

SECURITY NATIONAL FINANCIAL CORP  
Form 10-Q  
November 14, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarter ended September 30, 2012, or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

UTAH  
(State or other jurisdiction of incorporation or  
organization)

87-0345941  
(I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250 Salt Lake City, Utah  
(Address of principal executive office)

84123  
(Zip Code)

(801) 264-1060  
(Registrant's telephone number, including area code)

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 by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

Class A Common Stock, \$2.00 par value	9,770,443
Title of Class	Number of Shares Outstanding as of November 13, 2012
Class C Common Stock, \$.20 par value	10,451,661
Title of Class	Number of Shares Outstanding as of November 13, 2012

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2012

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SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2012	December 31, 2011
Assets		
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 131,017,591	\$ 127,579,087
Equity securities, available for sale, at estimated fair value	5,404,888	6,299,392
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$4,263,375 and \$4,881,173 for 2012 and 2011	83,868,637	115,155,967
Real estate held for investment, net of accumulated depreciation of \$4,417,735 and \$4,189,641 for 2012 and 2011	3,596,336	3,786,780
Other real estate owned held for investment, net of accumulated depreciation of \$2,748,820 and \$1,810,238 for 2012 and 2011	59,562,388	46,398,095
Other real estate owned held for sale	5,998,740	5,793,900
Policy and other loans, net of allowances for doubtful accounts of \$449,011 and \$427,136 for 2012 and 2011	18,443,304	18,463,277
Short-term investments	8,248,217	6,932,023
Accrued investment income	2,501,814	2,323,080
Total investments	318,641,915	332,731,601
Cash and cash equivalents	57,172,185	17,083,604
Mortgage loans sold to investors	75,798,504	77,339,445
Receivables, net	14,692,059	9,934,075
Restricted assets of cemeteries and mortuaries	3,935,062	3,392,497
Cemetery perpetual care trust investments	2,049,165	1,810,185
Receivable from reinsurers	14,401,284	7,484,466
Cemetery land and improvements	11,086,542	11,105,809
Deferred policy and pre-need contract acquisition costs	37,271,008	36,237,069
Property and equipment, net	10,271,152	9,300,185
Value of business acquired	10,251,094	11,020,834
Goodwill	677,039	677,039
Other	4,513,891	3,022,113
Total Assets	\$ 560,760,900	\$ 521,138,922

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)  
(Unaudited)

	September 30, 2012	December 31, 2011
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Future life, annuity, and other benefits	\$400,594,188	\$381,595,568
Unearned premium reserve	4,889,796	5,030,443
Bank and other loans payable	22,687,673	25,019,119
Deferred pre-need cemetery and mortuary contract revenues	13,396,419	13,140,483
Cemetery perpetual care obligation	3,091,056	2,983,077
Accounts payable	2,939,381	2,672,479
Other liabilities and accrued expenses	23,628,940	14,456,887
Income taxes	18,784,667	15,010,279
<b>Total liabilities</b>	<b>490,012,120</b>	<b>459,908,335</b>
<b>Stockholders' Equity</b>		
<b>Common Stock:</b>		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 9,639,121 shares in 2012 and 9,638,798 shares in 2011	19,278,242	19,277,596
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$0.20 par value; 15,000,000 shares authorized; issued 10,132,749 shares in 2012 and 10,135,976 in 2011	2,026,550	2,027,195
Additional paid-in capital	19,577,091	19,487,565
Accumulated other comprehensive income, net of taxes	492,886	654,443
Retained earnings	31,791,885	22,546,623
Treasury stock at cost - 1,060,011 Class A shares in 2012 and 1,198,167 Class A shares in 2011	(2,417,874 )	(2,762,835 )
<b>Total stockholders' equity</b>	<b>70,748,780</b>	<b>61,230,587</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$560,760,900</b>	<b>\$521,138,922</b>

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Insurance premiums and other considerations	\$12,045,553	\$11,823,557	\$36,915,237	\$36,409,158
Net investment income	5,732,572	5,107,590	17,924,518	14,095,396
Net mortuary and cemetery sales	2,619,605	2,442,221	8,121,244	8,146,824
Realized gains on investments and other assets	222,621	226,480	580,607	1,829,136
Other than temporary impairments on investments	(440,315 )	(30,000 )	(530,315 )	(95,129 )
Mortgage fee income	43,294,916	21,517,970	103,872,556	50,615,851
Other	272,951	236,869	715,490	962,049
<b>Total revenues</b>	<b>63,747,903</b>	<b>41,324,687</b>	<b>167,599,337</b>	<b>111,963,285</b>
<b>Benefits and expenses:</b>				
Death benefits	5,914,468	5,303,622	16,024,565	16,588,193
Surrenders and other policy benefits	453,838	398,556	1,566,828	1,425,175
Increase in future policy benefits	4,806,944	5,153,073	15,743,504	14,680,267
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,930,760	1,863,959	5,804,495	5,819,497
<b>Selling, general and administrative expenses:</b>				
Commissions	23,486,730	13,268,027	58,766,750	30,417,508
Salaries	7,344,712	5,690,438	20,664,919	17,593,130
Provision for loan losses and loss reserve	1,763,090	466,025	3,263,437	1,573,360
Costs related to funding mortgage loans	1,980,512	1,219,729	5,141,164	3,065,563
Other	8,328,740	6,191,082	23,033,728	18,491,242
Interest expense	1,142,428	497,714	2,758,313	1,191,356
Cost of goods and services sold-mortuaries and cemeteries	463,386	437,972	1,334,369	1,464,908
<b>Total benefits and expenses</b>	<b>57,615,608</b>	<b>40,490,197</b>	<b>154,102,072</b>	<b>112,310,199</b>
<b>Earnings (loss) before income taxes</b>	<b>6,132,295</b>	<b>834,490</b>	<b>13,497,265</b>	<b>(346,914 )</b>
Income tax (provision) benefit	(2,142,249 )	(64,168 )	(4,252,003 )	803,630
<b>Net earnings</b>	<b>\$3,990,046</b>	<b>\$770,322</b>	<b>\$9,245,262</b>	<b>\$456,716</b>
<b>Net earnings per Class A Equivalent common share (1)</b>	<b>\$0.42</b>	<b>\$0.08</b>	<b>\$0.97</b>	<b>\$0.05</b>
<b>Net earnings per Class A Equivalent common share-assuming dilution (1)</b>	<b>\$0.38</b>	<b>\$0.08</b>	<b>\$0.97</b>	<b>\$0.05</b>
<b>Weighted-average Class A equivalent common share outstanding (1)</b>	<b>9,585,285</b>	<b>9,390,822</b>	<b>9,540,631</b>	<b>9,258,945</b>

Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	10,439,161	9,408,180	9,553,397	9,284,488
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(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net earnings	\$3,990,046	\$770,322	\$9,245,262	\$456,716
Other comprehensive income:				
Net unrealized gains (losses) on derivative instruments	(2,184,088)	904,655	(260,238 )	1,355,745
Net unrealized gains (losses) on available for sale securities	82,521	(1,287,086)	98,681	(1,645,741)
Other comprehensive loss	(2,101,567)	(382,431 )	(161,557 )	(289,996 )
Comprehensive income	\$1,888,479	\$387,891	\$9,083,705	\$166,720

See accompanying notes to condensed consolidated financial statements.



SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2010	\$ 18,357,890	\$ 1,932,031	\$ 19,689,993	\$ 1,188,246	\$ 21,907,579	\$(3,147,271)	\$ 59,928,468
Net earnings	-	-	-	-	456,716	-	456,716
Other comprehensive loss	-	-	-	(289,996 )	-	-	(289,996 )
Grant of stock options	-	-	193,032	-	-	-	193,032
Sale of treasury stock	-	-	(45,303 )	-	-	255,218	209,915
Stock dividends	218	2	(29 )	-	(191 )	-	-
Conversion Class C to Class A	1,370	(1,371 )	1	-	-	-	-
Balance at September 30, 2011	\$ 18,359,478	\$ 1,930,662	\$ 19,837,694	\$ 898,250	\$ 22,364,104	\$(2,892,053)	\$ 60,498,135
Balance at December 31, 2011	\$ 19,277,596	\$ 2,027,195	\$ 19,487,565	\$ 654,443	\$ 22,546,623	\$(2,762,835)	\$ 61,230,587
Net earnings	-	-	-	-	9,245,262	-	9,245,262
Other comprehensive loss	-	-	-	(161,557 )	-	-	(161,557 )
Grant of stock options	-	-	187,510	-	-	-	187,510
Sale of treasury stock	-	-	(97,983 )	-	-	344,961	246,978
Conversion Class C to Class A	646	(645 )	(1 )	-	-	-	-
Balance at September 30, 2012	\$ 19,278,242	\$ 2,026,550	\$ 19,577,091	\$ 492,886	\$ 31,791,885	\$(2,417,874)	\$ 70,748,780

See accompanying notes to condensed consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net cash provided by operating activities	\$34,508,526	\$18,747,200
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(10,022,393 )	(46,815,511 )
Calls and maturities - fixed maturity securities	6,721,257	10,003,703
Securities available for sale:		
Purchase - equity securities	(1,077,129 )	(4,531,858 )
Sales - equity securities	2,318,410	3,961,997
Purchase of short-term investments	(11,921,131 )	(47,770,901 )
Sales of short-term investments	10,604,937	46,348,579
Purchase of restricted assets	(511,969 )	(214,064 )
Changes in assets for perpetual care trusts	(196,621 )	(198,090 )
Amount received for perpetual care trusts	107,979	72,463
Mortgage, policy, and other loans made	(87,585,273 )	(98,585,760)
Payments received for mortgage, policy and other loans	104,728,438	78,249,928
Purchase of property and equipment	(1,880,302 )	(474,301 )
Disposal of property and equipment	14,769	2,295,329
Purchase of real estate	(81,095 )	(416,580 )
Sale of real estate	401,443	4,255,993
Cash received for reinsurance with North America Life	-	12,990,444
Cash paid for purchase of subsidiaries, net of cash received	(180,591 )	-
Net cash provided by (used in) investing activities	11,440,729	(40,828,629)
Cash flows from financing activities:		
Annuity contract receipts	6,713,474	6,096,392
Annuity contract withdrawals	(10,257,481 )	(10,603,426)
Repayment of bank loans on notes and contracts	(1,069,127 )	(1,580,448 )
Proceeds from borrowing on bank loans	152,460	3,615,085
Change in line of credit borrowings	(1,400,000 )	8,000,000
Net cash provided by (used in) financing activities	(5,860,674 )	5,527,603
Net change in cash and cash equivalents	40,088,581	(16,553,826)
Cash and cash equivalents at beginning of period	17,083,604	39,556,503
Cash and cash equivalents at end of period	\$57,172,185	\$23,002,677
Non Cash Investing and Financing Activities		

Mortgage loans foreclosed into real estate	\$ 15,200,527	\$ 7,680,063
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See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2012 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2011, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate and construction loans held for investment, those used in determining loan loss reserve, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

Certain 2011 amounts have been reclassified to bring them into conformity with the 2012 presentation.

2) Recent Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities – In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to balance sheet offsetting. The new guidance requires disclosures about assets and liabilities that are offset or have the potential to be offset. These disclosures are intended to address differences in the asset and liability offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). This new guidance will be effective for us for interim and annual reporting periods beginning January 1, 2013, with retrospective application required. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2012 (Unaudited)

## 3) Investments

The Company's investments in fixed maturity securities held-to-maturity and equity securities available for sale as of September 30, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2012:				
Fixed maturity securities held to maturity carried at amortized cost:				
<b>Bonds:</b>				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,607,083	\$ 548,554	\$ -	\$ 3,155,637
Obligations of states and political subdivisions	2,040,113	267,896	(6,119 )	2,301,890
Corporate securities including public utilities	119,561,259	16,644,289	(648,386)	135,557,162
Mortgage-backed securities	5,298,258	344,811	(111,241)	5,531,828
Redeemable preferred stock	1,510,878	79,742	(2,000 )	1,588,620
<b>Total fixed maturity securities held to maturity</b>	<b>\$ 131,017,591</b>	<b>\$ 17,885,292</b>	<b>\$ (767,746)</b>	<b>\$ 148,135,137</b>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2012 (Unaudited)

## 3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2012:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$ 20,281	\$ 394	\$ (1,100 )	\$ 19,575
Common stock:				
Industrial, miscellaneous and all other	6,295,937	339,392	(1,250,016)	5,385,313
Total equity securities available for sale at estimated fair value	\$ 6,316,218	\$ 339,786	\$ (1,251,116)	\$ 5,404,888
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 50,133,436			
Residential construction	5,589,673			
Commercial	32,408,903			
Less: Allowance for loan losses	(4,263,375 )			
Total mortgage loans on real estate and construction loans held for investment	\$ 83,868,637			
Real estate held for investment - net of depreciation				
Other real estate owned held for investment - net of depreciation	\$ 3,596,336			
Other real estate owned held for sale	59,562,388			
	5,998,740			

Total real estate	\$ 69,157,464
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