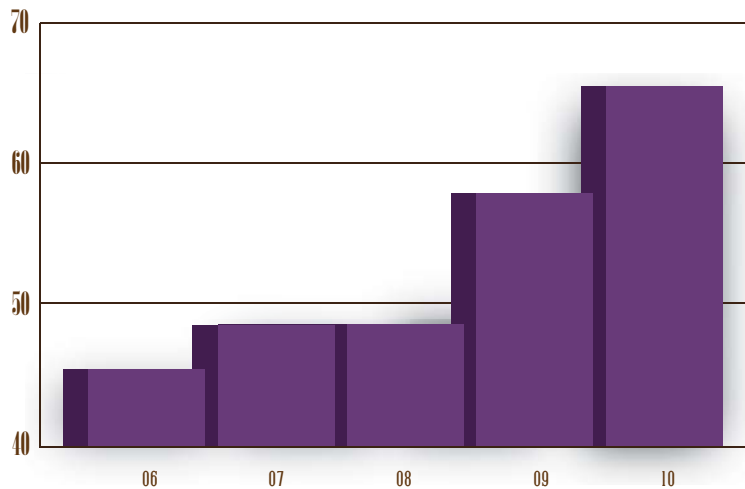




As you can see, 88.8% of our investments are in bonds – U.S. Treasury bonds and A-rated or better Corporate bonds – no junk bonds, sub-prime derivative bonds, Alt-A mortgages, or any of the investments that got many insurance companies and banks in trouble back in 2008. 4.1% of our invested assets are in real estate, which is represented by our home office building plus some other real estate that we purchased and lease to funeral home owners. The 4.1% of our invested assets that are mortgage loans are all related to funeral home lending. Bonds, real estate, and mortgage loans make up 97% of all of our investments. In addition, FDLIC owns a subsidiary insurance company (Kentucky Funeral Directors Life Insurance Company) and a few preferred stocks – but no publicly traded common stocks!



## CAPITAL & SURPLUS IN MILLIONS



Results through December 31, 2010

Even with the financial crisis of 2008 factored in, over the past 5 years, we have had an average increase in our capital and surplus of approximately 10%. And for 2009, capital and surplus grew 18.95% and for 2010, capital and surplus grew another 14.25%! FDLIC closed 2010 with a much improved capital and surplus to assets ratio of 9.24%.

As a company, we have continued to emphasize the importance of financial fitness. While a human body needs to remain physically fit, a company needs to remain “fiscally” fit. FDLIC is committed to financial strength, investment balance, and fiscal responsibility.

*We are continuing to employ the investment strategy that has brought us through so many economic ups and downs over the past 20 years.*





## OUR ORGANIZATIONAL INTEGRITY

### *Our Soul*

Integrity has become a word that is thrown around by virtually every company in the world, but not many companies actually “practice what they preach.” Integrity is not a concept to be taken lightly, and it has been taken far too lightly by most. In West Texas, we are taught at an early age about the “West Texas handshake” which means when you shake someone’s hand, you have committed – you have given your word – and your word cannot be broken. This is integrity – where your word is your bond – you do what you say you will do, no matter the consequences.

*This is integrity –  
where your word is  
your bond – you do  
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will do, no matter  
the consequences.*

At FDLIC, we have taken integrity to a new level. I mean, we are not just a West Texas company any longer. So now, the stakes are higher – we are on a national stage for all to see and all to judge. Integrity has become more difficult to measure, but more important for us to stress. We have implemented several concepts to ensure that we remain in front with operational integrity.

In 2010, we discovered a book by Patrick Lencioni called *Getting Naked*. While the name of this business book will really grab your attention, its contents caught our attention even more. This book seemed to illustrate the business concept that we had been practicing for years – it seemed to reflect the open, honest, and direct

communication we were seeking in our relationships with our customers. In his book, Lencioni outlines the need to: a) Let go of the fear of losing the business, b) Let go of the fear of being embarrassed around the client, and c) Let go of the fear of feeling inferior to the client. He further clarified that by shedding these fears, we can:

- 1** Always provide immediate value to those we serve rather than sell ourselves
- 2** Give away ourselves (the business) without holding back for something else first
- 3** Tell the “kind” truth and don’t sugar-coat the obvious
- 4** “Enter the danger,” our zone of discomfort, rather than avoid it
- 5** Ask the questions that no one else ever asks
- 6** Make suggestions that stimulate thinking
- 7** Celebrate our mistakes, our failures, as these are key opportunities for learning
- 8** Take a bullet for a friend (our client) as taking responsibility and sacrificing is the greatest thing we can do for another
- 9** Make everything about the client
- 10** Roll up our sleeves and do the dirty work
- 11** Admit we are human and have our own weaknesses and limitations





These concepts from the *Getting Naked* book more clearly defined the way we treat our clients: we care for their well-being, always strive to be open and honest, and always work hard to “make it right.”

As further evidence of our commitment to operational integrity in 2010, we more strongly emphasized our desire to be consultative in our approach to clients and to each other. Essentially, we become more consultative as we become more curious and interested in the other person – asking more questions and seeking to fully understand. Each of us set a goal for 2011 to double our number of questions-to-statements ratio. It is a lofty goal, and even if we fall short, the endeavor to improve will help each of us become better communicators and hopefully, better solution finders.

Operational integrity is the soul of our company. Without integrity we have no soul!

## CONCLUSION

Ecclesiastes 7:1-2 says, “A good name is better than fine perfume, and the day of death better than the day of birth. It is better to go to a house of mourning than to go to a house of feasting, for death is the destiny of everyone; the living should take this to heart.”

This passage is haunting, but very pertinent to our profession. I see, in the words of Solomon,

that it is important to help those who are mourning, to be with those who are hurting when they have lost someone close, so that we can comfort them and reflect on the life of the deceased. Death is truly the destiny of everyone (it is not optional), so we must learn from those who pass on before us. That is why memorialization and the celebration of a life lived are so very important.

I also became somewhat introspective as I studied this passage. It is important to reflect on those who have died so that we might use what we learn in order to live better lives (“the living should take this to heart”). I wondered what it means to live a life that is full and inspirational to others – a life that, when we are gone, will stir something in the hearts of those who have come to mourn. Committed to God and to His plan for each of us – remembering that “A good name is better than fine perfume...” – we can live like we mean it, making each day, which is a gift from God, count.

We are leaving our Sabbatical Year of 2010, and we are focused on improving our mind, body, and soul for 2011. More than ever, we are committed to the honorable nature of the funeral profession. What we do is valuable and meaningful.

Blessings,

*Kris Seale*  
Kris Seale

*Death is truly the destiny of everyone (it is not optional), so we must learn from those who pass on before us.*





# MIND<sup>B O D Y</sup> Soul

**SINGLE IN PURPOSE AND GOAL** sustained by hope **LIVING LIFE TO THE FULLEST** rising up with each new day **TO LIVE A LIFE RICH WITH WONDER** having abundant peace **PROSPERITY** joy **FULL OF LIFE** love and dreams **FILLED WITH A SENSE OF DESTINY** full of promise **FULL OF MEANING** full of greatness **FULL OF PURPOSE** to imagine possibilities **TO REACH NEW HEIGHTS** to soar over mountains **TO TAKE ON GIANTS** to overcome against all odds **TO BREAK NEW GROUND** to live a life that inspires **TO BE THE ONE** to see the change **TO GAIN NEW INSIGHT** to see the solution no one else sees **TO LIVE WITHOUT FEAR** to be full of courage **TO LIVE IN THE MOMENT** to make every minute count **TO DISCOVER AND HOLD ONTO TRUTH** to live like you mean it **TO LOVE MORE** do more **SEE MORE** aspire to be more **TO BE TRUE TO OURSELVES** to live our dreams **TO LET OUR LIGHT SHINE** to live a good and true and noble and honest life **TO LEAVE A LEGACY BEHIND** to teach by example **TO LEARN SOMETHING NEW EVERY DAY** to love justice and mercy **TO FIGHT FOR WHAT IS RIGHT** to live from the heart **TO LIVE SELFLESSLY** to finally be free

*“Being highly healthy means being healthy in every area of your life during every stage of your life. It means being balanced in these areas: body, mind, spirit, and community.”*

Dr. Walt Larrimore





# Life Fitness

Fitness doesn't have to be confined to a gym – it can encompass every area of our lives: mind, body, and soul. In fact, the World Health Organization defines health in this way: "Health is a state of complete physical, mental and social well-being, and not merely the absence of disease or infirmity." A healthy mind, body, and soul help us to achieve more, succeed at what really matters, and become the best that we can be in every area of our lives: personally, relationally, physically, and spiritually. And at FDLIC, we want to do more than succeed at the bottom line. While those things are important, they are not everything. We want to excel and discover all that God has in store for us. We want to live life to the fullest. We want to help others become who they were meant to be, and we want to become the kind of people that we are truly meant to be.

Discovering our full potential involves many things: finding balance in life, discovering our true priorities, seeking answers to our questions, finding solutions, committing ourselves to the things that really matter – and having patience with ourselves when we make mistakes. Life fitness is not something that can be achieved overnight...it is a lifelong goal. Day after day, year after year, we must engage in the process of being transformed into a more healthy and whole person.

Dr. Walt Larimore, a medical doctor and author of *10 Essentials of Happy, Healthy People*, observes, "Being healthy – truly healthy – is *not* dependent on physical well-being alone. Being highly healthy means being healthy in every area of your life during

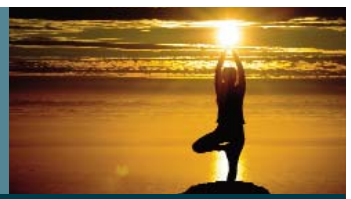


every stage of your life. It means being balanced in these areas: body, mind, spirit, and community."

As a company, we are committed to helping our people excel by providing resources, education, and support. Through our *Mind, Body, Soul* initiative in 2011, we hope to continue the journey toward balance and health that many of our employees began during their Sabbath Year experiences in 2010. We want to stay fresh, rejuvenated, and inspired throughout the year so that we can continue to serve our clients, policyholders, and one another with excellence. We feel that by helping and encouraging our people as they strive to live a healthier life – in every area of their lives – we are truly helping to inspire transformation and change in one another and in all those whose lives we touch.

*"For as he thinks in his heart, so is he..."*

Solomon,  
Proverbs 23:7





# Fostering a Love of Learning

## Mind

A choice is set before us. The outcome determines our destiny. On one hand, we have the choice of being reactive. It requires little of us, and it is our natural tendency – the path of least resistance. On the other, we have the choice of being proactive. It requires thinking about and analyzing our actions. It is far more difficult, but the payoff is also far greater. Which will we choose?

Our thoughts and choices, whether reactive or proactive, have the power to shape every aspect of our lives. As Proverbs 23:7 says, “For as he thinks in his heart, so is he...” In other words, we are what we think. Similarly, Mahatma Ghandi, one of India’s greatest spiritual and political leaders, once said, “Your beliefs become your thoughts. Your thoughts become your words. Your words become your actions. Your actions become your habits. Your habits become your values. Your values become your destiny.”

If we want to see positive change in our lives, we must first change the way we think. John C. Maxwell, best-selling author and motivational speaker, says, “As you begin changing your thinking, start immediately to change your behavior. Begin to act the part of the person you would like to become.”

There are many things we can do to find a healthy balance for our minds:

**UNPLUG.** Every once in a while, we need to get away from it all and create a quiet space where we can hear ourselves think.

**GAIN PERSPECTIVE.** Time to think allows us to reassess our priorities. When we feel the pressures of life pressing in, we have to stop, take an inventory of our lives, and redefine our priorities to ensure that we are headed in the direction we actually want to go.

**READ, REFLECT, AND MEDITATE.** Personal growth requires deep soul-searching. It requires time for quiet refocusing, but also time to engage in good conversations, reflect on our choices, read thought-provoking materials, and meditate on things that bring us joy in life.

**BE POSITIVE.** In *The Battlefield of the Mind*, Joyce Meyer says, “Positive minds produce positive lives. Negative minds produce negative lives. Positive thoughts are always full of faith and hope. Negative thoughts are always full of fear and doubt.” If we keep our outlook focused on

*As you begin changing your thinking, start immediately to change your behavior. Begin to act the part of the person you would like to become.*

John C. Maxwell





what is good – faith, hope, belief, victory – then our words and our lives will reflect those thoughts.

**USE YOUR WORDS.** The tongue is powerful. As Proverbs 18:21 says, “The tongue has the power of life and death....” Speaking positive words to ourselves and others can have a dramatic impact on our circumstances.

**DEVELOP A LOVE OF LEARNING.** Author and motivational speaker Jim Rohn once said, “Learning is the beginning of wealth. Learning is the beginning of health. Learning is the beginning of spirituality. Searching and learning is where the miracle process all begins.” It all begins in the mind.

As Norman Vincent Peale says in *The Power of Positive Thinking*, “Change your thoughts, and you change your world.” A healthy, balanced mind can help us achieve our goals. But like anything else, we only get back what we are willing to put into it. Paul says in 2 Corinthians 9:6, “Remember this: Whoever sows sparingly will also reap sparingly, and whoever sows generously will also reap generously.” The choice is ours. Will we take on the challenge and rise to the occasion? When we give ourselves time to think and grow and apply what we’ve learned, we begin to transform ourselves and everyone around us.

## TESTIMONIAL DEONNA MOLINA

*In June of last year, we had a speaker come to our church named Kevin Weaver. He spoke about the power of our words. I was really touched and felt something starting to stir in me.*

*For my Sabbatical, I decided to listen to a teaching the speaker had mentioned, called “An Uprising: A Call to Battle.” One of the main points he made was that we are to speak over everything in our lives. He talked about how our hatred of the enemy was one of our weapons in this fight. I’d never thought of it this way, but in the Garden of Eden, when God spoke to Adam and Eve after the fall, He said that He would put enmity between the man and the serpent. Enmity is the deepest form of hatred. Anything that is not right or good comes from the enemy, and we are to have the deepest hatred for those things.*

*I started realizing that there was so much going on in my life that I felt like the enemy had taken control over. At work, we had a change in paperwork, and it was holding up the claims I was needing to pay. I was only paying 3 or 4 claims per day. I was getting frustrated and felt like it looked like I wasn’t working. I kept trying different things, and talked with my supervisor, and nothing seemed to work. As I listened to this teaching, I realized that this was not right, and that I should be speaking over these things, and taking back what the enemy was trying to steal and destroy. I began coming into work in the morning and speaking over my day. I said, “Okay, today is going to be a good day. Every claim that comes in, I’m going to pay, and there’s not going to be a problem. I’m going to pay 20 claims*



DEONNA MOLINA  
CLAIMS REPRESENTATIVE

*“I am thankful to work for a company where I can share my beliefs and the things that have touched my heart and my life.”*

Deonna Molina





today.” And sure enough, my numbers started going up and up and up, 14, 15, 22. My supervisor called me in and asked me what was going on with me. I was so excited because I could see the change the minute I prayed about it.

I told my supervisor about this teaching and I told Kris about it too because it had so changed every area of my life. It opened my eyes because I never realized how accepting of our circumstances we were as Christians.

After I started seeing that praying this way and declaring the truth really was working, I started getting attacked with one thing after another...my car was breaking down, my mom was getting sick, my husband was getting sick, my father-in-law was diagnosed with cancer. I started listening to the teachings again because it was all getting to me. I was encouraged all over again and I continued to speak over every situation in my life. I thought that maybe I was doing something right because the enemy had taken notice and was trying to bring me down!

I can't tell you how this teaching has changed my life and the lives of my family. My husband and daughter speak differently about situations. They speak with faith, and we are all growing so much in this together. I'm so thankful for the time I had during my Sabbatical to learn and grow. And I am thankful to work for a company where I can share my beliefs and the things that have touched my heart and my life. We are so incredibly blessed.

*Deonna Molina*

*“DIG U” will encourage employees to continuously learn new skills and competencies throughout their entire working lives.*



At FDLIC, we want to create an environment where we can encourage and build one another up in faith as well as foster a love of lifelong learning. Our employees enjoy voluntary book studies with a chance to sit down and discuss vital topics concerning almost every aspect of our lives, from parenting to finances, to spiritual and personal growth. Recent studies have included materials such as *The Battlefield of the Mind*, *Financial Peace University*, *The Purpose-Driven Life*, *Losing Control and Liking It*, and *Boundaries with Kids*. Every year, we also conduct an inspirational company-wide meeting that sets the tone for the coming year. This year we will be reading *The Five Dysfunctions of a Team* and *When God Shows Up* on Kindles® that were purchased for each employee and given as gifts at the end of the 2010 company-wide meeting titled *Life Fitness: Mind, Body, Soul*.

We are especially excited about one of our initiatives for 2011 which focuses on keeping our minds healthy, active and sharp. Right now, we are laying the groundwork to establish a corporate university for our employees. “DIG U” will encourage employees to continuously learn new skills and competencies throughout their entire working lives. The courses will be practical, fun, and engaging and will cover a variety of topics such as quality of life issues, personal and spiritual development, as well as business-related professional skills. Through DIG U, we will seek to help our employees advance their learning personally, professionally, and spiritually.





# Promoting Healthy Living

## Body

The poet Walt Whitman wrote, “If anything is sacred, the human body is sacred.” Artists have depicted its balance and beauty; the Bible calls it the temple of God; scientists could study and analyze it for a lifetime, and never quite understand it; in itself, it is a universe of complexity; and it holds our life and breath with every heartbeat. Expressing wonder at the body’s mystery and intricate beauty, the psalmist exclaimed, “For you created my inmost being; you knit me together in my mother’s womb. I praise you because I am fearfully and wonderfully made; your works are wonderful, I know that full well” (Psalm 139:13-14). The body is a gift that is at once supremely ordinary and deeply mysterious.

Like a tapestry, the body, mind, and soul are all connected in an elaborate design. Everything we do with the body affects us – emotionally, mentally, and even spiritually. Discovering our true potential must involve a healthy body as well as a healthy mind and soul. As Americans, healthy living is admittedly not our favorite subject to think about. The great cost is evident in the lives that are lost every year. According to the *Journal of the American Medical Association*, nearly 325,000 people died in 1999 from obesity-related causes – and that was over a decade ago.

In essence, we have forgotten that it is our privilege and sacred duty to care for our physical bodies as

gifts from God. But if we take care of our bodies, our bodies will take care of us:

- A NUTRITIOUS DIET.** Studies show that some of the healthiest, longest-lived people in the world eat a nutritious diet including lots of water, plenty of fruits and vegetables, whole grains, nuts, and “good” fats. Unlike our typical Western diet, their foods are low in calories, salt, saturated fats, and refined sugars.
- REGULAR EXERCISE.** Any exercise is better than none. Regular exercise helps control weight, improve overall health, and reduce certain risk factors for disease, including type 2 diabetes, heart disease, osteoporosis, and even certain cancers.
- PREVENTATIVE CARE.** Prevention is something we can do every day. We don’t need a prescription, and in the long run, it saves us time, heartache, and money.
- REST AND RELAXATION.** Just like our minds, our bodies need rest. Regular times of rest, recreation, and relaxation are vital to our physical health, as is good nightly sleep.

*“If anything is sacred, the human body is sacred.”*

Walt Whitman





**LORI OWEN**  
TRUST CONVERSION  
COORDINATOR

*“Our facility is not only convenient, but it saves me the cost of a gym membership and has enough equipment options to provide a good workout.”*

Lori Owen

Albert Einstein once said, “There are only two ways to live your life. One is as though nothing is a miracle. The other is as though everything is a miracle.” The body is truly a miraculous and mysterious gift. We can’t completely change our lives overnight, especially if we have never attempted to make healthy living a priority. But we can take small steps toward a healthier life – and small steps can make a big difference.

### TESTIMONIAL LORI OWEN

*Kris Seale had been doing a workout program for a while and talked highly about the videos and how much he enjoyed the intensity of the work out. As we talked about it, several of us became interested in it, so he made us an offer: he would purchase a set of P90X® videos for the Wellness Center – if we would promise to use them. I’m proud to say that we’ve kept that promise! We started working out in May of 2010 and have stuck with it pretty faithfully since then.*

*I am motivated to keep going because we stay accountable to each other. I also enjoy how varied the program is. We do something different every day of the week. I’ve found that I’m more likely to stay with a program if it’s something I enjoy. I also like seeing the results! I’ve really been able to see an improvement while on this program, even though I worked out regularly before. I’m also motivated to keep up with this program because I don’t want to go back to the pain I felt when I first started. Over the years I have found that sitting at a computer all day is hard on my arms, shoulders and back. Exercising at the end of each day helps*



*work the tension out of my muscles. Unfortunately, as with any type of exercise, if you stop exercising you quickly lose the progress you’ve made. I think it’s God’s way of telling us He designed our bodies to stay active – you use it or you lose it!*

*My family has a history of all the major diseases – heart disease, cancer, diabetes, etc. While heredity does play a role in my health, I know it’s not the only factor. So much research has determined that diet and exercise can help me lessen the chance of developing some of the bad things, so I try to do my best to avoid what I know is bad for me and work on the things that are good for me. That doesn’t mean I skip dessert, but I do try to keep it to small portions. And I also occasionally order a hamburger instead of grilled chicken, but I know I can’t eat like that every day or I will gain weight which increases my odds of developing heart disease or diabetes. Fortunately, most restaurants have started offering healthier options – but I know it’s up to me to make the right choices.*

*It’s been an absolute blessing to have such a nice facility here at the office. I wish it weren’t the case, but I have to make it as convenient as possible for me to exercise. It works out best for me to exercise before I get home, or I am not very likely to do it. I used to be a member at a local gym. Many times I would get in the car to drive to the gym but end up somewhere else! Our facility is not only convenient, but it saves me the cost of a gym membership and has enough equipment options to provide a good workout.*

*Lori A. Owen*





At FDLIC, we are dedicated to promoting healthy living and making it as simple as possible to make healthful choices every day. Our employees enjoy employer-paid health insurance with a full range of preventative care services, as well as our Wellness Center, which is stocked with workout videos, equipment, and weights. We have also replaced our vending machines with brimming bowls full of fresh fruit for our employees to enjoy throughout the day.

Moving forward, we intend to address preventative care with an even more direct and comprehensive approach. Our American health care system is facing radical problems and a radical solution is

required. This year, we are working toward establishing our own internal health care system that is completely outside the box. We are visualizing being able to offer our employees the personal care of an on-site physician with personalized nutrition and exercise programs. Currently, we have established a health care committee that is meeting throughout this year to examine logistics, explore options, discover solutions to potential road blocks and concerns, and figure out how this unique approach to health care can be put into action. We are thrilled to be imagining new possibilities and solutions that promote healthier living.

## Helpers of People

### Soul

The soul is our deepest, truest self – it is the essence of who we are. The soul is where we treasure our deepest hopes and dreams. It is also where we form our deepest connections in life. Our relationships with God and others and our sense of fulfillment and purpose depend on a soul that is healthy, happy, and alive.

In the book *Toward a Meaningful Life*, Rabbi Simon Jacobson tells the story of the Rebbe Menachem Mendel Schneerson, who said, “Every person has both a body and a soul. It is like a bird and its wings.

Imagine if a bird were unaware that its wings enabled it to fly; they would only add an extra burden of weight. But once it flaps its wings, it lifts itself skyward. We all have wings – our soul – that can lift us as high as we need go. All we have to do is learn to use them.”

The soul is easily weighed down in this life. Obligations, restrictions, fears, hopelessness – and often guilt and shame – make our soul seem like a weight that is too heavy to bear. Life would be so much easier if we didn’t have something

*Our relationships with God and others and our sense of fulfillment and purpose depend on a soul that is healthy, happy, and alive.*





whispering in our ear, “There’s something more...somewhere out there, there’s freedom.”

At the beginning of his ministry, Jesus opened with a quote from Isaiah 61. He said, “The Spirit of the Sovereign LORD is on me.... He has sent me to bind up the brokenhearted, to proclaim freedom for the captives and release from darkness for the prisoners, to proclaim the year of the LORD’s favor.”

Jesus was saying that his mission on earth was to set us free, release us from our burdens, and bind up the deepest wounds of our souls. He was here to show us that we had wings, and the door to the cage was wide open.

So, what are some practical ways we can experience true freedom of the soul?

*“We all have wings – our soul – that can lift us as high as we need go. All we have to do is learn to use them.”*

Menachem Mendel

Schneerson

### **CULTIVATE TRUE SPIRITUALITY.**

There is a difference between true spirituality and outward signs of religion. While religion “goes through the motions” without really touching the heart, spirituality is a living, breathing relationship with God.

### **DEVELOP A SENSE OF MISSION.**

The questions that plague us most in life seem to be *What is my purpose here on earth? Why am I here?* The answer may lie in our hearts’ deepest longings and desires. Dreams are given to us by God as an invitation – a call – to do something great with our lives: to live out of a sense of mission.

### **SERVE OTHERS FROM THE HEART.**

Service from the heart is truly its own reward, especially if our sense of mission and our dreams are aligned with the service we are providing. Service from the heart is leadership because it changes us and it changes those who observe it and experience it first-hand.

### **NURTURE RELATIONSHIPS WITH OTHERS.**

Our soul is designed to live in community. Good, healthy relationships with our family and friends, in marriage, and in the community greatly increase our physical, emotional, and spiritual health. Most importantly, a growing and ever deepening relationship with God as our Father, Counselor, and Redeemer is what our souls most deeply need in order to experience abundant life.

A soul set free is a beautiful thing. Like a bird that has finally learned to use its wings, it lives every day with a sense of purpose and meaning and pursues its mission passionately. It serves others with grace and heartfelt concern. It lives in meaningful communion with God and others. And it has the power, the unique power, to be the one snowflake that causes the avalanche. A soul set free carries the potential to be a catalyst for change, to inspire others to be set free, to move mountains, to dream the impossible, to live courageously – and face each new day with courage, no matter what the circumstances may look like.





## TESTIMONIAL KELLEY BABER

*I was two years old when my parents divorced. From the time I remember, I always felt a lot of neglect and insincerity from my father, and felt like I was on the outside looking in when I visited him and his new family. I soon became angry and bitter about our relationship and lost interest altogether.*

*On the other hand, my mother was my best friend, and we have always had so much in common! I had a happy childhood growing up with her by my side, always encouraging me to go for my dreams.*

*However, as I grew up, one thing that I was not even aware I was lacking was a relationship with God. Though my mother was raised in Catholic schools, I did not grow up in a spiritual home. My mother didn't want anything to do with religion after her experience, and no one in my close circle (my grandparents, my parents, close family friends) attended church. I didn't even really know what religion was all about.*

*When I married a Christian man, God became a bigger part of my life, and suddenly I was faced with some intense feelings regarding Him. In my mind, I somehow equated my father's absence and neglect with God, and I had very little interest in delving deeper into either my relationship with my father or with God.*

*Then, Kris Seale came up with the idea of the Sabbatical. When I was trying to determine what needed to occur during my Sabbatical, I kept coming back to the fact that I needed to mend my relationship with my dad. There was only one problem...my dad had passed away ten years before. Still, I decided I needed to do what I could*

*to find closure. For my Sabbatical, I embarked on a journaling project through scrapbooking to help me think things through and process my emotions toward my father. I immersed myself in reading about forgiveness, God, and fathers. One of the most inspiring and thought-provoking books I read during this time was Captivating, by John and Staci Eldredge. The amount I learned was incredible, and it all spoke to me on such a deep level. The most important thing I learned was that my relationship with my earthly father and my lack of forgiveness was causing the insurmountable wall that stood between me and God.*

*Once I began working through my issues with my earthly father, I discovered that forgiveness is a choice. I chose to forgive my father, and I found that it was a huge weight lifted from my shoulders. I felt almost an immediate lightness, and knew that it had always been this bitterness of hurt and regret that stood in the way of my relationship with God. As soon as I decided to forgive my dad, I had a strong desire to learn more about God and to finally let him into my life and my heart. It was amazing to feel all the abrasiveness, indifference, and defensiveness I'd always felt toward God begin to wash away.*

*Without Kris's radical idea of the Sabbatical, I am confident that I would not be in the same place I am today. I don't think I would have learned about forgiveness or made the effort to work through my past with my father. And without those two things, there would still be a solid wall between me and God. I am so thankful for the opportunity of the Sabbatical...it was a gift to both my earthly life and my eternal life.*

*Kelley Baber*



**KELLEY BABER**  
DIRECTOR OF  
MARKETING SOLUTIONS

*“When I was trying to determine what needed to occur during my Sabbatical, I kept coming back to the fact that I needed to mend my relationship with my dad.”*

Kelley Baber





*As a company, we are enthusiastic supporters of local community fundraising events for several non-profit organizations, and encourage our employees to attend and get involved in any way they can.*

One of our company's main objectives is to be known as "Helpers of People." We realize that if we run a business with excellence, treat our employees and clients with respect, and achieve great financial results, none of it will really have any great eternal value if there isn't something more to it...something with meaning and substance.

In 2010, the Sabbatical program was a significant way in which we were able to put our "Helpers of People" values into practice. Through this program, our employees had some very meaningful and life-changing experiences that will have lasting effects in their own lives and in the lives of others. We are pleased to report that our plan is to continue the Sabbatical program in another seven years.

As "Helpers of People," we also provide matching funds for charitable donations given by our employees and clients. As a company, we are

enthusiastic supporters of local community fundraising events for several non-profit organizations, and encourage our employees to attend and get involved in any way they can.

One of our initiatives for this coming year and into the future is to devote even more time and resources to helping others through our newly established Helpers of People Leave Program. The leave program will allow employees who have been with the company for over five years to apply for one week of time off (apart from vacation time) and to devote that time to a service project, mission trip, or the repair of a relationship. After seven years of service to the company, an employee may qualify for two weeks of leave time. Our new Helpers of People Leave Program allows our employees to continue to enjoy ample vacation time, with additional time provided to dedicate to causes that they feel deeply passionate about.



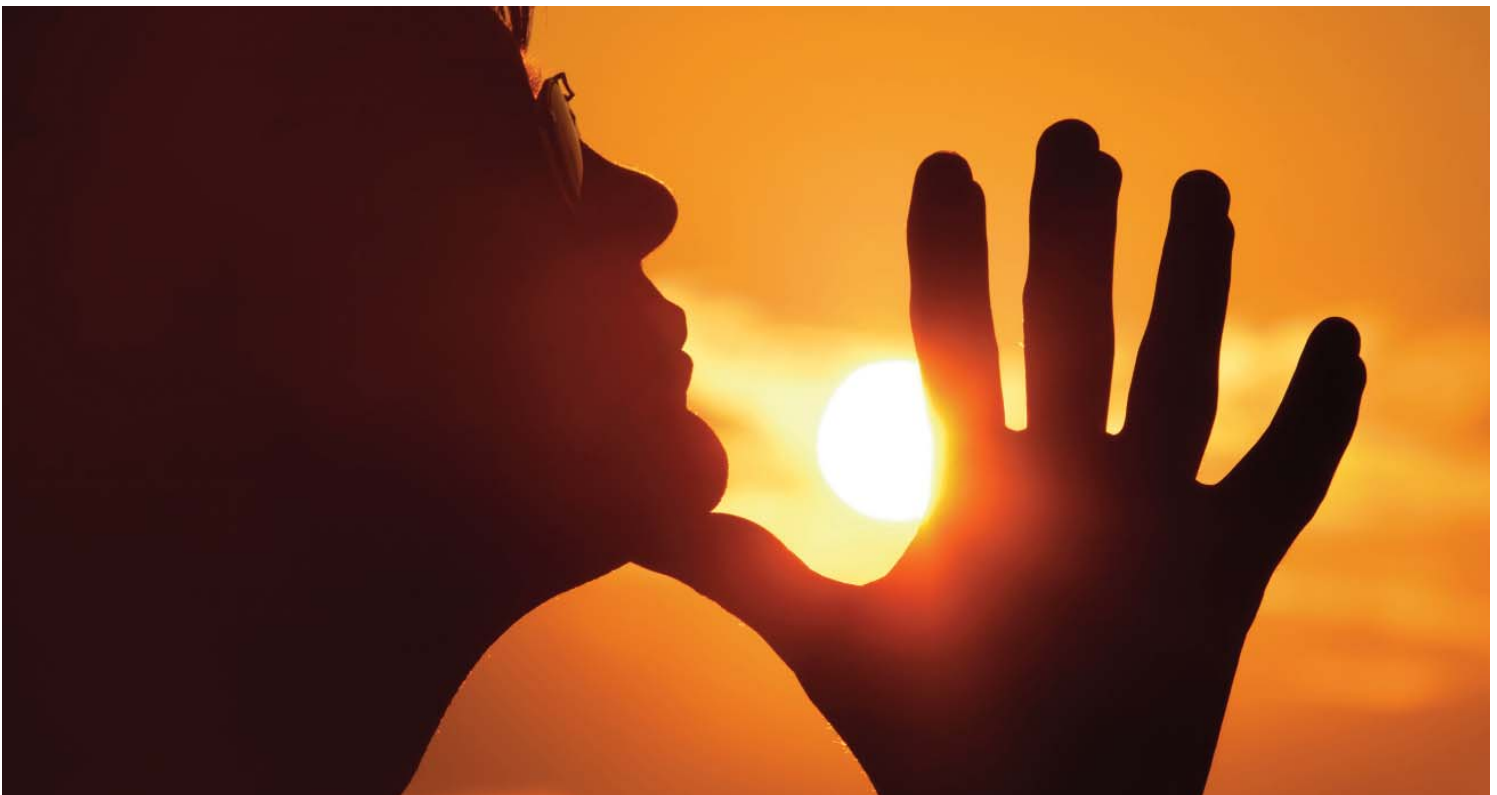


# Conclusion

There is something unique about the company culture at FDLIC. There is a desire in the hearts of our people to continually grow, transform, and improve with each new day. With our Sabbath Year in 2010, our employees took time to invest in areas of their lives that they felt needed attention. Many experienced a time of personal growth, renewal, and improvement for mind, body, and soul. For 2011, our focus has been to encourage the ongoing journey our employees embarked on last year.

Our goal is to grow, develop, and mature to become better and more able to serve with excellence.

As a community, we are continually inspired by the progress, faith, transparency, and courage of our colleagues and friends. We hope that through our own journey, you also might be inspired to think about and share your ideas with us concerning life fitness and improved health for mind, body, and soul.



# Analysis of Financial Position

For 2010, the financial position of Funeral Directors Life Insurance Company (FDLIC) remained strong as the company maintained an A.M. Best Insurance Company Rating of A- (Excellent) during the year. Operationally, FDLIC significantly out-performed the previous year's results. Realized capital losses were down considerably from 2009. With the exception of the sale of an insurance subsidiary, no material transaction occurred outside the normal scope of business.

## ASSETS

The total assets of FDLIC grew to \$714.45 million, an increase of \$81.98 million or 12.96% from year-end 2009 to year-end 2010. As of December 31, 2010, FDLIC's assets were distributed as follows: 97.03% in investments, 1.31% in investment income due and accrued, .62% in deferred tax assets, .59% in deferred and uncollected life insurance premiums and annuity considerations, and .45% in various other assets.

## INVESTED ASSETS

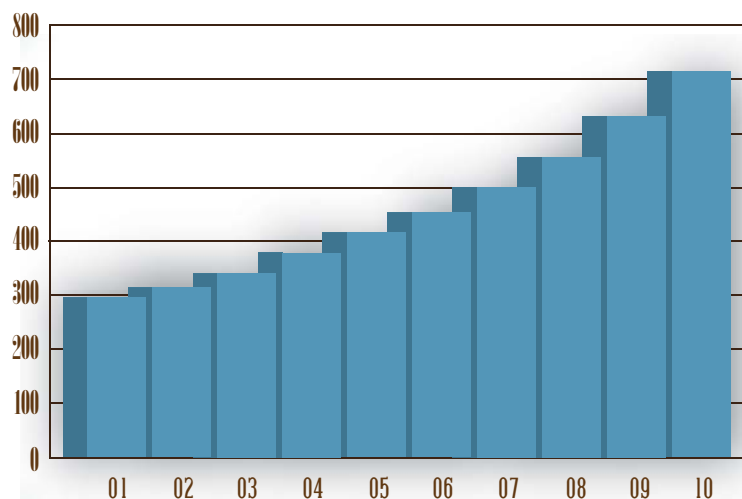
For 2010, the primary investment held by FDLIC was bonds (government, agency, and corporate) representing 88.75% of invested assets or \$615.25 million. The emphasis regarding the investment portfolio has consistently involved maximizing return, limiting risk, achieving appropriate liquidity, and matching the cash flow of invested assets with the projected cash flow of the Company's insurance liabilities. Throughout 2010, FDLIC maintained this approach to matching the expected cash flows. This conservative approach to managing assets has been consistent since 1993 and was designed to reduce risk and provide assurance that cash flow of assets is appropriate to provide for the claims of the company.

The growth in company assets has allowed FDLIC to "average into the market" over many different interest rate scenarios, and in all areas of the yield curve. In combination with a disciplined approach to investing, this has enabled FDLIC to lower the market value volatility of the portfolio to interest rate fluctuations. During the year, FDLIC increased the diversification of its portfolio by both asset class and number of issues. Therefore, risk related to individual securities and single asset sectors has been reduced.

At year-end 2010, preferred stocks represented .54% or \$3.75 million of invested assets, down approximately \$12.01 million from 2009. The decrease is the result of disposals and reclassification to bonds.

At year-end 2010, FDLIC's total common stock portfolio was \$4.27 million representing .62% of invested assets and consisted entirely of its investment in Kentucky Funeral Directors Life Insurance Company (KFDLIC). The Company sold its subsidiary, Texas Directors Life Insurance

## TOTAL ASSETS IN MILLIONS



Results through December 31, 2010



Company (TDLIC), effective October 31, 2010, which resulted in a realized capital gain of \$1.35 million. Prior to the sale, the Company received a dividend from TDLIC in the amount of \$3.96 million. The extraordinary dividend was approved by the Commissioner of the Texas Department of Insurance on October 7, 2010.

During 2010, FDLIC's mortgage loan portfolio increased \$4.68 million due to the financing of existing commercial real estate. The mortgage loan portfolio represented 4.09% of invested assets as opposed to 3.86% in 2009. The mortgage loans made and retained by FDLIC have consistently performed, and as of year-end, the company had no mortgage loans over 90 days past due.

At year-end 2010, real estate represented 4.08% of invested assets compared to 4.59% in 2009. During the year there were no acquisitions, only renovations to existing properties including the home office property. The typical lease period for properties is fifteen (15) years.

Cash and short-term investments were \$1.32 million consisting largely of cash on deposit. This is a slight decrease from year-end 2009 when FDLIC held \$1.90 million in cash and short-term investments. Other Invested Assets consist of loans to parent that were issued in the first quarter of 2007 and a loan to an affiliate which comprised 1.73% of invested assets. Principal reduction on these loans was \$477,767 for the year.

The portfolio is conservatively positioned to allow for continued improvements during 2011.

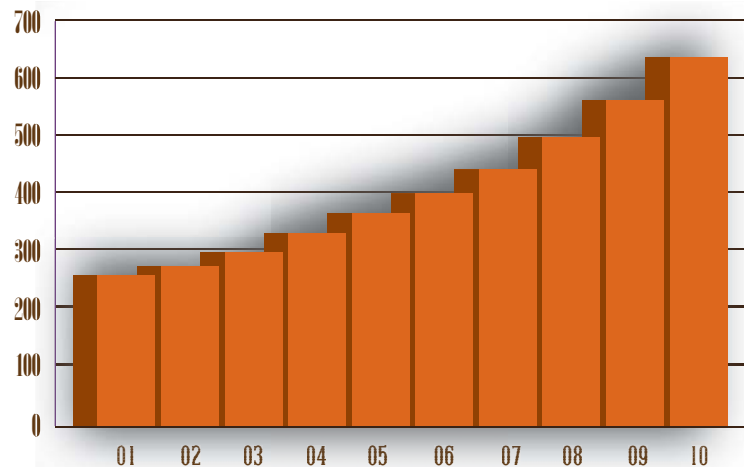
With the investment of new cash flows, portfolio income is expected to increase in 2011. Should interest rates in 2011 increase, new purchases

will average into the market at higher rates than 2010. No material changes are anticipated for 2011, and FDLIC will continue to invest for the long-term in assets designed to provide a cash flow sufficient to cover the anticipated cash flow of the company's liabilities. Diversification will continue in order to reduce exposure to single portfolio issues and FDLIC will diligently invest to provide for the historical investment objectives of the company.

## LIABILITIES

At year-end 2010, FDLIC's liabilities were distributed as follows: 97.79% in Aggregate Reserve for Life Contracts, .33% in Payable to Affiliates, .32% in Provision for Policyholders' Dividends and Coupons Payable, .31% in Premiums and Annuity Considerations Received in Advance, .30% in Accrued Commissions, .28% in Asset Valuation Reserve, .23% in Interest Maintenance Reserve, and .44% in all other liabilities.

## AGGREGATE LIFE RESERVES IN MILLIONS



Results through December 31, 2010



The life insurance and annuity reserves are primarily medium to long-term in nature. Life insurance reserves are calculated on a conservative basis, with 85.9% of the reserves being calculated using an interest factor of 4% or less. Annuity reserves are equal to the current cash surrender value of the annuities plus additional reserves required by Actuarial Guideline 33. The terms of the annuity contracts are conservative, offering interest guarantees of 1% to 5% and no bail out provisions.

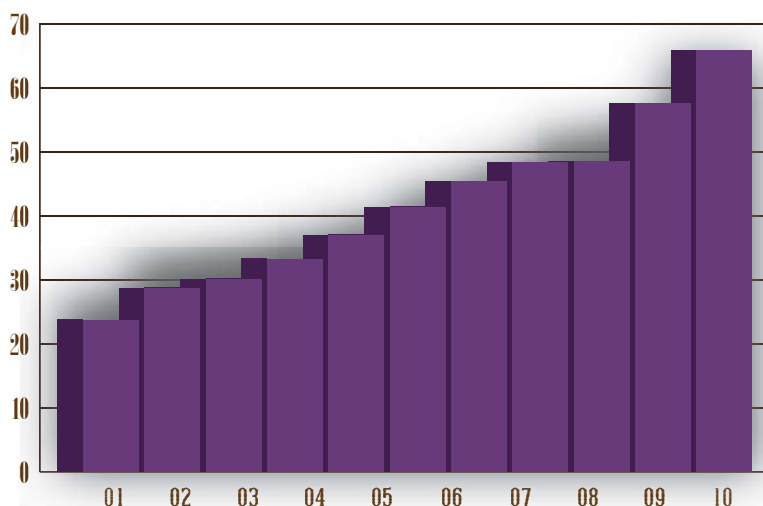
The Interest Maintenance Reserve decreased \$1.75 million or 53.57% from year-end 2009 to year-end 2010 due to impairments on bonds held with the intent to sell, as well as normal amortization. The Asset Valuation Reserve decreased \$447,484 or 19.57% – a result of realized capital losses and the impact of the sale of TDLIC.

Generally, the differences between years in the other liability categories did not result from any significant changes in liability trends, but were the result of normal business.

## CAPITAL AND SURPLUS

Total capital and surplus increased \$8.23 million for 2010 as compared to the increase of \$9.2 million in 2009. In 2009, FDLIC recognized approximately \$2.4 million in additional admitted deferred tax assets pursuant to statutory accounting principles. The increase in 2010 was due to net income of \$8.83 million plus paid-in surplus of \$1.5 million offset by unrealized capital losses on investment securities. Based on statutory accounting principles, once FDLIC recognized the dividend paid by TDLIC in investment income any unrealized gains that had been recorded in capital and surplus over the years had to be reversed in the same amount. The overall impact to capital and surplus was net neutral. As a result of the statutory accounting and federal income tax treatment of the sale of TDLIC, the Company's parent, Directors Holding Corporation, contributed \$1.5 million in additional paid-in capital on December 23, 2010. The ratio of capital and surplus to total assets increased to 9.24% at year-end 2010 compared to 9.13% in 2009.

## CAPITAL & SURPLUS IN MILLIONS



Results through December 31, 2010



## RESULTS OF OPERATIONS

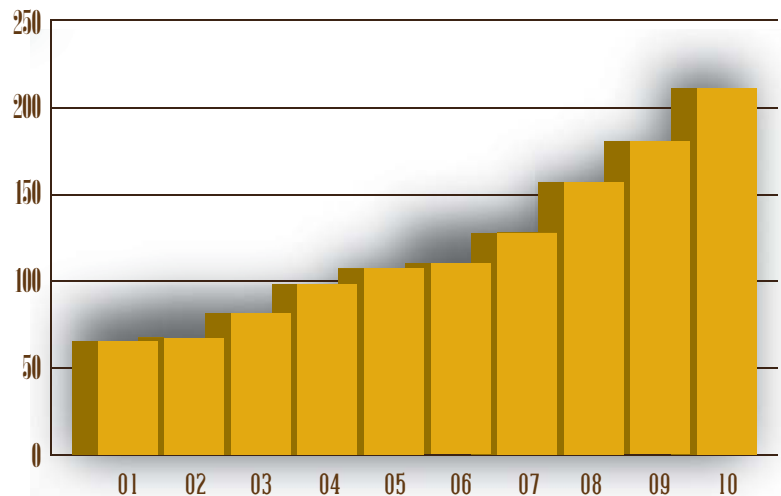
### REVENUE

Over the last five years, premium income increases have averaged 18.37%. New business sales production for 2010 surpassed \$173 million and exceeded 2009 by 12.33%. Over the past ten years, there has been a marked shift toward more single pay. In 2010, approximately 72% of new business sales production was single pay.

Annuity premium income increased 17.72% over 2009 compared to the 8.75% increase from 2008 to 2009. Ordinary Life, Group Life, and Industrial Life premium income increased 12.5% between 2009 and 2010. The amount of ordinary life new business increased due to the significant increase in direct new business sales production during the year.

Net investment income increased \$8.24 million or 22.82% from year-end 2009 to year-end 2010. Approximately \$4 million of the increase was due to the dividend received from TDLIC. Yields on new purchases dropped significantly in the 3<sup>rd</sup> and 4<sup>th</sup> quarter of the year resulting in lower rates of return and tighter spreads. Net new dollars invested for 2010 were \$78.37 million compared to \$71.92 million in 2009.

### TOTAL REVENUE IN MILLIONS



*Results through December 31, 2010*

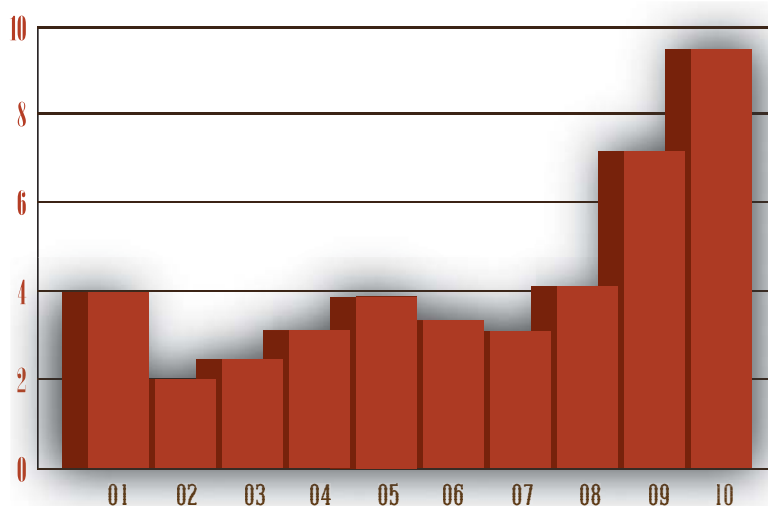
### EXPENSES

For 2010, overall expenses increased \$29.45 million or 17.38% compared to \$18.43 million or 12.20%, for 2009. Death benefits increased 14.59%, while annuity benefits increased 17.0% during 2010. Monthly claims expense averaged \$6.84 million in 2010 compared to \$5.88 million in 2009. Increase in aggregate reserves from year to year was 17.07% due to the increase in new business sales during the year. Commissions increased \$5.67 million for the increase in new business sales as well. General insurance expenses increased 13.46% for 2010 largely for additional sales and administrative personnel and enhancement of sales-related programs. No other material expense changes occurred during 2010.

# Analysis of Financial Position

## NET GAINS FROM OPERATIONS

IN MILLIONS



Results through December 31, 2010

## NET INCOME

For 2010, net income was \$8.83 million or 46.91% higher than net income recorded in 2009. The following facts are relevant when reviewing the difference in net income between 2009 and 2010: 1) 2010 net gain from operations exceeded 2009 by \$2.32 million or 32.38% for significant increases in revenue, 2) provision for federal income taxes was down as a percentage of net gain from operations as the \$3.9 million dividend received from TDLIC was not taxable, and 3) FDLIC realized net capital losses of \$653,697 in 2010 compared to net capital losses of \$1.15 million in 2009.

## CASH FLOW AND LIQUIDITY

Through the consistency of premium income and the growth of investment income, FDLIC has continued to maintain extremely positive cash flow. Premium and investment income have allowed FDLIC to meet all obligations and invest a considerable amount of the remainder. This trend is expected to continue for 2011 and beyond. However, FDLIC has made appropriate plans for the future by continuing the investment strategy of matching asset maturities with liability cash flow projections.

2010 represented an advantageous opportunity for FDLIC as the repercussions of the financial crisis took their toll on many competitors. This is true from a portfolio structure as well as a reporting standpoint. Moreover, the diversification, structure of the portfolio, and limited exposure to loan-backed securities has afforded FDLIC the opportunity to benefit from the financial crisis. For example, FDLIC experienced only limited write-downs due to the conservative nature of the portfolio. The book yield did decrease slightly during 2010, but the portfolio remains diversified and in a positive position to move forward in 2011 and the years to come.

FDLIC has maintained considerable liquidity over the years and will continue to do so in the future. As stated above, current cash flow has always been sufficient to meet maturing insurance and annuity obligations, as well as operating expenses; however, if FDLIC is required, by some catastrophic event, to generate cash flow, it may do so by liquidating its marketable securities.



## CONCLUSION

FDLIC has experienced steady and consistent growth over the last five years. For 2011, FDLIC will continue its expansion into states outside of Texas, which now provide approximately

67% of the company's new business production. As discussed above, FDLIC will continue to invest in accordance with its long-standing investment philosophy and fully expects to maintain its portfolio book yield and income.





# Financial Highlights

IN THOUSANDS

YEAR ENDED DECEMBER 31

	2010	2009	% CHANGE
OPERATIONS			
REVENUES	\$ 211,096.8	\$ 180,382.7	17.03%
NET EARNINGS	\$ 8,825.1	\$ 6,007.2	46.91%
FINANCIAL			
TOTAL ASSETS	\$ 714,454.7	\$ 632,476.7	12.96%
RESERVES	\$ 634,127.1	\$ 560,652.9	13.11%
SHAREHOLDER'S EQUITY	\$ 65,996.1	\$ 57,765.5	14.25%
EMPLOYEES	112	106	5.66%
POLICYHOLDERS	192,015	176,030	9.08%

# Five-Year Summary

## SELECTED FINANCIAL AND STATISTICAL DATA

IN THOUSANDS

YEAR ENDED DECEMBER 31

	2010	2009	2008	2007	2006
NEW BUSINESS ISSUED	\$173,732.3	\$154,665.1	\$137,090.9	\$105,204.7	\$86,429.6
PREMIUM INCOME	165,946.1	143,524.5	124,088.1	99,373.4	84,707.5
LIFE INSURANCE IN FORCE	470,069.0	422,570.0	377,177.0	342,147.0	315,542.0
AGGREGATE LIFE RESERVES	633,670.5	560,303.9	497,636.2	442,143.5	400,461.9
CAPITAL & SURPLUS	65,996.1	57,765.5	48,560.9	48,511.1	45,428.8
NET INCOME BEFORE CAPITAL GAINS	9,478.8	7,160.1	4,101.2	3,091.7	3,332.3
TOTAL ASSETS	714,454.7	632,476.7	556,605.8	500,388.9	453,382.6
NET INVESTMENT INCOME	44,361.3	36,118.5	32,744.6	28,151.8	25,092.4
A. M. BEST RATING	A-	A-	A-	A-	A-
RATIO OF CAPITAL & SURPLUS TO TOTAL ASSETS	9.24%	9.13%	8.72%	9.69%	10.02%
INVESTED ASSET MIX					
BONDS	88.8%	85.7%	81.6%	81.6%	83.6%
STOCKS	1.2%	3.9%	7.1%	8.1%	6.0%
MORTGAGE LOANS ON REAL ESTATE	4.1%	3.8%	2.6%	1.3%	1.1%
REAL ESTATE	4.1%	4.6%	5.5%	6.3%	1.3%
CASH OR SHORT-TERM INVESTMENTS	0.1%	0.3%	1.2%	0.4%	8.0%
OTHER INVESTED ASSETS	1.7%	1.7%	2.0%	2.3%	0.0%



# Balance Sheet

IN THOUSANDS

YEAR ENDED DECEMBER 31

	2010	2009
<b>ASSETS</b>		
BONDS	\$ 615,248.1	\$ 526,728.9
STOCKS-PREFERRED	3,748.7	15,753.7
STOCKS-SUBSIDIARIES	4,268.1	8,075.9
MORTGAGE LOANS	28,324.4	23,647.2
REAL ESTATE	28,255.3	28,206.4
POLICY LOANS	50.5	63.4
CASH AND SHORT-TERM INVESTMENTS	1,321.7	1,889.3
OTHER INVESTED ASSETS	11,986.5	10,464.3
TOTAL INVESTED ASSETS	693,203.2	614,829.1
FURNITURE AND EQUIPMENT	1,501.3	1,597.1
DEFERRED PREMIUMS	4,216.6	3,859.2
ACCRUED INVESTMENT INCOME	9,337.7	7,855.1
DEFERRED TAX ASSET	4,461.6	3,872.2
OTHER ASSETS	1,734.2	464.0
TOTAL ASSETS	<u>\$ 714,454.7</u>	<u>\$ 632,476.7</u>
<b>LIABILITIES</b>		
POLICY RESERVES	\$ 634,127.1	\$ 560,652.9
POLICY CLAIMS	988.7	834.0
PROVISION FOR POLICYHOLDER DIVIDENDS	2,100.0	2,200.0
PREMIUMS RECEIVED IN ADVANCE	1,999.5	1,835.0
INTEREST MAINTENANCE RESERVE	1,520.0	3,273.8
ACCRUED COMMISSIONS	1,914.2	1,525.2
ACCOUNTS PAYABLE	117.4	140.4
OTHER LIABILITIES	3,852.7	1,963.5
ASSET VALUATION RESERVE	1,838.9	2,286.4
TOTAL LIABILITIES	<u>648,458.6</u>	<u>574,711.2</u>
<b>SHAREHOLDER'S EQUITY</b>		
COMMON STOCK	2,500.0	2,500.0
ADDITIONAL PAID-IN CAPITAL	3,031.0	1,531.0
SURPLUS	60,465.1	53,734.5
TOTAL SHAREHOLDER'S EQUITY	<u>65,996.1</u>	<u>57,765.5</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 714,454.7</u>	<u>\$ 632,476.7</u>

# Summary of Operations

IN THOUSANDS

YEAR ENDED DECEMBER 31

2010

2009

## REVENUE

LIFE PREMIUMS AND ANNUITY PAYMENTS	\$ 165,946.1	\$ 143,524.5
NET INVESTMENT INCOME	44,361.3	36,118.5
OTHER INCOME	789.3	739.7
TOTAL REVENUE	<u>211,096.8</u>	<u>180,382.7</u>

## BENEFITS & EXPENSES

DEATH AND ANNUITY BENEFITS	82,127.2	70,589.5
OTHER BENEFITS	1,321.7	1,709.1
INCREASE IN AGGREGATE RESERVES	73,366.6	62,667.7
OPERATING EXPENSES AND COMMISSIONS	39,408.0	31,661.2
DIVIDENDS TO POLICYHOLDERS	2,679.8	2,829.2
TOTAL BENEFITS AND EXPENSES	<u>198,903.3</u>	<u>169,456.7</u>
INCOME BEFORE CAPITAL LOSSES & TAXES	12,193.4	10,926.0
CAPITAL LOSSES NET OF INCOME TAXES	(653.7)	(1,152.9)
INCOME BEFORE INCOME TAXES	<u>11,539.7</u>	<u>9,773.1</u>
LESS PROVISION FOR INCOME TAXES	<u>2,714.6</u>	<u>3,765.9</u>

## NET INCOME

	<u>\$ 8,825.1</u>	<u>\$ 6,007.2</u>
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# Statement of Shareholder's Equity

IN THOUSANDS

YEAR ENDED DECEMBER 31

	2010	2009
CAPITAL & SURPLUS		
SHAREHOLDER'S EQUITY BALANCE	\$ 57,765.5	\$ 48,560.9
NET INCOME	8,825.1	6,007.2
UNREALIZED GAIN (LOSS) ON INVESTMENTS	(3,151.3)	778.9
CHANGE IN DEFERRED TAX	226.6	5.3
CHANGE IN NON-ADMITTED ASSETS	382.7	3,177.9
CHANGE IN ASSET VALUATION RESERVE	447.5	(764.7)
ADDITIONAL PAID-IN CAPITAL	1,500.0	-
SHAREHOLDER'S EQUITY BALANCE	<u>\$ 65,996.1</u>	<u>\$ 57,765.5</u>

# Statement of Cash Flow

IN THOUSANDS

YEAR ENDED DECEMBER 31

	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES:		
PREMIUMS AND ANNUITY PAYMENTS	\$ 165,538.3	\$ 143,228.7
INVESTMENT INCOME RECEIVED	41,787.2	35,037.9
OTHER INCOME RECEIVED	177.6	238.9
BENEFITS AND LOSS-RELATED PAYMENTS	(83,259.9)	(72,669.1)
OPERATING EXPENSES PAID	(38,895.0)	(31,067.0)
POLICYHOLDER DIVIDENDS PAID	(2,780.7)	(2,931.6)
INCOME TAXES PAID	(4,825.4)	(3,594.9)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>77,742.1</u>	<u>68,242.9</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
PROCEEDS FROM INVESTMENTS SOLD	142,926.6	189,380.5
OTHER CASH PROVIDED	3,524.4	594.0
ACQUISITION OF INVESTMENTS:		
BONDS	(215,049.1)	(246,429.0)
STOCKS	-	(3,427.7)
MORTGAGE LOANS	(8,457.2)	(11,080.0)
REAL ESTATE	(754.4)	(1,210.6)
OTHER INVESTED ASSETS	(2,000.0)	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(79,809.7)</u>	<u>(72,172.8)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
CAPITAL AND PAID-IN SURPLUS	<u>1,500.0</u>	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,500.0</u>	-
NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(567.6)	(3,929.9)
CASH AND SHORT-TERM INVESTMENTS:		
BEGINNING OF YEAR	<u>1,889.3</u>	<u>5,819.2</u>
END OF YEAR	<u>\$ 1,321.7</u>	<u>\$ 1,889.3</u>



# *Directors Investment Group* BOARD OF DIRECTORS

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**BILLY RAY HARPER** SAN ANGELO, TX

**JEFF HARPER** SAN ANGELO, TX

**JAY KELLY** ODESSA, TX

**MIKE LEMONS** AUSTIN, TX

**DARRELL RAINS** AUSTIN, TX

**KRIS SEALE** ABILENE, TX

**ERNEST WELCH** BIG SPRING, TX

**TOMMY WELCH** BIG SPRING, TX

**BOB WHITE** WEATHERFORD, TX



**MIND**

**B O D Y**

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**PAT BAXTER** EXECUTIVE VICE PRESIDENT & CHIEF OPERATIONS OFFICER

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