

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

SECURITY NATIONAL FINANCIAL CORP

Form 10-Q

November 14, 2007

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 quarterly period ended September 30, 2007, 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: 0-9341

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

UTAH ----- (State or other jurisdiction of incorporation or organization) 5300 South 360 West, Suite 250, Salt Lake City, Utah ----- (Address of principal executive office)	87-0345941 ----- (I.R.S. Employer Identification No.) 84123 ----- (Zip Code)
Registrant's telephone number, including area code: (801) 264-1060 -----	

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one)

Large accelerate filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934): Yes No ---

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

Class A Common Stock, \$2.00 par value	6,382,867
-----	-----
Title of Class	Number of Shares Outstanding as of October 31, 2007
Class C Common Stock, \$.20 par value	8,124,474

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Title of Class	Number of Shares Outstanding as of October 31, 2007
----------------	--

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1	Financial Statements	Page No.
	Condensed Consolidated Balance Sheets - September 30, 2007 and December 31, 2006, (unaudited).....	3-4
	Condensed Consolidated Statements of Earnings for the Three and Nine Months Ended September 30, 2007 and 2006 (unaudited).....	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2007 and 2006 (unaudited).....	6
	Notes to Condensed Consolidated Financial Statements (unaudited).....	7-15
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16-22
Item 3	Quantitative and Qualitative Disclosures about Market Risk.....	22
Item 4	Controls and Procedures.....	22

PART II - OTHER INFORMATION

Other Information.....	22-29
Signature Page.....	30
Certifications.....	31-33

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

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

Assets	September 2007 -----
Investments:	
Fixed maturity securities, held to maturity, at amortized cost	\$ 95,7
Fixed maturity securities, available for sale, at estimated fair value	2,9
Equity securities, available for sale, at estimated fair value	5,7
Mortgage loans on real estate and construction loans, net of allowances for losses	83,2
Real estate, net of accumulated depreciation	4,6
Policy, student and other loans net of allowance for doubtful accounts	16,4
Short-term investments	6,4
Accrued investment income	3,1
Total investments	218,3 -----
Cash and cash equivalents	6,8
Mortgage loans sold to investors	93,0
Receivable, net	17,1
Restricted assets of cemeteries and mortuaries	5,6
Cemetery perpetual care trust investments	1,5
Receivable from reinsurers	7
Cemetery land and improvements	9,3
Deferred policy and pre-need contract acquisition costs	29,9
Property and equipment, net	14,8
Cost of insurance acquired	11,1
Goodwill	1,0
Other	4,0
Total assets	\$413,5 =====

See accompanying notes to condensed consolidated financial statements.

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

September 3

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

2007

Liabilities and Stockholders' Equity	
Liabilities	
Future life, annuity, and other benefits	\$274,461
Unearned premium reserve	4,907
Bank loans payable	35,195
Notes and contracts payable	909
Deferred pre-need cemetery and mortuary contract revenues	12,331
Accounts payable	1,765
Other liabilities and accrued expenses	10,859
Income taxes	16,295
Total liabilities	356,725
Non-Controlling Interest in Perpetual Care Trusts	2,366
Stockholders' Equity:	
Common stock:	
Class A: \$2.00 par value, 20,000,000 shares authorized; issued 7,507,360 shares in 2007 and 7,533,230 shares in 2006	15,014
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 8,124,474 shares in 2007 and 7,117,591 shares in 2006	1,624
Additional paid-in capital	17,010
Accumulated other comprehensive income and other items	1,651
Retained earnings	21,512
Treasury stock at cost - 1,124,493 Class A shares and -0- Class C shares in 2007; 1,195,127 Class A shares and 145,045 Class C shares in 2006	(2,312)
Total stockholders' equity	54,501
Total Liabilities and Stockholders' Equity	\$413,594

See accompanying notes to condensed consolidated financial statements.

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

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Revenues:	Three Months Ended September 30,		
	2007	2006	
	----	----	
Insurance premiums and other considerations	\$ 8,426,016	\$ 7,537,345	\$
Net investment income	7,637,865	5,742,427	
Net mortuary and cemetery sales	3,212,772	2,864,920	
Realized gains on investments and other assets	2,053	731,658	
Mortgage fee income	31,998,895	21,602,097	
Other	386,340	96,328	
	-----	-----	
Total revenues	51,663,941	38,574,775	1
	-----	-----	
Benefits and expenses:			
Death benefits	3,997,893	3,367,393	
Surrenders and other policy benefits	566,596	405,824	
Increase in future policy benefits	3,133,326	2,931,798	
Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired	1,456,808	1,383,426	
General and administrative expenses:			
Commissions	24,609,493	15,997,433	
Salaries	6,137,254	4,469,881	
Other	9,186,678	5,996,090	
Interest expense	3,075,886	1,331,487	
Cost of goods and services sold- Mortuaries and cemeteries			
	637,520	557,908	
	-----	-----	
Total benefits and expenses	52,801,454	36,441,240	1
	-----	-----	
Earnings (loss) before income taxes	(1,137,513)	2,133,535	
Income tax (expense) benefit	475,069	(592,238)	
	-----	-----	
Net earnings (loss)	\$ (662,444)	\$ 1,541,297	\$
	=====	=====	==
Net earnings (loss) per Class A equivalent common share	\$ (0.09)	\$0.22	
	=====	=====	
Net earnings (loss) per Class A equivalent common share-assuming dilution	\$ (0.09)	\$ 0.22	
	=====	=====	
Weighted-average Class A equivalent common shares outstanding	7,146,124	6,969,001	
	=====	=====	
Weighted-average Class A equivalent common shares outstanding assuming-dilution	7,146,124	7,085,531	
	=====	=====	

Earnings (loss) per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock 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 CASH FLOWS (Unaudited)

	2007

Cash flows from operating activities:	
Net cash provided by (used in) operating activities	\$ (24,558)

Cash flows from investing activities: Securities held to maturity:	
Purchase - fixed maturity securities	(3,74)
Calls and maturities - fixed maturity securities	6,39
Securities available for sale:	
Purchase - fixed maturity securities	(10)
Sales - equity securities	82
Purchases of short-term investments	(12,57)
Sales of short-term investments	10,69
Purchases of restricted assets	(18)
Change in assets for perpetual care trusts	(14)
Amount received for perpetual care trusts	8
Mortgage, policy, and other loans made	(59,02)
Payments received for mortgage, policy, and other loans	57,24
Purchases of property and equipment	(2,48)
Disposal of property and equipment	73
Purchases of real estate	(1,22)
Purchase of subsidiary	(2)
Sale of real estate	1,33

Net cash provided by (used in) investing activities	(2,20)
Cash flows from financing activities:	
Annuity contract receipts	4,55
Annuity contract withdrawals	(9,75)
Sale of treasury stock	46
Repayment of bank loans and notes and contracts payable	(2,50)
Proceeds from borrowing on bank loans	30,50

Net cash used in financing activities	23,27

Net change in cash and cash equivalents	(3,48)

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Cash and cash equivalents at beginning of period

10,37

Cash and cash equivalents at end of period

\$ 6,88
=====

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements September 30, 2007 (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 Article 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, 2006, included in the Company's Annual Report on Form 10-K (file number 0-9341). 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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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 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 2006 amounts have been reclassified to bring them into conformity with the 2007 presentation.

2. Recent Accounting Pronouncements

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, which attempts to set out a consistent framework for preparers to use to determine the appropriate level of valuation allowance tax reserves to maintain for deferred tax assets relating to uncertain tax positions. This interpretation for FASB Statement No. 109 uses a two-step approach wherein a tax benefit is recognized if a position is more-than-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit, which is

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

greater than fifty percent likely to be realized. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves. The Company adopted this Interpretation as of January 1, 2007. Management has considered the amounts and the probabilities of the outcomes that could be realized upon ultimate settlement and believes that it is more-likely-than-not that the Company's recorded income tax benefits will be fully realized. There were no unrecognized tax benefits at the beginning or at the end of the six months ended September 30, 2007.

The Company records interest earned on income-tax refunds in other income, and penalties and interest charged on tax deficiencies in interest expense. As of the date of adoption, there were no amounts accrued for penalties or interest related to unrecognized tax benefits.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements September 30, 2007 (Unaudited)

In February 2007, the FASB issued SFAS No 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No 115 ("SFAS 159"). SFAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the Company elects for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the application of the fair value option and its effect on its financial position and results of operations.

3. Comprehensive Income

For the three months ended September 30, 2007 and 2006, total comprehensive (loss) income amounted to \$(1,379,000) and \$1,255,000, respectively. This decrease of \$2,634,000 was primarily the result of a decrease in net income of \$2,204,000, a decrease in derivatives of \$168,000, and a decrease in unrealized gains and losses in securities available for sale of \$262,000.

For the nine months ended September 30, 2007 and 2006, total comprehensive income amounted to \$1,061,000 and \$3,915,000, respectively. This decrease of \$2,854,000 was primarily the result of a decrease in net income of \$2,165,000, a decrease in derivatives of \$292,000, and a decrease in unrealized gains and losses in securities available for sale of \$397,000.

4. Stock-Based Compensation

The Company accounts for its stock-based compensation plans according to the

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("FAS 123R"). Under SFAS 123R, all stock-based compensation is measured at the grant date, based on the fair value of the option or award, and is recognized as an expense in earnings over the requisite service, which is typically through the date the options vest.

The Company adopted SFAS 123R using the modified prospective method. Under this method, for all stock-based options and awards granted prior to January 1, 2006 that remain outstanding as of that date, compensation cost is recognized for the unvested portion over the remaining requisite service period, using the grant-date fair value measured under the original provisions of SFAS 123 for pro forma and disclosure purposes. Furthermore, compensation costs will also be recognized for any awards issued, modified, repurchased or cancelled after January 1, 2006.

The Company utilized the Black-Scholes-Merton model for calculating the fair value of stock awards and stock options.

No options were granted for the three and nine months ended September 30, 2007. Total compensation costs relating to stock-based compensation was not material during the three and nine months ended September 30, 2007.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements September 30, 2007 (Unaudited)

The Company's Board of Directors granted stock options in 2004 to Scott M. Quist, the Company's President and Chief Operating Officer, to purchase up to 1,000,000 shares of Class C common stock at exercise prices of \$.323 and \$.36 per share. On May 31, 2007, Mr. Quist made a cashless exercise of such options to purchase a total of 1,157,625 shares of Class C common stock that he was entitled to receive, after adjustments for 5% stock dividends the Company issued in 2005, 2006 and 2007.

In connection with the exercise of such options on a cashless basis, Mr. Quist delivered a total of 58,376 shares of Class A common stock to the Company that he held in exchange for all the Class C shares he would be entitled to receive for exercising the options. Inasmuch as there were 6,966,849 shares of Class C common stock outstanding as of May 31, 2007 out of a total of 7,500,000 authorized shares of Class C common stock, the Company could legally issue only 533,151 shares of Class C common stock to Mr. Quist, leaving a balance of 624,474 Class C common shares owing to him.

In order to issue the additional shares of Class C common shares owing to Mr. Quist, the Board of Directors approved on July 13, 2007 an amendment to the Company's Articles of Incorporation to increase the authorized number of Class C common shares from 7,500,000 shares to 15,000,000 shares. Because stockholder approval was also required to amend the Articles of Incorporation, the Company scheduled a Special Stockholders Meeting on September 21, 2007 to approve the amendment to the Articles of Incorporation to increase the authorized number of shares of Class C common stock to 15,000,000 shares. The stockholders approved the amendment to the Articles of Incorporation at the Special Stockholders Meeting that increased the authorized number of Class C common shares to 15,000,000 shares, and, as a result, the Company was able to issue Mr. Quist the additional 624,474 shares of Class C common stock that were owed pursuant to his exercise of stock options.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2007 (Unaudited)

5. Earnings Per Share

The basic and diluted earnings per share amounts were calculated as follows:

	Three Months Ended September 30,	
	2007	2006
	-----	-----
Numerator:		
Net earnings (loss)	\$ (662,444)	\$1,541,297
	=====	=====
Denominator:		
Basic weighted-average shares outstanding	7,146,124	6,960,001
	-----	-----
Effect of dilutive securities:		
Employee stock options	--	124,490
Stock appreciation rights	--	1,040
Employee deferred compensation rights	--	--
	-----	-----
	--	125,530
Dilutive potential common shares	-----	-----
	7,146,124	7,085,531
Diluted weighted-average shares outstanding	=====	=====
Basic earnings (loss) per share	\$ (0.09)	\$0.22
	=====	=====
Diluted earnings (loss) per share	\$ (0.09)	\$0.22
	=====	=====

Earnings per share amounts have been adjusted for the effect of annual stock dividends.

	Nine Months Ended September 30,	
	2007	2006
	-----	-----
Numerator:		
Net earnings (loss)	\$1,113,125	\$3,278,602
	=====	=====
Denominator:		
Basic weighted-average shares outstanding	7,095,691	6,954,329
	-----	-----
Effect of dilutive securities:		
Employee stock options	174,856	132,795
Stock appreciation rights	--	1,081
Employee deferred compensation rights	34,482	--
	-----	-----

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Dilutive potential common shares	209,338	133,876
	-----	-----
Diluted weighted-average shares outstanding	7,305,029	7,088,205
	=====	=====
Basic earnings per share	\$0.16	\$0.47
	=====	=====
Diluted earnings per share	\$0.15	\$0.46
	=====	=====

Earnings per share amounts have been adjusted for the effect of annual stock dividends.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2007 (Unaudited)

6. Business Segment

	Life Insurance	Cemetery/ Mortuary	Mortgage	R
For the Three Months Ended September 30, 2007				
Revenues from external customers	\$11,796,377	\$3,696,222	\$36,171,342	\$
Intersegment revenues	2,189,160	23,001	120,753	
Segment profit (loss) Before income taxes	974,792	267,801	(2,380,106)	
For the Three Months Ended September 30, 2006				
Revenues from external customers	\$10,932,078	\$3,908,464	\$23,734,233	\$
Intersegment revenues	1,119,078	23,001	103,139	
Segment profit (loss) Before income taxes	993,541	662,308	477,686	
For the Nine Months Ended September 30, 2007				
Revenues from external customers	\$35,023,638	\$11,823,233	\$108,179,110	\$
Intersegment revenues	5,294,222	69,003	363,097	
Segment profit (loss) before income taxes	2,619,906	1,286,531	(2,626,722)	
Identifiable assets	393,303,995	60,185,223	20,647,581	

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

For the Nine Months Ended

September 30, 2006

Revenues from

External customers	\$32,541,462	\$10,677,636	\$61,905,819
Intersegment revenues	3,773,545	69,003	315,757
Segment profit (loss) before income taxes	3,046,942	1,267,436	14,181
Identifiable assets	356,839,984	54,111,387	19,571,930

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2007, (Unaudited)

7. Other Business Activity

On March 5, 2007, the Company received a proposed consent order from the Florida Office of Insurance Regulation concerning the New Success Life Program, the higher education product previously being marketed and sold by Southern Security Life. The proposed order states that as a result of an investigation the Florida Office has determined that Southern Security Life violated Florida law (i) by knowingly making statements, sales presentations, omissions or comparisons that misrepresented the benefits, advantages, or terms of the New Success Life Program, and (ii) by knowingly making, advertisements, announcements, or statements containing representations that were untrue or misleading.

The proposed order would require Security National Life and Southern Security Life to immediately cease and desist from making any false or misleading representations to Florida consumers suggesting that the New Success Life Program would accumulate enough value to pay for college expenses in full. The proposed order would also require Security National Life and Southern Security Life to agree to no longer market or sell the New Success Life Program in the State of Florida. In addition, Security National Life and Southern Security Life would be required to send a written notice to Florida consumers who purchased the New Success Life Program on or after January 1, 1998 stating that the higher education program is a whole life insurance product, with a term and annuity rider, and not a college trust fund, savings plan, or other program, and it may not necessarily pay college expenses in full from the accumulated value.

Moreover, the written notice is to provide an opportunity for the Florida consumers who purchased the New Success Life Program on or after January 1, 1998 to cancel their policy and be given a full refund, including all premiums paid, together with interest at the agreed upon rate in the original contract. If each of the Florida consumers who purchased the New Success Life Program after January 1, 1998 was to cancel his or her policy and receive a refund, the cost to the Company to refund all premiums paid, including interest, would be approximately \$8,200,000, an amount in excess of the assets of Southern Security Life.

The proposed consent order would also require Security National Life and Southern Security Life to issue refunds including interest to the eleven policyholders whose affidavits were taken in connection with the administrative

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

complaint that the Florida Office had previously filed against Franz Wallace, the former National Sales Director of Southern Security Life. Security National Life and Southern Security Life would additionally be required to issue refunds, including interest, to any Florida policyholder in the New Success Life Program who had filed a complaint with the Florida Department of Financial Services or whose coverage had lapsed. Furthermore, Security National Life and Southern Security Life would be required to notify the state insurance department in each state in which the New Success Life Program is marketed of the order and any complaint that Southern Security Life received relating to the New Success Life Program from policyholders in that state. Finally, Security National Life and Southern Security Life would be required to pay the Florida Office a penalty of \$100,000 and administrative costs of \$5,000.

The Company disputes the terms of the proposed consent order. The Company is not aware of specific concerns that the Florida Office has with the New Success Life Program because it has received no specific administrative complaint from the Florida Office nor is it aware of any recent market conduct examination that the Florida Office has conducted relative to the program. The Company intends to vigorously oppose the proposed consent order. The Company is currently engaged in discussions with the Florida Office in an effort to settle the dispute concerning the proposed order. If the Company is unable to reach a satisfactory resolution with the

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2007, (Unaudited)

7. Other Business Activity (continued)

Florida Office with respect to the terms of the proposed consent order and the Florida Office issues a similar order, the Company intends to take action necessary to protect its rights and interests, including requesting a hearing before an administrative law judge to oppose the order. The Company believes any potential liability would be limited to the net assets of Southern Security Life, which are approximately \$3,914,000.

In June 2007, the Company completed the sale of the Colonial Funeral Home property to the Utopia Station Development Corp. for \$730,242, net of selling costs of \$44,758. The Colonial Funeral Home ceased operations in July 2006 and has been inactive since that date. The carrying amount on the Company's financial statements on June 30, 2007 was \$148,777. As a result of the sale, including payment of selling expenses, the Company recognized a gain of \$581,465. The Company received an initial payment of \$15,242, with the remaining amount due of \$715,000 to be paid in a lump sum within the year. The gain has been included as a part of realized gains on investments and other assets in the Company's condensed consolidated statement of earnings.

On June 12, 2007, Security National Life Insurance Company entered into a revolving line of credit with a financial institution to borrow up to \$40,000,000. The revolving line of credit is secured by commercial mortgages and construction loans. The terms of the revolving line of credit is for a one year term and interest is based upon the one year LIBOR rate (6.95% as of September 30, 2007). Accrued Interest will be paid on a monthly basis, with the principal, together with any outstanding accrued interest, to be paid in full on June 12, 2008. Security National Life Insurance Company intends to use this financing to provide short term liquidity for its commercial mortgage, construction and warehouse lending operations of its affiliate SecurityNational Mortgage Company. The amount outstanding as of September 30, 2007 was \$28,680,453. The amount outstanding at November 13, 2007 was \$10,000,000.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Recently SecurityNational Mortgage Company renewed its warehouse lines of credit with its non affiliated warehouse lenders. The total amount available under these lines of credit is \$450,000,000. The terms of the lines of credit are for one year, with interest rates ranging from 1.5% to 1.75% over the three month LIBOR (6.73% to 6.98% as of September 30, 2007).

On July 16, 2007, the Company completed a purchase transaction with C & J Financial, LLC, an Alabama limited liability company ("C & J Financial"). C & J Financial operates a factoring business with offices in Rainbow City, Alabama with an emphasis on providing financing for funeral homes and mortuaries. Under the terms of the Unit Purchase Agreement dated July 16, 2007, (the "Purchase Agreement") among the Company, C & J Financial, Henry Culp, Jr. ("Culp") and Culp Industries, Inc. ("Culp Industries"), the Company purchased all of the outstanding member units of C & J Financial for a purchase consideration of (i) \$1,250,000 in cash, (ii) a promissory note from the Company to Culp in the amount of \$381,500 plus interest at the rate of 5% per annum, payable over a period of 24 months in monthly payments of \$16,737, including interest, until paid in full, and (iii) a quit claim deed from C & J Financial to Culp, conveying ownership of the building and surrounding property located in the Jester Commercial Park in Rainbow City, Alabama, where C & J Financial currently maintains its business offices. At closing, Culp Industries entered into a lease agreement with C & J Financial to lease to C & J Financial approximately 5,000 square feet in the building located at the Jester Commercial Park. The lease is for a term of three years for which C & J Financial, as tenant, is required to make monthly payments of \$1,200, for a total lease payment of \$43,200.

6

The Purchase Agreement additionally required Culp to deliver to the Company at closing a promissory note (the "Note") in the principal amount of \$1,755,236 plus interest at the rate of 8.25% per annum from C & J Financial, as borrower, to Culp, as lender, with such note to be cancelled and marked "paid in full". Moreover, the agreement provides for the possibility of adjustments. If the total equity on the balance sheet of C & J Financial as of May 31, 2007, defined as total assets minus total liabilities, is greater than the amount of the equity on the balance sheet of C & J Financial as of the closing date, or July 16, 2007, Culp agrees to pay to the Company the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by reducing the amount of the Note by such difference in the amounts of the total equity on such balance sheets. If the amount of the total equity on the balance sheet of C & J Financial as of May 31, 2007 is less than the amount of the total equity on the balance sheet of C & J Financial as of July 16, 2007, the Company agrees to pay Culp the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by increasing the amount of the Note payable by such difference in the amounts of the total equity on such balance sheets.

The Purchase Agreement further requires each unitholder to deliver to the Company a non-competition and confidentiality agreement prohibiting the unitholder from competing with C & J Financial for a period of five years from July 16, 2007 through July 16, 2012. The Company also entered into a one year consulting agreement with Culp, which requires Culp to provide part-time consulting services for C & J Financial at \$50.00 per hour, and a five year employment agreement with Kevin O. Smith ("Smith"), Vice President of C & J Financial, who will continue to serve in that position. The employment agreement requires C & J Financial to pay Smith an annual salary of \$96,000 plus a discretionary bonus and a monthly car allowance of \$1,161.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Finally, the Purchase Agreement requires the Company, C & J Financial, Culp and Culp Industries to acknowledge the existence of a business loan agreement between Regions Bank, as lender, and Culp Industries, as borrower, which provides for a line of credit for C & J Financial. The outstanding balance on the line of credit as of July 16, 2007 was \$1,971,764. The line of credit was secured by, among other assets, the accounts receivable of C & J Financial and was personally guaranteed by Culp. The Company agreed it would pay off the outstanding balance of the line of credit with Regions Bank. The Company has since paid off the outstanding balance on the line of credit by means of applying the payments from the accounts receivable of C & J Financial as such payments were made in the ordinary course of business.

At June 30, 2007, total assets of C & J Financial were \$3,197,000 and total liabilities were \$3,526,000, which includes the Note to Culp in the amount of \$1,755,000 that was cancelled at closing. For the seven month period from November 1, 2006 to May 31, 2007, total revenues of C & J Financial were \$775,000 and total expenses were \$764,000, resulting in net income of \$11,000. For the fiscal year ended October 31, 2006, total revenues of C & J Financial were \$1,397,000 and total expenses were \$1,351,000, resulting in net income of \$46,000. For the fiscal year ended October 31, 2005, total revenues of C & J Financial were \$1,137,000 and total expenses were \$1,114,000, resulting in net income of \$23,000. The Company anticipates utilizing the employees and operations of C & J Financial to expand its fast funding operations, which provide financing for funeral homes and mortuaries.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements September 30, 2007, (Unaudited)

8. Subsequent Event

On October 9, 2007, Security National Financial Corporation, through its wholly owned subsidiary, Security National Life Insurance Company, entered into a stock purchase agreement (the "Stock Purchase Agreement") with Capital Reserve Life Insurance Company, a Missouri domiciled insurance company ("Capital Reserve"), and its shareholders to purchase all of the outstanding shares of common stock of Capital Reserve from its shareholders. Under the terms of the transaction, Security National Life Insurance Company agrees to pay to the shareholders of Capital Reserve purchase consideration equal to the capital and surplus of Capital Reserve as of September 30, 2007 in the amount of \$1,274,000, plus the interest maintenance reserve in the amount of \$31,000 and the asset valuation reserve in the amount of \$209,000 as of September 30, 2007, plus \$1,037,967, less certain adjustments. The adjustments consist of any losses related to two litigation matters involving Capital Reserve and the difference in the amount of Capital Reserve's capital and surplus at closing compared to the amount of its capital and surplus on September 30, 2007.

As of December 31, 2006, Capital Reserve had 10,851 policies in force and approximately 30 agents. For the year ended December 31, 2006, Capital Reserve had revenues of \$5,663,000 and a net loss of \$244,000. As of December 31, 2006, the statutory assets and the capital and surplus of Capital Reserve were \$24,084,000 and \$1,960,000, respectively.

Security National Life Insurance Company anticipates completing the transaction on or before November 30, 2007, or within seven days from the date the required regulatory approvals are obtained. The obligations of Security National Life Insurance Company and Capital Reserve to complete the transaction are contingent upon satisfaction of the following conditions: (i) a complete and satisfactory

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

review by Security National Life Insurance Company of the books, records and business of Capital Reserve; (ii) approval and adoption of the Stock Purchase Agreement by the Board of Directors of Security National Life Insurance Company and Capital Reserve; and (iii) approval of the transaction by any regulatory authorities having jurisdiction over Security National Life Insurance Company and Capital Reserve, including the insurance departments of the states of Missouri and Utah.

At the closing of the transaction, Security National Life Insurance Company and Capital Reserve intend to enter into a reinsurance agreement to reinsure the majority of the in force business of Capital Reserve, as reinsurer, to the extent permitted by the Missouri Department of Insurance. Under the terms of the reinsurance agreement, Security National Life Insurance Company would pay a ceding commission to Capital Reserve in the amount of \$1,738,000. In addition, following the payment of the ceding commission, Capital Reserve intends to declare a dividend to Security National Life Insurance Company in the amount of \$1,738,000. The reinsurance agreement and the dividend payment are subject to approval by the Missouri Department of Insurance.

As a result of the reinsurance agreement, certain insurance business and operations of Capital Reserve would be transferred to Security National Life Insurance Company, including all policies in force as of the effective date thereof. Any future business by Capital Reserve would be covered by this reinsurance agreement. Thus, except for capital and surplus of \$1,274,000, \$23,569,000 in assets and liabilities would be transferred from Capital Reserve to Security National Life Insurance Company pursuant to the reinsurance agreement. Following the closing of the transaction, Capital Reserve will continue to sell and service life insurance, annuity products, accident and health insurance, and funeral plan insurance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole-life products; (ii) emphasis on cemetery and mortuary business; and (iii) originating and refinancing mortgage loans.

Mortgage Operations

During the nine months ended September 30, 2007, Security National Mortgage Company ("SNMC") experienced an increase in revenues and expenses due to the increase in loan volume of its mortgage operations. SNMC is a mortgage lender incorporated under the laws of the State of Utah. SNMC is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SNMC obtains loans primarily from independent brokers and correspondents. SNMC funds the loans from internal cash flows and lines of credit from financial institutions. SNMC receives fees from the borrowers and other secondary fees from third party investors who purchase the loans from SNMC. SNMC primarily sells all of its loans to third party investors and does not retain servicing to these loans. SNMC pays the brokers and correspondents a commission for loans that are brokered through SNMC. SNMC originated and sold 15,843 loans (\$2,932,656,000

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

total volume) and 9,665 loans (\$1,607,842,000 total volume), for the nine months ended September 30, 2007 and 2006, respectively.

The mortgage industry is currently experiencing substantial change due to higher than expected delinquencies from subprime loans. The market for new subprime loans has been substantially reduced and several mortgage companies whose primary product was subprime mortgage originations have ceased operations. The Company funded \$5.4 million (0.2% of the Company's production) in subprime loans during the nine months ending September 30, 2007 and has currently eliminated subprime loans from its product offerings. The Company believes that its potential losses from subprime loans are minimal.

The industry problem with subprime mortgages has created a volatile secondary market for other products, especially alternative documentation (Alt A) loans. Alt A loans are typically offered to qualified borrowers who have relatively high credit scores but are not required to provide full documentation to support personal income and assets owned. Alt A loans can have a loan to value ratio as high as 100%. There is currently a smaller market for Alt A loans and the Company's warehouse line providers have shortened the allowable time for the Company to sell these products to investors. As a result of these changes, the Company is only offering these loans on a limited basis. Alt A loans represented approximately 21% of the Company's production for the six months ended June 30, 2007, but only 5% of the production for the third quarter.

As a consequence of these changes in the industry for Alt A loans, SNMC suffered a pre-tax loss for the three months ended September 30, 2007 of approximately \$2.4 million. The primary reason for this loss was due to an operating loss of \$1.4 million resulting from lower secondary gains and higher interest costs and an additional loan loss provision of \$1.0 million for future estimated loan losses. The greatest impact of the operating loss was experienced in July 2007 when there were very little secondary gains. The secondary market improved in August decreasing the size of the monthly operating loss and September mortgage operations showed a slight profit. In

response to the decreased secondary gain, management increased loan fees, lowered commissions, closed unprofitable branches, obtained more favorable borrowing terms from warehouse lenders, and reduced corporate expenses. Even though the market changed for Alt A loans, SNMC was able to maintain volume in the third quarter by increasing its production of other mortgage products, primarily government and conforming loans

As of November 9, 2007, the Company had originated a total of \$29,233,000 in Alt A loans that had not been settled by investors. This is down from \$60,400,000 as of June 30, 2007. The market for the remaining Alt A loans is uncertain and if the Company were unable to sell its Alt A loans it would be required to assume the risk of holding and servicing such loans. If warehousing lines are not available, the Company believes it has adequate liquidity through its life insurance operations to carry such loans until purchased by investors.

Even though market conditions have improved somewhat, the Company expects further significant industry challenges to continue through the second quarter of 2008. Under these circumstances it is difficult to predict profitability, if any. Profitability may be impacted by volume reduction, changes in margins, increased borrowing costs, and future loan losses. Management has taken and will continue to take a number of actions in response to the changing market conditions. These include offering Alt A loans on a limited basis, closing unprofitable branch offices, obtaining new warehousing agreements at a lower interest rates, and expense reduction initiatives.

During the nine months ending September 30, 2007, the Company experienced loan

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

losses of \$4,170,000. This amount was charged against the provision for loan losses. The balance of the reserve for loan losses at September 30, 2007 was \$1,497,000. The provision for loan losses is included in other general and administrative expenses. Because of the market conditions the Company has increased its monthly loan loss accrual from 5 basis points of total production to 7.5 basis points of total production. Under this formula the Company currently adds \$225,000 per month to its loan loss reserves. The Company believes the loan loss reserves are sufficient to cover reasonably foreseeable future loan losses and that its formula for determining the provision for such reserves is adequate.

On June 12, 2007, Security National Life Insurance Company entered into a revolving line of credit with a financial institution to borrow up to \$40,000,000. The revolving line of credit is secured by commercial mortgages and construction loans. The terms of the revolving line of credit is for a one year term and interest is based upon the one year LIBOR rate (6.95% as of September 30, 2007). Accrued Interest will be paid on a monthly basis, with the principal, together with any outstanding accrued interest, to be paid in full on June 12, 2008. Security National Life Insurance Company intends to use this financing to provide short term liquidity for its commercial mortgage, construction and warehouse lending operations of its affiliate SecurityNational Mortgage Company. The amount outstanding as of September 30, 2007 was \$28,680,453. The amount outstanding at November 13, 2007 was \$10,000,000.

Recently SecurityNational Mortgage Company renewed itswarehouse lines of credit with its non affiliated warehouse lenders. The total amount available under these lines of credit is \$450,000,000. The terms of the lines of credit are for one year, with interest rates ranging from 1.5% to 1.75% over the three month LIBOR (6.73% to 6.98% as of September 30, 2007).

Results of Operations

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Total revenues increased by \$13,089,000, or 33.9%, to \$51,664,000 for the three months ended September 30, 2007, from \$38,575,000 for the three months ended September 30, 2006. Contributing to this increase in total revenues was a \$10,397,000 increase in mortgage fee income, an \$889,000 increase in insurance premiums and other considerations, a \$1,895,000 increase in net investment income, a \$348,000 increase in net mortuary and cemetery sales, and a \$290,000 increase in other revenues, which was offset by a \$730,000 decrease in realized gains on investments and other assets.

Insurance premiums and other considerations increased by \$889,000, or 11.8%, to \$8,426,000 for the three months ended September 30, 2007, from \$7,537,000 for the comparable period in 2006. This increase was primarily due to the additional premiums realized from new insurance sales.

Net investment income increased by \$1,895,000, or 33.0%, to \$7,638,000 for the three months ended September 30, 2007, from \$5,743,000 for the comparable period in 2006. This increase was primarily attributable to additional interest income from increased long-term bond and mortgage purchases over the comparable period in 2006.

Net mortuary and cemetery sales increased by \$348,000, or 12.1%, to \$3,213,000 for the three months ended September 30, 2007, from \$2,865,000 for the comparable period in 2006. This increase was due to increased at-need sales in the cemetery and mortuary operations and increased pre-need sale of burial spaces in the cemetery operations.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Realized gains on investments and other assets decreased by \$730,000, or 99.7% to \$2,000 for the three months ended September 30, 2007 from \$732,000 for the comparable period in 2006. This was primarily due to a gain of \$760,000 during the third quarter of 2006 from the sale of Camelback Funeral Home to the City of Phoenix pursuant to condemnation proceedings in order to construct a light rail facility. .

Mortgage fee income increased by \$10,397,000, or 48.1%, to \$31,999,000 for the three months ended September 30, 2007, from \$21,602,000 for the comparable period in 2006. This increase was primarily attributable to an increase in the number of loan originations during the third quarter of 2007 as new mortgage offices were opened and production increased in existing mortgage offices, which resulted in the financing of a greater number of mortgage loans.

Other revenues increased by \$290,000, or 302.1%, to \$386,000, for the three months ended September 30, 2007 from \$96,000 for the comparable period in 2006. This increase was due to increases in several small income items throughout the Company's operations and to a \$172,000 interest payment received on the Camelback condemnation payment as proceeds were not received in a timely manner.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$993,000, or 14.8%, to \$7,698,000 for the three months ended September 30, 2007, from \$6,705,000 for the comparable period in 2006. This increase was primarily due to increased insurance business and to the increase in reserves for policyholder benefits and death claims.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired increased by \$73,000, or 5.3%, to \$1,457,000 for the three months ended September 30, 2007, from \$1,384,000 for the comparable period in 2006. This increase was primarily due to increased deferred acquisition costs associated with interest sensitive products and pre-need cemetery contracts.

General and administrative expenses increased by \$13,470,000, or 50.9%, to \$39,933,000 for the three months ended September 30, 2007, from \$26,463,000 for the comparable period in 2006. This increase primarily resulted from an increase in commission expenses of \$8,612,000, from \$15,997,000 in 2006 to \$24,609,000 in 2007, due to a greater number of mortgage loan originations made by SecurityNational Mortgage Company during the third quarter of 2007. Salaries increased by \$1,667,000 from \$4,470,000 in 2006 to \$6,137,000 in 2007, primarily due to merit increases in salaries of existing employees and an increase in the number of employees necessitated by the Company's expanding business operations. Other expenses increased by \$3,191,000 from \$5,996,000 in 2006 to \$9,187,000 in 2007. The increase in other expenses primarily resulted from increased loan costs at SecurityNational Mortgage Company due to a greater number of loan originations.

Interest expense increased by \$1,744,000, or 131.0%, to \$3,076,000 for the three months ended September 30, 2007, from \$1,332,000 for the comparable period in 2006. This increase was primarily due to increased warehouse lines of credit required for a greater number of warehoused mortgage loans by SecurityNational Mortgage Company.

Cost of goods and services sold of the mortuaries and cemeteries increased by \$80,000, or 14.3%, to \$638,000 for the three months ended September 30, 2007, from \$558,000 for the comparable period in 2006. This increase was primarily due to increased at-need cemetery sales.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Total revenues increased by \$49,901,000, or 47.5%, to \$155,026,000 for the nine months ended September 30, 2007, from \$105,125,000 for the nine months ended September 30, 2006. Contributing to this increase in total revenues was a \$38,438,000 increase in mortgage fee income, a \$1,800,000 increase in insurance premiums and other considerations, an \$8,269,000 increase in net investment income, a \$1,084,000 increase in net mortuary and cemetery sales, and a \$361,000 increase in other revenues, which was offset by a \$51,000 decrease in realized gains on investments and other assets.

Insurance premiums and other considerations increased by \$1,800,000, or 8.0%, to \$24,295,000 for the nine months ended September 30, 2007, from \$22,495,000 for the comparable period in 2006. This increase was primarily due to the additional insurance premiums realized from new insurance sales.

Net investment income increased by \$8,269,000, or 50.7%, to \$24,590,000 for the nine months ended September 30, 2007, from \$16,321,000 for the comparable period in 2006. This increase was primarily attributable to additional interest income from increased long-term bond and mortgage purchases over the comparable period in 2006.

Net mortuary and cemetery sales increased by \$1,084,000 or 11.9%, to \$10,158,000 for the nine months ended September 30, 2007, from \$9,074,000 for the comparable period in 2006. This increase was due to increased at-need sales in the cemetery and mortuary operations and increased pre-need sales of burial spaces in cemetery operations.

Realized gains on investments and other assets decreased by \$51,000, or 6.5%, to \$739,000 for the nine months ended September 30, 2007 from \$790,000 for the comparable period in 2006. This was primarily due to a net decrease in several small income items throughout the Company's operations.

Mortgage fee income increased by \$38,438,000, or 68.4%, to \$94,600,000 for the nine months ended September 30, 2007, from \$56,162,000 for the comparable period in 2006. This increase was primarily attributable to an increase in the number of loan originations during the nine months of 2007 as new mortgage offices were opened and production increased in existing mortgage offices, which resulted in the financing of a greater number of mortgage loans.

Other revenues increased by \$361,000, or 127.6%, to \$644,000 for the nine months ended September 30, 2007 from \$283,000 for the comparable period in 2006. This increase was due to increases in several small income items throughout the Company's operations and to a \$172,000 interest payment received on the Camelback condemnation payment as proceeds were not received in a timely manner.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$2,178,000, or 10.7%, to \$22,618,000 for the nine months ended September 30, 2007, from \$20,440,000 for the comparable period in 2006. This increase was primarily due to increased insurance business and to the expected increase in reserves for policyholder benefits and death claims.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired increased by \$1,232,000, or 41.8%, to \$4,180,000 for the nine months ended September 30, 2007, from \$2,948,000 for the comparable period in 2006. This increase was primarily due to increased deferred acquisition costs associated with interest-sensitive products from the recapture of the Mega

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

reinsurance agreement in the first quarter of 2006, and pre-need cemetery contracts.

General and administrative expenses increased by \$42,460,000, or 58.8%, to \$114,662,000 for the nine months ended September 30, 2007, from \$72,202,000 for the comparable period in 2006. This increase primarily resulted from an increase in commission expenses by \$29,859,000 from \$42,046,000 in 2006 to \$71,905,000 in 2007, due to a greater number of mortgage loan originations made by SecurityNational Mortgage Company during the first nine months of 2007. Salaries increased by \$4,864,000 from \$12,960,000 in 2006 to \$17,824,000 in 2007, primarily due to merit increases in salaries of existing employees and an increase in the number of employees necessitated by the Company's expanding business operations. Other expenses increased by \$6,737,000 from \$17,197,000 in 2006 to \$24,934,000 in 2007. The increase in other expenses primarily resulted from increased loan costs at SecurityNational Mortgage Company due to a greater number of loan originations.

Interest expense increased by \$6,893,000, or 200.4%, to \$10,333,000 for the nine months ended September 30, 2007, from \$3,440,000 for the comparable period in 2006. This increase was primarily from increased warehouse lines of credit required for a greater number of warehoused mortgage loans by SecurityNational Mortgage Company.

Cost of goods and services sold by the mortuaries and cemeteries increased by \$186,000, or 10.5%, to \$1,952,000 for the nine months ended September 30, 2007, from \$1,766,000 for the comparable period in 2006. This increase was primarily due to increased cemetery and mortuary sales.

Liquidity and Capital Resources

The Company's life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from the proceeds from the maturity of held-to-maturity investments or sale of other investments. The mortgage subsidiary realizes cash flow from fees generated by originating and refinancing mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long-term, and adequate to pay current policyholder claims, annuity payments, expenses on the issuance of new policies, the maintenance of existing policies, debt service, and to meet operating expenses.

During the nine months ended September 30, 2007, the Company's operations used cash of \$24,559,000, while cash totaling \$23,210,000 was provided by operations during the nine months ended September 30, 2006. This is due to an increase of \$33,186,000 in the balance of mortgage loans sold to investors, which is attributed to a higher mortgage loan volume for the first nine months of 2007 versus mortgage loan volume during the first nine months of 2006. The increase in the balance resulted from an increase in mortgage loans originated but not yet settled by investors as of September 30, 2007.

On June 12, 2007, Security National Life Insurance Company entered into a revolving line of credit with a financial institution to borrow up to \$40,000,000. The revolving line of credit is secured by commercial mortgages and construction loans. The terms of the revolving line of credit is for a one year term and interest is based upon the one year LIBOR rate (6.95% as of September 30, 2007). Accrued Interest will be paid on a monthly basis, with the principal, together with any outstanding accrued interest, to be paid in full on June 12,

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

2008. Security National Life Insurance Company intends to use this financing to provide short term liquidity for its commercial mortgage, construction and warehouse lending operations of its affiliate SecurityNational Mortgage Company. The amount outstanding as of September 30, 2007 was \$28,680,453. The amount outstanding at November 13, 2007 was \$10,000,000.

Recently SecurityNational Mortgage Company renewed its warehouse lines of credit with its non affiliated warehouse lenders. The total amount available under these lines of credit is \$450,000,000. The terms of the lines of credit are for one year, with interest rates ranging from 1.5% to 1.75% over the three month LIBOR (6.73% to 6.98% as of September 30, 2007).

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held-to-maturity in the portfolio to help in this timing; however, to date, that has not been necessary. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

The Company's investment philosophy is intended to provide a rate of return, which will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$98,607,000 as of September 30, 2007, compared to \$101,735,000 as of December 31, 2006. This represents 45.2% and 46.8% of the total investments as of September 30, 2007, and December 31, 2006, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At September 30, 2007, 0.9% (or \$892,000) and at December 31, 2006, 2.3% (or \$2,402,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

The Company has classified certain of its fixed income securities, including high-yield securities, in its portfolio as available for sale, with the remainder classified as held to maturity. However, in accordance with Company policy, any such securities purchased in the future will be classified as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher-yielding longer-term securities.

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At September 30, 2007, and December 31, 2006, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable was \$90,607,000 as of September 30, 2007, as compared to \$60,641,000 as of December 31, 2006. Stockholders' equity as a percent of total capitalization was 60 % and 87% as of September 30, 2007 and December 31, 2006, respectively.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2006 was 8.4% as compared to a rate of 7.9% for 2005. The 2007 lapse rate to date has been approximately the same as 2006.

At September 30, 2007, \$19,898,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes since the annual report Form 10-K filed for the year ended December 31, 2006.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures - The Company's principal executive officer and principal financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of September 30, 2007. Based on that evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) Changes in internal controls - There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect the Company's internal controls and procedures subsequent to the date of their most recent evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

Part II Other Information

Item 1. Legal Proceedings

On March 5, 2007, the Company received a proposed consent order from the Florida Office of Insurance Regulation concerning the New Success Life Program, the higher education product previously being marketed and sold by Southern Security Life. The proposed order states that as a result of an investigation the Florida Office has determined that Southern Security Life violated Florida law (i) by knowingly making statements, sales presentations, omissions or comparisons that misrepresented the benefits, advantages, or terms of the New Success Life Program, and (ii) by knowingly making, advertisements, announcements, or statements containing representations that were untrue or misleading.

The proposed order would require Security National Life and Southern Security Life to immediately cease and desist from making any false or misleading representations to Florida consumers suggesting that the New Success Life Program would accumulate enough value to pay for college expenses in full. The proposed order would also require Security National Life and Southern Security Life to agree to no longer market or sell the New Success Life Program in the State of Florida. In addition, Security National Life and Southern Security Life would be required to send a written notice to Florida consumers who purchased the New Success Life Program on or after January 1, 1998 stating that the higher education program is a whole life insurance product, with a term and annuity rider, and not a college trust fund, savings plan, or other program, and it may not necessarily pay college expenses in full from the accumulated value.

Moreover, the written notice is to provide an opportunity for the Florida consumers who purchased the New Success Life Program on or after January 1, 1998 to cancel their policy and be given a full refund, including all premiums paid, together with interest at the agreed upon rate in the original contract. If each of the Florida consumers who purchased the New Success Life Program after January 1, 1998 was to cancel his or her policy and receive a refund, the cost to the Company to refund all premiums paid, including interest, would be approximately \$8,200,000, an amount in excess of the assets of Southern Security Life.

The proposed consent order would also require Security National Life and Southern Security Life to issue refunds including interest to the eleven policyholders whose affidavits were taken in connection with the administrative complaint that the Florida Office had previously filed against Franz Wallace, the former National Sales Director of Southern Security Life. Security National Life and Southern Security Life would additionally be required to issue refunds, including interest, to any Florida policyholder in the New Success Life Program who had filed a complaint with the Florida Department of Financial Services or whose coverage had lapsed. Furthermore, Security National Life and Southern Security Life would be required to notify the state insurance department in each state in which the New Success Life Program is marketed of the order and any complaint that Southern Security Life received relating to the New Success Life Program from policyholders in that state. Finally, Security National Life and Southern Security Life would be required to pay the Florida Office a penalty of \$100,000 and administrative costs of \$5,000.

The Company disputes the terms of the proposed consent order. The Company is not aware of specific concerns that the Florida Office has with the New Success Life Program because it has received no specific administrative complaint from the Florida Office nor is it aware of any recent market conduct examination that the Florida Office has conducted relative to the program. The Company intends to vigorously oppose the proposed consent order. The Company is currently engaged in discussions with the Florida Office in an effort to settle the dispute concerning the proposed order. If the Company is unable to reach a satisfactory resolution with the Florida Office with respect to the terms of the proposed consent order and the Florida Office issues a similar order, the Company intends to take action necessary to protect its rights and interests, including requesting a hearing before an administrative law judge to oppose the order. The Company believes any potential liability would be limited to the net assets of Southern Security Life, which are approximately \$3,914,000.

Except for the proposed consent order from the Florida Office of Insurance Regulation, the Company is not a party to any material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 1A. Risk Factors

Due to changes in the mortgage industry from higher than expected delinquencies in subprime loans, the Company may be unable to sell its alternative documentation loans to investors, which would require the Company to assume the risk of holding and servicing such loans.

The mortgage industry is currently experiencing substantial change due to higher than expected delinquencies from subprime loans. The market for new subprime loans has been substantially reduced and several mortgage companies whose primary product was subprime mortgage originations have ceased operations. The Company funded \$5.4 million (0.2% of the Company's production) in subprime loans

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

during the nine months ending September 30, 2007 and has currently eliminated subprime loans from its product offerings. The Company believes that its potential losses from subprime loans are minimal.

The industry problem with subprime mortgages has created a volatile secondary market for other high risk products, especially alternative documentation (Alt A) loans. Alt A loans are typically offered to qualified borrowers who have relatively high credit scores but are not required to provide full documentation to support personal income and assets owned. Alt A loans can have a loan to value ratio as high as 100%. There is currently a smaller market for Alt A loans and the Company's warehouse line providers have shortened the allowable time for the Company to sell these products to investors. As a result of these changes, the Company is only offering these loans on a limited basis.

Alt A loans represented approximately 21% of the Company's production for the six months ended June 30, 2007, but only 5% of the production for the third quarter. The Company is currently experiencing an increase in production of its other mortgage products. This increased mortgage production will offset some of the loss of income related to the discontinuance of Alt A loans. As of November 9, 2007, the Company had originated a total of \$29,233,000 in Alt A loans that had not been settled by investors. This is down from \$60,400,000 of Alt A loans at June 30, 2007. The market for the remaining Alt A loans is uncertain and, if the Company were unable to sell its Alt A loans, it would be required to assume the risk of holding and servicing such loans. If warehousing lines are not available the Company believes it has adequate liquidity through its life insurance operations to carry such loans until purchased by investors.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders held on July 13, 2007, the following matters were acted upon: (i) seven directors consisting of George R. Quist, Scott M. Quist, J. Lynn Beckstead, Jr., Charles L. Crittenden, Dr. Robert G. Hunter, H. Craig Moody and Norman G. Wilbur were elected to serve until the next annual stockholders meeting or until their respective successors are elected and qualified (for George R. Quist, with Class A and Class C shares voting, 11,147,626 votes were cast in favor of election, no votes were cast against election, and there were 212,178 abstentions; for Scott M. Quist, with Class A and Class C shares voting, 11,169,030 votes were cast in favor of election, no votes were cast against election, and there were 190,774 abstentions; for J. Lynn Beckstead, Jr., with Class A shares voting, 4,871,686 votes were cast in favor of election, no votes were cast against election, and there were 103,378 abstentions; for Charles L. Crittenden, with Class A and Class C shares, 11,169,237 votes were cast in favor of election, no votes were cast against election, and there were 190,567 abstentions; for Dr. Robert G. Hunter, with Class A and Class C shares voting, 11,169,627 votes were cast in favor of election, no votes cast against election, and there were 190,177 abstentions; for H. Craig Moody, with Class A shares voting, 4,878,898 votes were cast in favor of election, no votes cast against election, and there were 96,166 abstentions; and for Norman G. Wilbur, with

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Class A and Class C shares voting, 11,160,357 votes were cast in favor of election, no votes were cast against election, and there were 199,447 abstentions); (ii) the appointment of Hansen,

Barnett & Maxwell, P.C. as the Company's registered public independent accountants for the fiscal year ending December 31, 2007 was ratified (with 11,298,892 votes cast for appointment, 60,365 votes against appointment, and there were -0- abstentions), (iii) to amend the Company's 2003 Stock Option Plan to authorize an additional 400,000 shares of Class A common stock and an additional 1,000,000 shares of Class C common stock to be made available for issuance thereunder was ratified (with 9,176,164 for and 379,699 against); and (iv) to approve the adoption of the 2006 Director Stock Option Plan for the outside directors and to reserve 100,000 shares of Class A common stock for issuance was ratified thereunder (with 9,182,808 shares for and 373,205 against.)

At a Special Meeting of Stockholders held on September 21, 2007, the proposed amendment to the Company's Articles of Incorporation to increase the authorized capital stock of the Company from 27,500,000 shares to 45,000,000 shares, to increase the number of authorized shares of Class A common stock from 10,000,000 shares to 20,000,000 shares and to increase the number of authorized shares of Class C common stock from 7,500,000 shares to 15,000,000 shares was approved (with 11,728,124 voting for and 168,142 against.)

Item 5. Other Information

Acquisition of C & J Financial, LLC

On July 16, 2007, the Company completed a purchase transaction with C & J Financial, LLC, an Alabama limited liability company ("C & J Financial"). C & J Financial operates a factoring business with offices in Rainbow City, Alabama with an emphasis on providing financing for funeral homes and mortuaries. Under the terms of the Unit Purchase Agreement dated July 16, 2007 (the "Purchase Agreement") among the Company, C & J Financial, Henry Culp, Jr. ("Culp") and Culp Industries, Inc. ("Culp Industries"), the Company purchased all of the outstanding member units of C & J Financial for a purchase consideration of (i) \$1,250,000 in cash, (ii) a promissory note from the Company to Culp in the amount of \$381,500 plus interest at the rate of 5% per annum, payable over a period of 24 months in monthly payments of \$16,737, including interest, until paid in full, and (iii) a quit claim deed from C & J Financial to Culp, conveying ownership of the building and surrounding property located in the Jester Commercial Park in Rainbow City, Alabama, where C & J Financial currently maintains its business offices. At closing, Culp Industries entered into a lease agreement with C & J Financial to lease to C & J Financial approximately 5,000 square feet in the building located at the Jester Commercial Park. The lease is for a term of three years for which C & J Financial, as tenant, is required to make monthly payments of \$1,200, for a total lease payment of \$43,200.

The Purchase Agreement additionally required Culp to deliver to the Company at closing a promissory note (the "Note") in the principal amount of \$1,755,236 plus interest at the rate of 8.25% per annum from C & J Financial, as borrower, to Culp, as lender, with such note to be cancelled and marked "paid in full". Moreover, the agreement provides for the possibility of adjustments. If the total equity on the balance sheet of C & J Financial as of May 31, 2007, defined as total assets minus total liabilities, is greater than the amount of the

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

equity on the balance sheet of C & J Financial as of the closing date, or July 16, 2007, Culp agrees to pay to the Company the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by reducing the amount of the Note by such difference in the amounts of the total equity on such balance sheets. If the amount of the total equity on the balance sheet of C & J Financial as of May 31, 2007 is less than the amount of the total equity on the balance sheet of C & J Financial as of July 16, 2007, the Company agrees to pay Culp the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by increasing the amount of the Note payable by such difference in the amounts of the total equity on such balance sheets.

The Purchase Agreement further requires each unitholder to deliver to the Company a non-competition and confidentiality agreement prohibiting the unitholder from competing with C & J Financial for a period of five years from July 16, 2007 through July 16, 2012. The Company also entered into a one year consulting agreement with Culp, which requires Culp to provide part-time consulting services for C & J Financial at \$50.00 per hour, and a five year employment agreement with Kevin O. Smith ("Smith"), Vice President of C & J Financial, who will continue to serve in that position. The employment agreement requires C & J Financial to pay Smith an annual salary of \$96,000 plus a discretionary bonus and a monthly car allowance of \$1,161.

Finally, the Purchase Agreement requires the Company, C & J Financial, Culp and Culp Industries to acknowledge the existence of a business loan agreement between Regions Bank, as lender, and Culp Industries, as borrower, which provides for a line of credit for C & J Financial. The outstanding balance on the line of credit as of July 16, 2007 was \$1,971,764. The line of credit was secured by, among other assets, the accounts receivable of C & J Financial and was personally guaranteed by Culp. The Company agreed it would pay off the outstanding balance of the line of credit with Regions Bank. The Company has since paid off the outstanding balance on the line of credit by means of applying the payments from the accounts receivable of C & J Financial as such payments were made in the ordinary course of business.

At June 30, 2007, total assets of C & J Financial were \$3,197,000 and total liabilities were \$3,526,000, which includes the Note to Culp in the amount of \$1,755,000 that was cancelled at closing. For the seven month period from November 1, 2006 to May 31, 2007, total revenues of C & J Financial were \$775,000 and total expenses were \$764,000, resulting in net income of \$11,000. For the fiscal year ended October 31, 2006, total revenues of C & J Financial were \$1,397,000 and total expenses were \$1,351,000, resulting in net income of \$46,000. For the fiscal year ended October 31, 2005, total revenues of C & J Financial were \$1,137,000 and total expenses were \$1,114,000, resulting in net income of \$23,000. The Company anticipates utilizing the employees and operations of C & J Financial to expand its fast funding operations, which provide financing for funeral homes and mortuaries.

Proposed Acquisition of Capital Reserve Life Insurance Company

On October 9, 2007, Security National Financial Corporation, through its wholly owned subsidiary, Security National Life Insurance Company, entered into a stock purchase agreement (the "Stock Purchase Agreement") with Capital Reserve Life Insurance Company, a Missouri domiciled insurance company ("Capital Reserve"), and its shareholders to purchase all of the outstanding shares of common stock of Capital Reserve from its shareholders. Under the terms of the transaction, Security National Life Insurance Company agrees to pay to the shareholders of Capital Reserve purchase consideration equal to the capital and surplus of

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Capital Reserve as of September 30, 2007 in the amount of \$1,274,000, plus the interest maintenance reserve in the amount of \$31,000 and the asset valuation reserve in the amount of \$209,000 as of September 30, 2007, plus \$1,037,967, less certain adjustments. The adjustments consist of any losses related to two litigation matters involving Capital Reserve and the difference in the amount of Capital Reserve's capital and surplus at closing compared to the amount of its capital and surplus on September 30, 2007.

As of December 31, 2006, Capital Reserve had 10,851 policies in force and approximately 30 agents. For the year ended December 31, 2006, Capital Reserve had revenues of \$5,663,000 and a net loss of \$244,000. As of December 31, 2006, the statutory assets and the capital and surplus of Capital Reserve were \$24,084,000 and \$1,960,000, respectively.

Security National Life Insurance Company anticipates completing the transaction on or before November 30, 2007, or within seven days from the date the required regulatory approvals are obtained. The obligations of Security National Life Insurance Company and Capital Reserve to complete the transaction are contingent upon satisfaction of the following conditions: (i) a complete and satisfactory review by Security National Life Insurance Company of the books, records and business of Capital Reserve; (ii) approval and adoption of the Stock Purchase Agreement by the Board of Directors of Security National Life Insurance Company and Capital Reserve; and (iii) approval of the transaction by any regulatory authorities having jurisdiction over Security National Life Insurance Company and Capital Reserve, including the insurance departments of the states of Missouri and Utah.

At the closing of the transaction, Security National Life Insurance Company and Capital Reserve intend to enter into a reinsurance agreement to reinsure the majority of the in force business of Capital Reserve, as reinsurer, to the extent permitted by the Missouri Department of Insurance. Under the terms of the reinsurance agreement, Security National Life Insurance Company would pay a ceding commission to Capital Reserve in the amount of \$1,738,000. In addition, following the payment of the ceding commission, Capital Reserve intends to declare a dividend to Security National Life Insurance Company in the amount of \$1,738,000. The reinsurance agreement and the dividend payment are subject to approval by the Missouri Department of Insurance.

As a result of the reinsurance agreement, certain insurance business and operations of Capital Reserve would be transferred to Security National Life Insurance Company, including all policies in force as of the effective date thereof. Any future business by Capital Reserve would be covered by this reinsurance agreement. Thus, except for capital and surplus of \$1,274,000, \$23,569,000 in assets and liabilities would be transferred from Capital Reserve to Security National Life Insurance Company pursuant to the reinsurance agreement. Following the closing of the transaction, Capital Reserve will continue to sell and service life insurance, annuity products, accident and health insurance, and funeral plan insurance.

Exercise of Stock Options and Special Stockholders Meeting

The Company's Board of Directors granted stock options in 2004 to Scott M. Quist, the Company's President and Chief Operating Officer, to purchase up to 1,000,000 shares of Class C common stock at exercise prices of \$.323 and \$.36 per share. On May 31, 2007, Mr. Quist made a cashless exercise of such options to purchase a total of 1,157,625 shares of Class C common stock that he was entitled to receive, after adjustments for 5% stock dividends the Company issued in 2005, 2006 and 2007.

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

In connection with the exercise of such options on a cashless basis, Mr. Quist delivered a total of 58,376 shares of Class A common stock to the Company that he held in exchange for all the Class C shares he would be entitled to receive for exercising the options. Inasmuch as there were 6,966,849 shares of Class C common stock outstanding as of May 31, 2007 out of a total of 7,500,000 authorized shares of Class C common stock, the Company could legally issue only 533,151 shares of Class C common stock to Mr. Quist, leaving a balance of 624,474 Class C common shares owing to him.

In order to issue the additional shares of Class C common shares owing to Mr. Quist, the Board of Directors approved on July 13, 2007 an amendment to the Company's Articles of Incorporation to increase the authorized number of Class C common shares from 7,500,000 shares to 15,000,000 shares. Because stockholder approval was also required to amend the Articles of Incorporation, the Company scheduled a Special Stockholders Meeting on September 21, 2007 to approve the amendment to the Articles of Incorporation to increase the authorized number of shares of Class C common stock to 15,000,000 shares. The stockholders approved the amendment to the Articles of Incorporation at the Special Stockholders Meeting, that increased the authorized number of Class C common shares to 15,000,000 shares, and, as a result, the Company was able to issue Mr. Quist the additional 624,474 shares of Class C common stock that were owed pursuant to his exercise of stock options.

Item 6. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements

See "Table of Contents - Part I - Financial Information" under page 2 above

(a) (2) Financial Statement Schedules

None

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) Exhibits

The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-K or are incorporated by reference to previous filings.

- 3.1 Articles of Restatement of Articles of Incorporation (4)
- 3.2 Amended Bylaws (6)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- 10.2 2003 Stock Option Plan (5)
- 10.3 2006 Director Stock Option Plan (13)
- 10.4 Deferred Compensation Agreement with George R. Quist (2)
- 10.5 Deferred Compensation Plan (3)
- 10.6 Employment agreement with J. Lynn Beckstead, Jr. (7)
- 10.7 Employment agreement with Scott M. Quist (8)
- 10.8 Stock Purchase Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, Memorial

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

- Insurance Company of America, and the shareholders of Memorial Insurance Company (9)
- 10.9 Reinsurance Agreement between Security National Life Insurance Company and Memorial Insurance Company of America (10)
- 10.10 Trust Agreement between Security National Life Insurance Company and Memorial Insurance Company of America (10)
- 10.11 Promissory Note between Memorial Insurance Company as Maker and Security National Life Insurance Company as Payee (10)
- 10.12 Security Agreement between Memorial Insurance Company as Debtor and Security National Life Insurance Company as Secured Party (10)
- 10.13 Surplus Contribution Note between Memorial Insurance Company of America as Maker and Southern Security Life Insurance Company as Payee (10)
- 10.14 Guaranty Agreement by Security National Life Insurance Company and Southern Security Life Insurance Company as Guarantors (10)
- 10.15 Administrative Services Agreement between Security National Life Insurance Company and Memorial Insurance Company of America (10)
- 10.16 Reinsurance Agreement between Security National Life Insurance Company and Southern Security Life Insurance Company (11)
- 10.17 Trust Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company and Zions First National Bank (11)
- 10.18 Stock Purchase Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company and American Network Insurance Company (12)
- 10.19 Escrow Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, American Network Insurance Company and Mackey Price Thompson & Ostler (12)
- 10.20 Escrow Agreement among American Network Insurance Company, Security National Life Insurance Company, Southern Security Life Insurance Company, and Preferred Insurance Capital Consultants, LLC (12)
- 10.21 Agreement and Plan of Complete Liquidation of Southern Security Life Insurance Company into Security National Life Insurance Company (12)
- 10.22 Assignment between Southern Security Life Insurance Company and Security National Life Insurance Company (12)
- 10.23 Assignment between Southern Security Life Insurance Company and Security National Life Insurance Company (12)
- 10.24 Unit Purchase Agreement among Security National Financial Corporation, C&J Financial, LLC, Henry Culp, Jr., and Culp Industries, Inc. (14)
- 10.25 Stock Purchase Agreement among Security National Life Insurance Company, Capital Reserve Life Insurance Company, and the shareholders of Capital Reserve Life Insurance Company (15)
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from Registration Statement on Form S-1,

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

- as filed on June 29, 1987
- (2) Incorporated by reference from Annual Report on Form 10-K, as filed on June 30, 1989
 - (3) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
 - (4) Incorporated by reference from Report on Form 8-K/A as filed on January 8, 2003
 - (5) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 5, 2003, relating to the Company's Annual Meeting of Stockholders
 - (6) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
 - (7) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
 - (8) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
 - (9) Incorporated by reference from Report on Form 8-K, as filed on September 27, 2005
 - (10) Incorporated by reference from Report on Form 8-K, as filed on January 5, 2006
 - (11) Incorporated by reference from Report on Form 8-K, as filed on January 11, 2006
 - (12) Incorporated by reference from Report on Form 8-K, as filed on January 12, 2007
 - (13) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company's Annual Meeting of Shareholders
 - (14) Incorporated by reference from Report on Form 8-K, as filed on August 8, 2007
 - (15) Incorporated by reference from Report on Form 8-K, as filed on November 5, 2007

(b) Reports on Form 8-K:

- Current report on Form 8-K, as filed on August 8, 2007
- Current report on Form 8-K, as filed on November 5, 2007

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION
Registrant

Dated: November 14, 2007

By: s/s George R. Quist

George R. Quist
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Dated: November 14, 2007

By: s/s Stephen M. Sill

Stephen M. Sill
Vice President, Treasurer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
18 U.S.C. ss. 1350,
AS ENACTED BY
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, George R. Quist, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Security National Financial Corporation.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant to have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 14, 2007

By: George R. Quist
Chairman of the Board and Chief
Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. ss. 1350,
AS ENACED BY
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen M. Sill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Security National Financial Corporation.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant to have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 14, 2007

By: Stephen M. Sill
Vice President, Treasurer and Chief
Financial Officer

EXHIBIT 32.1
CERTIFICATION PURSUANT TO
18 U.S.C. ss. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George R. Quist, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 14, 2007

By: George R. Quist
Chairman of the Board and Chief
Executive Officer

EXHIBIT 32.2
CERTIFICATION PURSUANT TO
18 U.S.C. ss. 1350,

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 14, 2007

By: Stephen M. Sill
Vice President, Treasurer and Chief
Financial Officer