

PROGRESS REPORT

2010



Our Business is YOU!



Londen Companies

A PROUD HERITAGE

At a time when so many other companies are forced to batten down the hatches and hold on for dear life, Lincoln Heritage is building and growing. For the second straight year, we have achieved a record amount of first year life premium — this year eclipsing last by more than 25%. I am proud of this — deeply proud — for three reasons.



First, of course, I am proud of the diligence and talent of our people. The dedication and commitment of our associates is the foundation upon which this company is built and the engine that will drive it forward for years to come. Without the effort of individual team members, the growth we have seen in the past few years simply could not continue.

Second, I am proud of this great nation. It's no mistake that we're achieving our success in a society founded on freedom and forged by the sacrifices of generations of Americans who dreamed of a better life for their children and grandchildren. We share their dreams and carry their legacy forward with our deepest gratitude.

Finally, I am proud of the role our company plays in serving our customers at their moment of greatest need. As I visit with our partners in this enterprise, I ask them about their most treasured moment in our business. They invariably quote a widow or widower saying, "Lincoln Heritage touched my life on the toughest day I ever had to face." That is work worth doing and a proud legacy for all of us.

There has been no better time to be living in this great nation of ours and no better time to be a part of this company. May God grant that both our unique nation and our unique company continue to grow and prosper this year and in the years to come.


Jack Londen, CEO

OUR PHILOSOPHY

We Believe:

In *private ownership*. There can be no doubt that public companies serve a great purpose, especially in amassing the huge amounts of capital needed for large projects. But public ownership creates enormous pressure for short-term results. Because we are private, we can afford to take a longer-term view, even if it impacts short-term results.

We Believe:

In the *power of the individual*. Committees and consensus can only do so much; there is a time and place for bold action by an individual who wants to rise above the rest.

We Believe:

In having the *right incentives*. Most people want to do the right thing; they only need to have the proper motivation and appropriate rewards for delivering results.

We Believe:

In *exceptional service*. The only way to build long-term value is to provide honest, friendly and personal experiences.

A SAFE HARBOR FOR TOUGH TIMES

We are proud to present this 2010 Progress Report and to pass along a summary of another year of fantastic financial returns. In a continued very challenging overall economy, we are delivering stellar numbers.



New sales continue to soar with year over year growth exceeding 20% for the second year in a row. We are well above what anyone would consider to be excellent outcomes in all areas of financial health and performance.

But as much as we like strong financial results, and trust me, we like strong performance as much as anyone, we must never lose track of the fact that this is a profoundly personal business. Our only reason for existence as a company is to be there for our families, offering comfort and service, on the worst day of their lives.

Many home office and field associates have heard me speak of an article I read a few years back that summarized a behavioral psychologist's study of the way various people viewed their occupations. Briefly, this study found that by far, most people consider their occupation to be simply a job; that is, they work only for the money. They have no particular love for, or affinity for their work.

The next level of commitment would be people who consider their occupation to be a career. That implies a higher level of commitment, usually involving a higher level of training and a longer term view of what the work entails.

The highest level of occupational aspiration was described as a calling. When a person has a calling it means that he or she is fully committed to the work in a transcendent and all encompassing way. It is not just a job or even a career; it is viewed as important and life affirming in a very profound way.

That is how we view our work at Lincoln Heritage, and we know for a fact that is how a great many of our associates also view this work. We are gratified and honored that so many motivated and impassioned people have joined us in this important calling.

A handwritten signature in black ink that reads "Tom Londen". The signature is written in a cursive, flowing style.

Tom Londen, President

OUR VALUES

1. We acknowledge that there is a better way to do everything we do and we ***constantly seek improvement.***
2. Change for the sake of change is undesirable. ***Change to improve service*** is essential.
3. ***Exceed expectations.*** Only satisfied customers (both field associates and consumers) can guarantee long-term success.
4. Each effective team member will ***lead while being led.***
5. Leaders ***share knowledge*** rather than withholding it as an element of power.
6. We must be careful in making commitments, and exacting in keeping them. ***A promise made is a promise kept*** — on both sides.
7. All rules ***pass the "smell" test***, other than those imposed by government.
8. We strive to maintain a ***team spirit*** in which every associate has the attitude of an owner.

ANOTHER OUTSTANDING YEAR

As discussed in our Chairman's and President's reports, we have been blessed with another outstanding year. The accompanying charts of financial highlights demonstrate the level of that success.



Life insurance company investments have been in the news lately.

Lincoln's investment portfolio is of high quality and is well diversified.

The loyalty of our policyholder base allows the company to invest for the long term. Lincoln has provided financial peace of mind to its policyholders for nearly half a century.

During one of the most turbulent financial periods in our country's history, the company's capitalization increased by more than \$20 million in 2009. Lincoln remains one of the strongest capitalized life companies in America with a surplus to liabilities ratio of more than 18%.

Direct premium income for the year was in excess of \$270 million. An innovative lead generation system and outstanding service to the field force and policyholders continue to fuel our dramatic growth. Lincoln is proud to be the provider of final expense and preneed life insurance coverage to over half a million insureds across the United States.

Commissions paid to agents have more than doubled over the past 5 years to nearly \$80 million. The company's field force compensation and benefits programs are among the most attractive in the industry.

Benefits paid to policyholders exceeded \$150 million last year. This is a source of immense gratification to all of the home office associates, since that is the primary reason for the existence of our company.

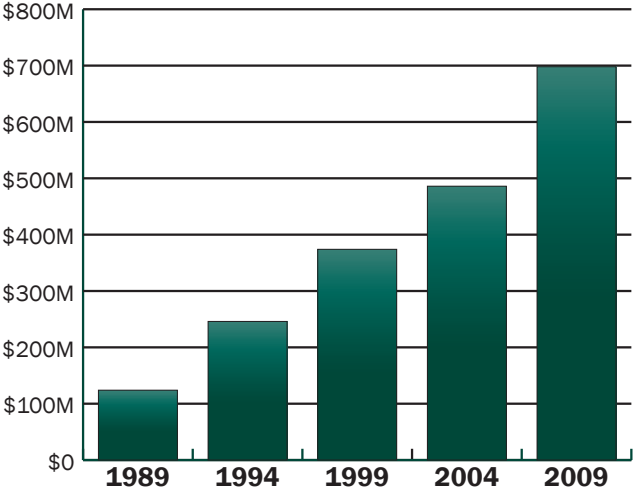
As strong as our company's history has been, the future only looks brighter as more producers and customers discover the many benefits of becoming part of the Lincoln Heritage Life family.

A handwritten signature in black ink that reads "Larry Schuneman". The signature is fluid and cursive, with a prominent "L" and "S".

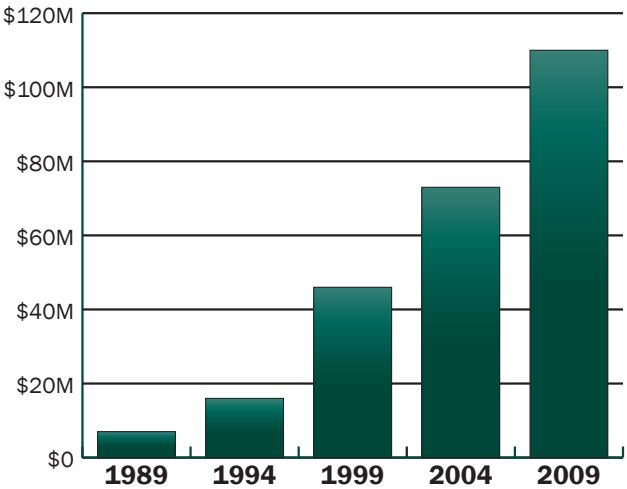
Larry Schuneman, Senior Vice President/CFO

FINANCIAL PERFORMANCE

Assets

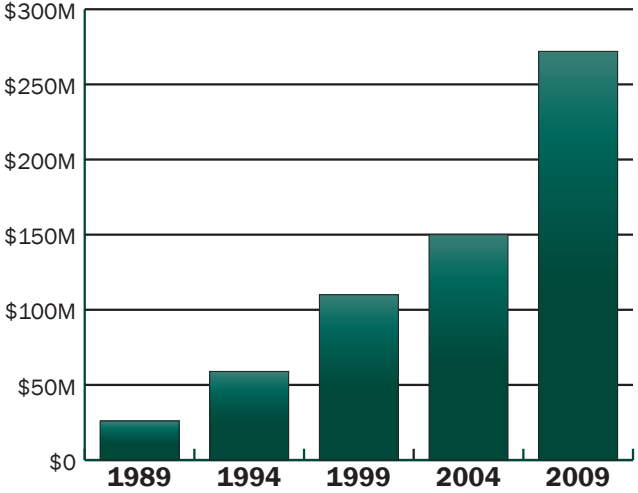


Capital & Surplus

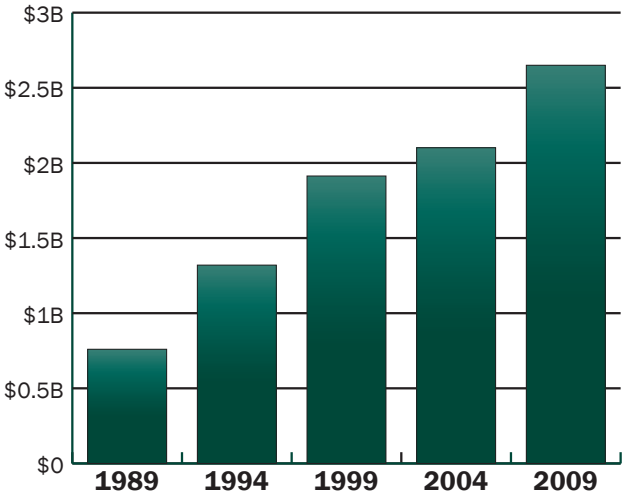


FINANCIAL PERFORMANCE

Premium Income

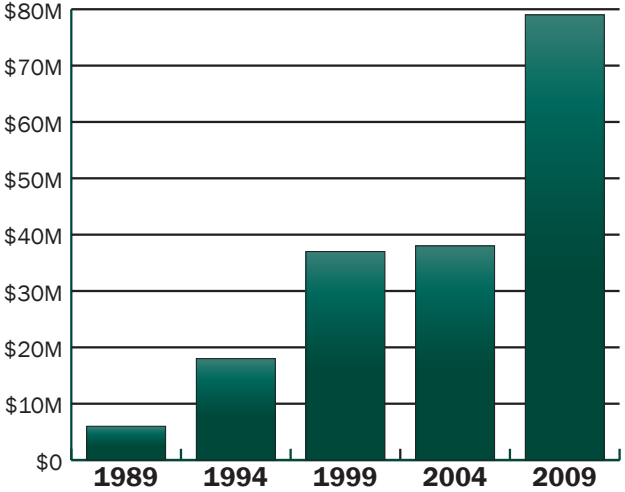


Insurance In Force

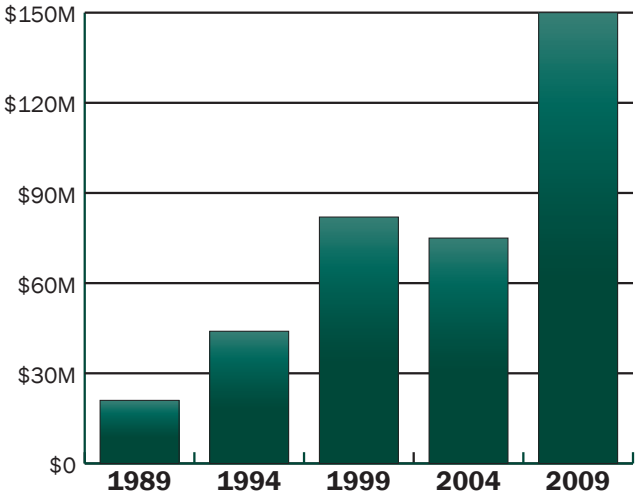


FINANCIAL PERFORMANCE

Commissions Paid



Policyholder Benefits



HOW WE GOT HERE

Growth & Acquisitions

While domiciled under the laws of the state of Illinois, Lincoln Heritage Life Insurance Company maintains its executive offices in Phoenix, Arizona. Lincoln Heritage Life has experienced phenomenal growth during its 40 plus years. In the past, our growth was achieved through acquisition of blocks of insurance business from other companies. Our background is rooted in service.

Our chairman, Jack Londen, began his career in 1963 by founding the company Arizona Life Trust. In the years since, he acquired many other companies, as detailed below, evolving to the Lincoln Heritage Life Insurance Company that you know today.

Acquired

Optimum Insurance Company	Hamilton	Bermuda	1974
Accredited Hospital & Life	St. Louis	MO	1975
Lincoln Heritage Life	Springfield	IL	1975
National Union Life	Poplar Bluff	MO	1976
Allegheny National Life	Valley Forge	PA	1977
Nationwide Security Life	Tucson	AZ	1980
Equitable National Life	Phoenix	AZ	1981
Financial Management Life	Carmel	IN	1981
Equity Benefit Life	Blackwell	OK	1981
Modern Income Life	Decatur	IL	1984
First Equity Security Life	Indianapolis	IN	1984
Dakota National Life	Rapid City	SD	1985
People's Accident	Lincoln	NE	1987
Gulf National Life	Waco	TX	1987
Western Reserve Life	Grand Junction	CO	1987
Columbia Life	Bloomsburg	PA	1987
Home State Life	Wichita	KS	1988
Western Mutual Life & Casualty	Rapid City	SD	1991
Life of Boston	Malden	MA	1991
National Capital Life	Oklahoma City	OK	1992
Consumers Life	Wilmington	DE	1992
Consumers Life of North Carolina	Gastonia	NC	1992
United Liberty Life	Cincinnati	OH	1994
Revelation Life	Jefferson City	MO	1995
Provident Indemnity Life	Norristown	PA	2002

By combining these acquisitions with strong support from our field force, Lincoln Heritage currently insures approximately 485,000 policyholders with an amount of insurance in force of \$2.6 billion. Financial strength and quality of service are the cornerstones of our company's strong foundation.

FINAL EXPENSE

Final Expense production for 2009 increased by 30 percent over 2008. Our nationwide position in the final expense market remains unchallenged.

The competitive advantage we offer our agents through lead generation, group health insurance and our relationship with the Funeral Consumer Guardian Society (FCGS) is enhanced by the fact that most of our Regional Directors have been with us at least nine years, and many as long as 23 years. This stability among our marketing partners speaks to the services and products we offer.



Our ability to generate high quality, low cost leads continues to give us a competitive advantage in final expense. In 2009 we generated 25 percent more leads than in 2008.

We expect that trend to continue in 2010. We continue to test new direct mail pieces with the goal of increasing our lead responses while maintaining our high quality. Also, nationwide cable and broadcast television leads will add to our direct mail efforts.

The response from our field force concerning our relationship with FCGS continues to be overwhelmingly positive. In addition to providing insurance for final expenses, we are able to provide assistance to families in planning and placing funerals through FCGS. In 2009, 85 percent of our new policyholders applied for membership.

Our success in the final expense market is built upon trust, loyalty, our hard working sales force, competitive products, and the best service in the industry.

SPANISH DIVISION

One of our company's most important values is that we believe change is an essential tool for constant improvement. It is in that spirit of change that the Spanish Marketing Division was born. The Hispanic market is booming and the demand for products in the Spanish language is now more pressing than ever.

Our Spanish Marketing Division offers our complete Final Expense program in Spanish- from applications, policies, and leads, to service forms and letters backed by helpful Spanish-speaking staff. Our Spanish program also includes helpful funeral planning options through FCGS memberships. Customers who take advantage of this free membership receive valuable support from the Spanish-speaking staff at the FCGS office.



Our Spanish Final Expense program has taken off; we have more than 26,000 policyholders accounting for almost \$13 million in annualized premium.



CATHOLIC FUNERAL PLAN™

Lincoln Heritage Life Insurance is pleased to be the insurance carrier selected to fund the Catholic Funeral Plan™, a faith-based planning alternative that utilizes a customized final expense life insurance product designed to grow so it can provide the funds for the funeral expenses of those enrolled.

The Plan was first started in the Roman Catholic Diocese of Pittsburgh in 1998 and has since expanded to five additional dioceses, with other dioceses considering its implementation. The Plan began in response to growing concern about the erosion of Catholic liturgical traditions at the time of death. It promotes the importance of Catholic funeral and burial traditions and provides Catholics with a practical way to incorporate them, by recording the funeral preferences of those enrolled and communicating those preferences to those responsible for arrangements and the Catholic Church at the time of death.



*Saint Paul Cathedral,
Diocese of Pittsburgh, Pittsburgh PA*

The Plan has also provided consumers with a flexible funeral planning alternative. The consumer remains in control of the funeral process and the distribution of the insurance proceeds at the time of death. Assistance and guidance about the Catholic traditions are provided to the families prior to finalizing the funeral arrangements.

Response to the Catholic Funeral Plan has been overwhelmingly positive. Since its beginning, the Catholic Funeral Plan™ production has been in excess of 72 million and is growing at a rapid rate.



PRENEED INSURANCE

Lincoln Heritage Funeral Planning continues to be an innovative preneed industry leader, providing funeral homes with proactive solutions to help build their market share and serve more families.

Our ProActive Preneed program offers leading funeral homes proven sales methods, effective marketing programs, innovative technologies and positive customer experiences. Coupled with our financial security, LHFP builds lasting partnerships with results unrivaled in our industry.



In the past year, we have seen a number of large and influential funeral homes join the Lincoln Heritage family. These firms have helped solidify our position as a market leader.

Every year since its formation within Lincoln Heritage Life Insurance, LHFP has seen considerable and consistent growth in the number of policies written. In each of the past two years, LHFP has increased its number of policies written by more than a third over the previous year. Projected growth for 2010 will match or exceed that number again.

We see ourselves as the future of preneed, because our impressive company growth, top-level performance, and dedication to excellence in the funeral industry has created a valuable brand for Lincoln Heritage, which continues to spread.

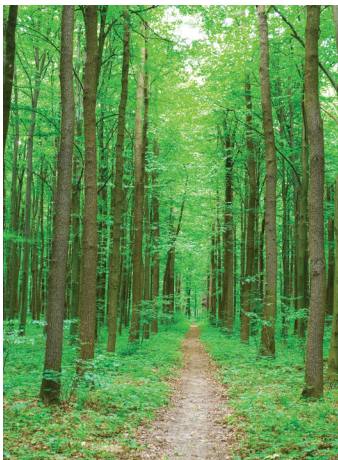
The Future of Preneed

Our efforts to seek better ways to drive our partners' preneed program fuels our culture of thoughtful innovation and a drive for new and different ways to build value with our partner firms.

By continually seeking dedicated, passionate and talented people, we have an ever-expanding team that is passionate about helping our partner firms reach their goals, while contributing to our vision to help prearrange all families in every market.

LETTERS OF APPRECIATION

"As Benefits Coordinator at our funeral home, I was quite impressed at the turnaround time of funding. Our families, as well as our business office, would greatly appreciate this kind of service from all of the insurance companies that we work with. And a special thank you for funding A.B. so quickly. These truly were 'pennies from heaven' for her!"



**L.K., Benefits Coordinator,
Caldwell, Idaho**

"I must say that I have not one company (NOT ONE) respond as promptly as you have in settling this claim. I have dealt with many insurance companies and usually have to wait four or five weeks for payment. Thank you for your payment. The family should also be happy that things were handled without a lot of red tape and without any hassles."



**J.J.M., Funeral Director,
Chicago, Illinois**

LETTERS OF APPRECIATION

"Some things/actions speak for themselves. When we receive your policies there is never a doubt about the superior service we will receive."

W.H., Funeral Director, Union Springs, Alabama

"I would like to commend you and your employees for providing such excellent customer service in working with a claim. Your company's response was very fast in payment. There are some insurance companies that take up to a month to complete a claim for the funeral home and the family. When my husband first called into your company to get information on how to file a claim and to see if the company accepted insurance assignments, your operator was very helpful, courteous and made sure that we had all the information needed. What a pleasure it was working with Lincoln Heritage."



D.T., Office Manager, Pensacola, Florida

"I received the death benefit check this morning and I want to thank you for your prompt attention to my claim. Also thank you for your kind message of sympathy regarding my loss of my husband, A. We were married 58 years – a long time. I am also pleased that we had the insurance policy with the company – also a long time."

A.L., Customer, Ludlow, Vermont

LETTERS OF APPRECIATION

"I was impressed with the customer service from our first contact by telephone. The service representatives were knowledgeable and very helpful. Your company handled the claim in a professional manner. The payment on the claim was indeed paid in a short amount of time. Thank you for assisting us with the settlement of this claim. Again, your company's service was outstanding."



J.G.W., Co-Owner, Fortuna, California

"I have received your letter and the insurance proceeds check for E.M. We have taken note at the expediency at which you processed this claim. This is actually the second policy you have handled for us – and we received the same FANTASTIC service on both occasions.



I only wish every insurance company was as responsive and quick on their claim turnaround as Lincoln Heritage."

P.Y., Funeral Director, Santa Clara, California

AZ-TV CHANNEL 7 CABLE 13 / 713

AZ-TV is the only locally-owned, family-owned and family operated station in any top 20 TV market in the U.S.



AZ-TV specializes in fun, family-friendly programming, such as the popular contemporary comedies *According to Jim*, *Frasier*, *MASH*, and *George Lopez*. This fall, *Family Feud* joins our prime time lineup. Locally produced programs including *The Pat McMahon Show* and *AM Arizona* are also important parts of the station line-up. AZTV has even added a second channel to our lineup. Retro Television Network is on over the air 7.2 and Cox Cable Channel 93. The program lineup consists of hits from the sixties, seventies and eighties including *Magnum PI*, *Rockford Files*, *Emergency* and *Dragnet*.

Jeff Burnton, AZ-TV's General Manager, has brought the needed leadership and innovation to boost the station to the next level of growth. Burnton believes in serving the community and in bringing content that viewers find useful and important to their lives. In addition, we are allowing advertisers to grow with AZTV by providing local inserts in the McMahon Group and AM Arizona content.



Recently, the station has gone through a complete transition to HD and is supplying HD to Cox Cable on Channel 713 and soon on satellite. The station invested approximately \$1.5 million dollars in the HD transition, which allows KAZT to compete against top-rated affiliates in the market for viewers and future programming.

Jack Londen expresses his pride in being part of this enterprise: "AZTV provides real value to our costumers, with advertising exposure at a cost per viewer that is far lower than is available through the corporate media titans who control the vast majority of television outlets. This is a real home-grown, family owned alternative."

COMMUNITY INVOLVEMENT

We believe we have been blessed and it is our duty to give back. We have been strong supporters of various good works over the years, as illustrated by these investments in our future:

Arthritis Foundation

We began our involvement with the Arthritis Foundation because Dodie Londen fought bravely against the disease for many years. Dodie was active on the Foundation's board for many years, including serving as its chairperson. We provided a \$1 million grant to fund summer camp facilities for children with arthritis.



Teen Outreach

A former drug addict, John Vinson, concluded through his personal experience that the best way to kick the torment of addiction is through intensive, residential, faith-based treatment. He founded a center in South Phoenix for teens who need such help to kick their addictions. The Londen Companies donated the funds to buy the property that serves as its treatment center and has since purchased additional land for expansion. Teen addicts are now receiving the help they need to overcome that terrible burden.



COMMUNITY INVOLVEMENT

Juvenile Diabetes Research Foundation

Tom Londen's daughter, Elizabeth, was diagnosed with juvenile diabetes at age 6. Tom became involved with the JDRF shortly thereafter, and has served as a board member of the Arizona chapter, as well as its president.



dedicated to finding a cure

The Londen

Companies have sponsored numerous events for the JDRF, with contributions totaling several hundred thousand dollars.

Londen Institute for Evangelism

Jack Londen has always believed in the practice



of evangelism as a way to spread his cherished faith. The Londen Companies and the Londen family have provided more than \$2 million to establish the Londen Institute for Evangelism in Corona, California.

Arizona School Choice Trust

Through a payroll deduction program, home office associates provide a chance for low-income children to get a better education at the school of their parents' choice.



OUR PEOPLE

Officers

Jack Londen, Chairman/CEO

Tom Londen, President/COO

Larry Schuneman, Senior Vice President/CFO

Vice Presidents

Norman Beazer, Marketing/Operations

Carol Berger, Information Technology, MBA

Judith Pettit, Actuary, FSA, MAAA

Dean Lathrop, Treasurer/Senior Vice President

Lynn Londen, Acquisitions

Fran McGovern, Direct Response Marketing

Monica Mone, Preneed, FLMI

Keith Perkins, Policy Benefits, FLMI, ALHC, ACS

Doug Turner, Marketing , FLMI

Cheryl Wilson, Policyholder Services, ACS, AIAA, AFSI, ALMI

Shirley Grossman, Compliance, FLMI, FLHC, AIRC, ARA, ACS

Assistant Vice Presidents

Melanie Bearden, Assistant Controller, CPA

Eric Clark, Talent Recruit and Development, ACS

OUR PEOPLE

Managers

Marsha Baer, Policy Benefits, CCP, ALHC, ACS, AIRC

Marce Boersma, Associate Services

Patrick Cardone, Facilites, FLMI, ACS

Mark DeCroce, Policyholder Service, Premium Accounting, Imaging, & Supplies

Faustino Gomez, Director/Information Technology & Operations

Sarah Goozdich, Preneed

Brandon John, Direct Response Marketing

Matt Londen, Investments

Beth Maddestra, New Business Final Expense/Medicare Supplement, FLMI, ACS, AIAA

Michelle Patton, Agency Final Expense

Paula Rodriguez, Director/Information Technology

Vicki Sheffield, Call Center Training & Development, and Reception, ACS

Amanda Swyers, Call Center Operations, ACS

Meredith Simon, New Business Final Expense

Assistant Managers

Robert Allison, Information Technology & Operations

Michael Dora, Imaging, Mail, & Supplies

Suzanne Hug, Call Center Operations

Maday Villa, New Business Final Expense Spanish

Sally Roudebush, Compliance

IMPORTANT NUMBERS

Final Expense Agent Support

Phone: 800-750-6404 ■ Fax: 602-840-0969

E-mail: Marketing@lhlic.com

Final Expense Service and Claims

Phone: 800-438-7180 ■ Fax: 602-808-0521

E-mail: Service@lhlic.com ■ Claims@lhlic.com

Spanish Agent Support and Service

Phone: 888-881-7391 ■ Fax: 602-224-2246

E-mail: Spanish@lhlic.com

Medicare Supplement Customer Service

Phone: 800-287-7319 ■ Fax: 602-522-7004

E-mail: Medicare@lhlic.com

Preneed

Phone: 877-624-4480 ■ Fax: 602-224-2213

E-mail: Preneed@lhlic.com



IMPORTANT NUMBERS

Main Number

Phone: 602-957-1650 ■ Toll Free: 800-433-8181
www.lhlic.com

Career Opportunities

Phone: 602-957-1650
E-mail: Resume@londen-insurance.com

AZ-TV

Phone: 602-224-0027 ■ Fax: 602-224-2214
www.arizonasown.com

Londen Land Company, LLC

Phone: 602-524-0655/ 602-703-2767
E-mail: info@londenland.com
www.londenland.com

Dove Valley Ranch Golf Course

Phone: 480-488-0009
E-mail: info@dovevalleyranch.com
www.dovevalleyranch.com



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