SECURITY NATIONAL FINANCIAL CORP
Form 10-K
March 31, 2009

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

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008, 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)	87-0345941 (I.R.S. Employer Identification No.)
5300 South 360 West, Suite 250 Salt Lake City, Utah (Address of principal executive offices)	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:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $2.00 Par Value	Nasdaq National Market
Class C Common Stock, $0.20 Par Value	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (check one): Large accelerated filer o Accelerated filer o Nonaccelerated filer x Small reporting company o (Do not check if a smaller reporting company).

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business date of the registrant's most recently completed second fiscal quarter. $26,513,000

As of March 31, 2009, there were outstanding 8,284,389 shares of Class A Common Stock, $2.00 par value per share, and 8,911,746 shares of Class C Common Stock, $.20 par value per share.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the registrant's 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Item 1. Business

Security National Financial Corporation (the "Company") operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment of the Company consists of five cemeteries in the state of Utah and one in the state of California, and seven mortuaries in the state of Utah and three in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery and cremation services through its Utah, Arizona and California operations. Many of the insurance agents also sell pre-need funeral, cemetery and cremation services. The mortgage loan segment is an approved government and conventional lender that originates and underwrites residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 29 wholesale and retail offices in twelve states, and is an approved mortgage lender in several states.

The design and structure of the Company is that each business segment is related to the other business segments and contributes to the profitability of the other segments. Because of the Company's cemetery and mortuary operations in Utah, California and Arizona, the Company enjoys a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. The Company's insurance subsidiaries invest their assets (representing in part the pre-paid funerals) in investments authorized by the respective insurance departments of their states of domicile. One such investment authorized by the insurance departments is mortgage loans. The Company funded relatively few subprime mortgage loans during 2007 and no longer funds such loans. Thus, while each business segment is a profit center on a stand-alone basis, this horizontal integration of each segment is planned to lead to improved profitability of the Company. The Company also pursues growth through acquisitions. The Company's acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing existing personnel, management, and technology while still providing quality service to customers and policyholders.

The Company was organized as a holding company in 1979, when Security National Life Insurance Company ("Security National Life") became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has grown through the direct sale of life insurance and annuities and through the acquisition of other insurance companies, including the acquisitions of Capital Investors Life Insurance Company in 1994 and Civil Service Employees Life Insurance Company in 1995, a stock purchase transaction with Southern Security Life Insurance Company, a Florida domiciled insurance company ("Southern Security Life"), in 1998 (involving the purchase of 57.4% of the outstanding common shares of Southern Security Life), the acquisition of Acadian Life Insurance Company in 2002, the acquisition of Paramount Security Life Insurance Company, now Security National Life Insurance Company of Louisiana, in March 2004, a merger transaction involving the purchase of the remaining outstanding shares of Southern Security Life in January 2005, which resulted in Southern Security Life becoming a wholly-owned subsidiary of Security National Life, the acquisition of Memorial Insurance Company of America in December 2005, the acquisition of C & J Financial, LLC in July 2007, the acquisition of Capital Reserve Life Insurance Company in December 2007 and the acquisition of Southern Security Life Insurance Company, a Mississippi domiciled insurance company, in December 2008.

In December 2005, all of the remaining insurance business and operations of Southern Security Life was transferred to Security National Life by a reinsurance agreement. In December 2007, the merger of Southern Security Life into Security National Life was completed, and Southern Security Life was dissolved pursuant to the terms of the Agreement and Plan of Complete Liquidation of Southern Security Life into Security National Life.

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies, including the acquisitions of Paradise Chapel Funeral Home, Inc. in 1989, Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. in 1991, Sunset Funeral Home in 1994, Greer-Wilson Funeral Home, Inc. in 1995 and Crystal Rose Funeral Home in 1997. In 1993, the Company formed SecurityNational Mortgage Company ("SecurityNational Mortgage") to originate and refinance mortgage loans. Since the beginning of business in 1993, SecurityNational Mortgage has now grown to 29 branches in twelve states. See Notes to Consolidated Financial Statements for additional disclosure and discussion regarding segments of the business.

Life Insurance

Products

The Company, through Security National Life and its insurance subsidiaries, Security National Life of Louisiana, Memorial Insurance Company of America, Capital Reserve Life Insurance Company and Southern Security Life Insurance Company, issues and distributes selected lines of life insurance and annuities. The Company’s life insurance business includes funeral plans, interest-sensitive life insurance, as well as other traditional life and accident and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning and traditional whole life products sold in association with the costs of higher education.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to $15,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverages. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of a person’s death. On a per thousand dollar cost of insurance basis, these policies can be more expensive to the policyholder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

Through the Company’s Higher Education Division, the Company markets strategies for fund accumulations for college and repayment of student loans and expenses a student may have after college. The product used for this market is a 10-Pay Whole Life Policy with an annuity rider. Both the paid-up aspect of the whole life policy and the savings aspect of the annuity rider are marketed as a tool for parents to help accumulate money to help fund college expenses or repay loans incurred during college. The product is generally offered to parents who have children under the age of 25.

Markets and Distribution

The Company is licensed to sell insurance in 38 states. The Company, in marketing its life insurance products, seeks to locate, develop and service specific “niche” markets. A “niche” market is an identifiable market that the Company believes is not emphasized by most insurers. Funeral plan policies are sold primarily to persons who range in age from 45 to 85. Even though people of all ages and income levels purchase funeral plans, the Company believes that the highest percentage of funeral plan purchasers are individuals who are older than 45 and have low to moderate income.

Higher Education insurance plans are for families who desire to prepare for their children’s higher education financial needs. Such preparation can include searches for scholarships, grant applications, government student loan applications, and the purchase of life insurance and annuities as a vehicle to help repay education related debt. In 1965, the Higher Education Act created the guaranteed student loan programs previously participated in by the Company. Federal Family Education Loan (FFEL) Programs, which now consist of Federal Stafford Loans (formerly Guaranteed Student Loans), Federal Plus Loans, and Federal Consolidation Loans. The FFEL Program makes these long-term loans available to students attending institutions of higher education, vocation, technical, business and trade schools and some foreign schools.

State or private nonprofit guaranty agencies insure that the FFEL Programs and the Federal Government reimburse these agencies for all or part of the insurance loans they pay to lenders. The federal guaranty on an FFEL replaces the security (collateral) usually required for a long-term consumer loan. These government programs have numerous rules for qualification and have limits on how much you can borrow. The Company’s whole life insurance product has an annuity rider that can provide a way for families to accumulate additional funds for their children’s education. The Company has a student service center, which is available to policyholders to help parents and students apply for various scholarships, grants and loans.

A majority of the Company's funeral plan premiums come from the states of Arizona, Arkansas, Idaho, Kansas, Mississippi, Oklahoma, Texas and Utah. A majority of the Company's non-funeral plan life insurance premiums come from the states of Florida, Georgia, Louisiana, Maryland, New Mexico, South Carolina, Tennessee, Utah, Virginia, and the District of Columbia.

The Company sells its life insurance products through direct agents, brokers and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 10% to 110% of first year premiums. In those cases where the Company utilizes its direct agents in selling such policies, those agents customarily receive advances against future commissions.

In some instances, funeral plan insurance is marketed in conjunction with the Company's cemetery and mortuary sales force. When it is marketed by that group, the beneficiary is usually the Company's cemeteries and mortuaries. Thus, death benefits that become payable under the policy are paid to the Company's cemetery and mortuary subsidiaries to the extent of services performed and products purchased.

In marketing funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs. The incentive for such businesses to share the costs is that these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2008:

	2008	2007	2006	2005	2004
Life Insurance Policy/Cert. Count as of December 31	415,656 (5)	405,224 (4)	401,441	413,753 (2)(3)	357,767 (1)
Insurance in force as of December 31 (omitted 000)	$ 2,454,409 (5)	$ 2,434,733 (4)	$ 2,620,694	$ 3,216,946 (2)(3)	$ 2,914,135 (1)
Premiums Collected (omitted 000)	$ 36,063 (4)	$ 32,173	$ 31,619 (3)	$ 27,275 (2)	$ 30,560 (1)

(1) Includes the purchase of Paramount Security Life Insurance Company, now known as Security National Life Insurance Company of Louisiana, on March 16, 2004.
(2) Includes the termination of reinsurance assumed with Guaranty Income Life Insurance Company, effective January 1, 2005.
(3) Includes the purchase of Memorial Insurance Company of America on December 29, 2005.
(4) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(5) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

Underwriting

The Factors considered in evaluating an application for ordinary life insurance coverage can include the applicant's age, occupation, general health and medical history. Upon receipt of a satisfactory (non-funeral plan insurance) application, which contains pertinent medical questions, the Company writes insurance based upon its medical limits and requirements subject to the following general non-medical limits:

Age Nearest Birthday	Non-Medical Limits
0-50	$75,000
51-up	Medical information required (APS or exam)

When underwriting life insurance, the Company will sometimes issue policies with higher premium rates for substandard risks.

The Company also sells funeral plan insurance. This insurance is a small face amount, with a maximum policy size of $15,000. It is written on a simplified medical application with underwriting requirements being a completed application, a phone inspection on selected applicant and a Medical Information Bureau inquiry. There are several underwriting classes in which an applicant can be placed.

Annuities

Products

The Company's annuity business includes single premium deferred annuities, flexible premium deferred annuities and immediate annuities. A single premium deferred annuity is a contract where the individual remits a sum of money to the Company, which is retained on deposit until such time as the individual may wish to annuitize or surrender the contract for cash. A flexible premium deferred annuity gives the contract holder the right to make premium payments of varying amounts or to make no further premium payments after his initial payment. These single and flexible premium deferred annuities can have initial surrender charges. The surrender charges act as a deterrent to individuals who may wish to surrender their annuity contracts.

Annuities have guaranteed interest rates of 3% to 6.5% per annum. Above that, the interest rate credited is periodically determined by the Board of Directors at their discretion. An immediate annuity is a contract in which the individual remits to the Company a sum of money in return for the Company's obligation to pay a series of payments on a periodic basis over a designated period of time, such as an individual's life, or for such other period as may be designated.

Holders of annuities generally enjoy a significant benefit under current federal income tax law in that interest accretions that are credited to the annuities do not incur current income tax expense on the part of the contract holder. Instead, the interest income is tax deferred until such time as it is paid out to the contract holder. In order for the Company to realize a profit on an annuity product, the Company must maintain an interest rate spread between its investment income and the interest rate credited to the annuities. From that spread must be deducted commissions, issuance expenses and general and administrative expenses. The Company's annuities currently have credited interest rates ranging from 3% to 6.5%.

Markets and Distribution

The general market for the Company's annuities is middle to older age individuals who wish to save or invest their money in a tax-deferred environment, having relatively high yields. The major source of annuity considerations comes from direct agents. Annuities are also sold in conjunction with other insurance sales. This is true in both the funeral planning and higher education planning areas. If an individual does not qualify for a funeral plan due to health considerations, the agent will often sell that individual an annuity to fund those final expenses. In the higher education planning area, most life insurance sales have as part of the transaction an annuity portion that is used to accumulate funds. The commission rates on annuities are up to 10%.

The following table summarizes the annuity business for the five years ended December 31, 2008:

	2008	2007	2006	2005	2004
Annuities Policy/Cert. Count as of December 31	11,411 (3)	11,175 (2)	8,475	8,904 (1)	7,365
Deposits Collected (omitted 000)	$ 8,959 (2)(3)	$ 4,080	$ 3,977 (1)	$ 2,416	$ 1,972

(1) Includes the purchase of Memorial Insurance Company of America on December 29, 2005.

(2) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.

(3) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

Accident and Health

Products

Prior to the acquisition of Capital Investors in 1994, the Company did not actively market accident and health products. With the acquisition of Capital Investors, the Company acquired a block of accident and health policies that pay limited benefits to policyholders. The Company is currently offering a low-cost comprehensive diver's and limited recreational accident policies. These policies provide worldwide coverage for medical expense reimbursement in the event of diving or certain recreational sports accidents.

Markets and Distribution

The Company currently markets its accident policies through web marketing.

The following table summarizes the accident and health insurance business for the five years ended December 31, 2008:

	2008	2007	2006	2005	2004
Accident and Health Policy/Cert. Count as of December 31	14,060	14,845	15,340	14,934	15,778
Premiums Collected (omitted 000)	$ 232	$ 257	$ 274	$ 285	$ 308

Reinsurance

When a given policy exceeds the Company's retention limits, the Company reinsures with other companies that portion of the individual life insurance and accident and health policies it has underwritten. The primary purpose of reinsurance is to enable an insurance company to write a policy in an amount larger than the risk it is willing to assume for itself. The Company remains obligated for amounts ceded in the event the reinsurers do not meet their obligations.

The Company's policy is to retain no more than $75,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2008, reinsured by other companies, aggregated $115,702,000, representing approximately 4.7% of the Company's life insurance in force on that date.

The Company currently cedes and assumes certain risks with various authorized unaffiliated reinsurers pursuant to reinsurance treaties, which are renewable annually. The premiums paid by the Company are based on a number of factors, primarily including the age of the insured and the risk ceded to the reinsurer.

On December 31, 2008, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with Continental American Insurance Company ("Continental American"), a South Carolina domiciled insurance company, effective November 30, 2008. The Company ceded to Continental American 100% of a block of deferred annuities in the amount of $4,828,487 as of December 31, 2008 and retained the assets and recorded a funds held under coinsurance liability for the same amount. Continental American has agreed to pay the Company an initial ceding commission of $60,000 and a quarterly management fee of $16,500 per quarter to administer the policies. The Company will also receive a 90% experience refund for any profits from the business. The Company has the right to recapture the business on each January 1 subsequent to December 31, 2008, or any other date if mutually agreed and with at least 90 days' prior written notice to Continental American.

Investments

The investments that support the Company's life insurance and annuity obligations are determined by the Investment Committee of the Board of Directors of the various subsidiaries and ratified by the full Board of Directors of the respective subsidiaries. A significant portion of the investments must meet statutory requirements governing the nature and quality of permitted investments by insurance companies. The Company's interest-sensitive type products, primarily annuities and interest-sensitive whole life, compete with other financial products such as bank certificates of deposit, brokerage sponsored money market funds as well as competing life insurance company products. Although it is not the Company's policy to offer the highest yield in this economic climate, in order to offer what the Company considers to be a competitive yield, it maintains a diversified portfolio consisting of common stocks, preferred stocks, municipal bonds, investment and non-investment grade bonds, mortgage loans, real estate, short-term investments and other securities and investments.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding investments.

Cemetery and Mortuary

Products

The Company has six wholly-owned cemeteries and eleven wholly owned mortuaries. The cemeteries are non-denominational. Through its cemetery and mortuary operations, the Company markets a variety of products and services both on a pre-need basis (prior to death) and an at-need basis (at the time of death). The products include grave spaces, interment vaults, mausoleum crypts and niches, markers, caskets, flowers and other related products. The services include professional services of funeral directors, opening and closing of graves, use of chapels and viewing rooms, and use of automobiles and clothing. The Company has a funeral chapel at each of its cemeteries, other than Holladay Memorial Park and Singing Hills Memorial Park, and has seven separate stand-alone mortuary facilities.

Markets and Distribution

The Company's pre-need cemetery and mortuary sales are marketed to persons of all ages but are generally purchased by persons 45 years of age and older. The Company also markets its mortuary and cemetery products on an at-need basis. The Company is limited in its geographic distribution of these products to areas lying within an approximate 20-mile radius of its mortuaries and cemeteries. The Company's at-need sales are similarly limited in geographic area.

The Company actively seeks to sell its cemetery and funeral products to customers on a pre-need basis. The Company employs cemetery sales representatives on a commission basis to sell these products. Many of these pre-need cemetery and mortuary sales representatives are also licensed insurance salesmen and sell funeral plan insurance. In many instances, the Company's cemetery and mortuary facilities are the named beneficiary of the funeral plan policies.

The sales representatives of the Company's cemetery and mortuary operations are commissioned and receive no salary. The sales commissions range from 4% to 25% for cemetery products and services and 10% to 100% of first year premiums for funeral plan insurance. Potential customers are located via telephone sales prospecting, responses to letters mailed by the sales representatives, newspaper inserts, referrals, contacts made at funeral services, and door-to-door canvassing. The Company trains its sales representatives and generates leads for them. If a customer comes to one of the Company's cemeteries on an at-need basis, the sales representatives are compensated on a commission basis.

Mortgage Loans

Products

Beginning in 1993, the Company, through its wholly owned subsidiary, SecurityNational Mortgage Company ("SecurityNational Mortgage") has been active in both the residential as well as commercial real estate markets. The Company has current approvals through HUD, Fannie Mae, Freddie Mac and other substantial secondary market investors, which enable it to originate a wide variety of residential mortgage loan products that are subsequently sold to investors. The Company uses internal funding sources as well as maintaining external warehouse lines of credit with unaffiliated financial institutions. The Company also originates residential construction loans.

Security National Capital, a subsidiary of SecurityNational Mortgage, originates commercial real estate loans both for internal investment as well as for sale to unaffiliated investors.

Markets and Distribution

The Company's residential mortgage lending services are marketed primarily to mortgage originators. SecurityNational Mortgage maintains a retail origination presence in the Salt Lake City market in addition to 29 wholesale and retail branch offices located in Arizona, California, Florida, Hawaii, Indiana, Kansas, North Carolina, Oklahoma, Oregon, Texas, Utah and Washington, with sales representatives in these and other states. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding mortgage loans.

Recent Acquisitions and Other Business Activities

Sale of Colonial Funeral Home

In June 2007, the Company completed the sale of the Colonial Funeral Home property to the Utopia Station Development Corp. ("Utopia Development") 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 20, 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 a year from the date of sale. The gain was included as a part of realized gains on investments and other assets in the Company's condensed consolidated statement for the year ended December 31, 2007. In September of 2008, the Company foreclosed on the Utopia Development loan. In October 2008, the Colonial property was sold to RTTTA, LLC for $650,000 in cash, less selling costs of $26,079. The reduction of the 2007 gain by $91,079 was recorded as a loss in 2008.

Acquisition of C & J Financial

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 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 provided 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. The total equity on the balance sheet of C & J Financial as of July 16, 2007 was $47,000 less than the total equity on the balance sheet as of May 31, 2007, which resulted in a $47,000 reduction of the note.

At June 30, 2007, the 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.

Acquisition of Capital Reserve Life Insurance Company

On December 20, 2007, the Company, through its wholly owned subsidiary, Security National Life, completed a stock purchase transaction 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 stock purchase agreement, Security National Life Insurance Company paid the shareholders of Capital Reserve at closing purchase consideration equal to the capital and surplus of Capital Reserve as of September 30, 2007 in the amount of $1,271,327, plus the interest maintenance reserve in the amount of $30,667 and the asset valuation reserve in the amount of $212,393 as of September 30, 2007, plus $1,037,967, or a total of $2,521,687, less certain adjustments.

The adjustments to the purchase consideration consisted of $220,926 in losses related to a litigation matter involving Capital Reserve; $152,269, representing the difference between Capital Reserve's adjusted capital and surplus at closing and Capital Reserve's adjusted capital and surplus on September 30, 2007; and $185,902 being held in escrow, which is equal to the book value of a corporate bond held by Capital Reserve at closing. The company issuing the bond filed for bankruptcy prior to the closing of the transaction and the amount in escrow will reimburse Security National Life for any losses from the bond.

As the 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.

At the closing of the transaction, Security National Life and Capital Reserve entered 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 paid a ceding commission to Capital Reserve in the amount of $1,738,000. In addition, following the payment of the ceding commission, Capital Reserve declared a dividend to Security National Life in the amount of $1,738,000. The Missouri Insurance Department approved both the reinsurance agreement and the dividend payment. The dividend payment was approved subject to Capital Reserve maintaining capital and surplus of at least $1,500,000.

As a result of the reinsurance agreement, certain insurance business and operations of Capital Reserve were transferred to Security National Life, including all policies in force as of the effective date thereof. Any future business by Capital Reserve is covered by this reinsurance agreement. Consequently, except for capital and surplus of $1,500,000, approximately $23,500,000 in assets and liabilities were transferred from Capital Reserve to Security National Life pursuant to the reinsurance agreement. Following the closing of the transaction, Capital Reserve has continued to sell and service life insurance, annuity products, accident and health insurance, and funeral plan insurance.

Liquidation of Southern Security Life Insurance Company, formerly a Florida domiciled insurance company

On December 24, 2007, Southern Security Life Insurance Company, a Florida domiciled insurance company, was liquidated when Articles of Dissolution were filed with the Florida Division of Corporations. Prior to the liquidation, Southern Security Life was a wholly owned subsidiary of Security National Life. Southern Security Life was incorporated under Florida law in 1966 and was licensed and commenced business in 1969. The industry segment of Southern Security Life was life, accident and health, and annuity business. During 2006 approximately 40% of the premium income of Southern Security Life was from in force business in Florida. In 1998, Security National Life purchased 57.4% of the outstanding shares of Southern Security Life. During the period from January 21, 1999 to April 10, 2003, Security National Life purchased an additional 19.3% of the outstanding shares of Southern Security Life. In January 2005, Security National Life Insurance Company purchased the remaining outstanding shares of Southern Security Life by means of a merger transaction, which resulted in Southern Security Life becoming a wholly owned subsidiary of Security National Life.

Southern Security Life was liquidated in accordance with the terms of the Agreement and Plan of Complete Liquidation, which the Board of Directors of Security National Life approved on December 12, 2005. Under the terms of the agreement, Southern Security Life was liquidated into Security National Life in essentially the same manner as the liquidation described in Private Letter Ruling 9847027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue Code of 1986, as amended, and other applicable provisions described in such letter ruling. Pursuant to the Agreement and Plan of Complete Liquidation, all of the insurance business and operations of Southern Security Life, including $48,528,000 in assets and liabilities, were transferred to Security National Life on December 28, 2005, by means of a reinsurance agreement. Southern Security Life's remaining assets, including its capital and surplus, were transferred to Security National Life, effective as of December 29, 2006.

Acquisition of Southern Security Life Insurance Company, a Mississippi Insurance Company

On December 18, 2008, Security National Financial Corporation, through its wholly owned subsidiary, Security National Life, completed a stock purchase transaction with Southern Security Life Insurance Company, a Mississippi domiciled insurance company ("Southern Security"), and its shareholders to purchase all of the outstanding shares of common stock of Southern Security from its shareholders. Under the terms of the transaction as set forth in the Stock Purchase Agreement among Security National Life, Southern Security and the shareholders of Southern Security, Security National Life paid to the shareholders of Southern Security purchase consideration equal to $1,352,134, representing the capital and surplus, interest maintenance reserve, and asset valuation reserve of Southern Security as of September 1, 2008, the date that Security National Life assumed administrative control over Southern Security, plus $1,500,000, representing the ceding commission that had been paid on August 29, 2008, plus $75,883, representing an allowance for the actual losses experienced by Southern Security in the second quarter ended June 30, 2008, less certain adjustments. Thus, the total purchase price before adjustments was $2,928,022.

As of December 31, 2007, Southern Security had 24,323 policies in force and approximately 393 agents. For the year ended December 31, 2007, Southern Security had revenues of $4,231,000 and a net loss of $496,000. As of December 31, 2007, the statutory assets and the capital and surplus of Southern Security were $24,402,000 and $758,000, respectively. As of June 30, 2008, the statutory assets and the capital and surplus of Southern Security were $24,780,000 and $713,000, respectively.

As adjustments to the purchase consideration, the shareholders of Southern Security deposited at closing $175,000 of the purchase consideration into an interest bearing escrow account as the deposit amount (the "Deposit Amount"). This Deposit Amount is to be held for a period of six months from the closing date ("the Holdback Period") and used to pay the amount of any adjustments required under the terms of the Stock Purchase Agreement. At the end of the Holdback Period, the escrow agent agrees to transfer the remaining amounts of the Deposit Amount, following the payment of any adjustments, into a real estate deposit account to be held and distributed in accordance with the items of the escrow agreement. The shareholders additionally deposited at closing $268,500 of the purchase consideration into an interest bearing escrow account as the real estate deposit amount (the "Real Estate Deposit Amount"). This Real Estate Deposit Amount represents about 50% of the total outstanding balance on a loan that Southern Security made to Wade Nowell Funeral Homes, Inc. in the form of a promissory note, which note is secured by a funeral home property in Collins, Mississippi. The Real Estate Deposit Amount will be increased by the amount of funds transferred from the Deposit Amount at the end of the Holdback Period.

The shareholders have granted to Security National Life a security interest in the Real Estate Deposit Amount to secure payment of the promissory note also secured by the funeral home in Collins, Mississippi. Beginning on September 1, 2009, the escrow agent agrees to release to the shareholders on a pro rata basis an amount equal to the principal reduction of the promissory note that has occurred during the preceding August 1 through July 31 period, until such time as the Real Estate Deposit Amount (including funds transferred from the Deposit Amount) and any accrued interest, have been paid to the shareholders. However, no payments will be made to the shareholders from the Real Estate Deposit Amount if the note is in default. In the event there is a default in the payment of the note, Security National Life has the right to receive payment from the Real Estate Deposit Amount for the amount of such default or to foreclose on the note pursuant to the terms thereunder and to receive payment from the Real Estate Deposit Amount in an amount equal to the full amount of any losses and expenses incurred by Security National Life as a result of such default and enforcement of its rights pursuant thereto. The shareholders have the right to refinance the existing debt on the note.

As further adjustments, Southern Security transferred its interest in a certain trust, known as the Nowell Legacy Trust, to the shareholders at closing and the purchase consideration to be paid to the shareholders was reduced by $316,026, the admitted value of the trust as reflected in the financial statements of Southern Security on September 1, 2008, the date that Security National Life assumed administrative control over Southern Security under the terms of the Stock Purchase Agreement. Finally, the purchase consideration was reduced by $84,081 for payments that Security National Life made in behalf of the shareholders for legal and accounting fees and other expenses, and by $163,715 at the instruction of the shareholders to pay off a promissory note with Ray-Nowell Funeral Home, Inc., which was secured by funeral home properties in Senatobia, Mississippi.

The Stock Purchase Agreement further provides that Security National Life and Southern Security each agree to enter into a reinsurance agreement contemporaneous with the execution of such Stock Purchase Agreement. Under the terms of this reinsurance agreement, Security National Life is required to reinsure all of the in force and future insurance liabilities of Southern Security. Security National Life will also assume complete administrative control of all of the then current and future insurance related business operations of Southern Security at such time as Security National Life notifies Southern Security in writing that it is capable of assuming administrative control over such insurance related business operations, provided Security National Life assumes administrative control no later than September 1, 2008. On September 1, 2008, Security National Life assumed said administrative control over the insurance related operations of Southern Security.

On August 29, 2008, in furtherance of the requirements of the Stock Purchase Agreement, Security National Life and Southern Security entered into a reinsurance agreement (the “Reinsurance Agreement”) to reinsure the majority of the in force business of Southern Security, as reinsurer, to the extent permitted by the Mississippi Department of Insurance. Pursuant to the terms of the Reinsurance Agreement, Security National Life paid a ceding commission to Southern Security in the amount of $1,500,000.

As a result of the Reinsurance Agreement, certain insurance business and operations of Southern Security were transferred to Security National Life, including all policies in force as of the administrative control date. Any future business by Southern Security would be covered by this Reinsurance Agreement. As of September 1, 2008, when Security National Life assumed administrative control over the insurance related business operations of Southern Security, Southern Security transferred approximately $23,600,000 in assets and liabilities to Wachovia Bank, N.A. of St. Louis, Missouri, as custodian for Security National Life pursuant to the Reinsurance Agreement and the Custodial Agreement among Southern Security, Security National Life, and Wachovia Bank N.A. Following the completion of the stock purchase transaction, Southern Security has continued to sell and service life insurance, annuity products, and funeral plan insurance.

Regulation

The Company's insurance subsidiaries, Security National Life, Security National Life of Louisiana, Memorial Insurance Company of America ("Memorial Insurance Company"), Capital Reserve Life and Southern Security are subject to comprehensive regulation in the jurisdictions in which they do business under statutes and regulations administered by state insurance commissioners. Such regulation relates to, among other things, prior approval of the acquisition of a controlling interest in an insurance company; standards of solvency which must be met and maintained; licensing of insurers and their agents; nature of and limitations on investments; deposits of securities for the benefit of policyholders; approval of policy forms and premium rates; periodic examinations of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; and requirements regarding aggregate reserves for life policies and annuity contracts, policy claims, unearned premiums, and other matters. The Company's insurance subsidiaries are subject to this type of regulation in any state in which they are licensed to do business. Such regulation could involve additional costs, restrict operations or delay implementation of the Company's business plans.

The Company is currently subject to regulation in Utah, Louisiana, Arkansas, Mississippi and Missouri under insurance holding company legislation, and other states where applicable. Generally, intercompany transfers of assets and dividend payments from insurance subsidiaries are subject to prior notice of approval from the state insurance department, if they are deemed "extraordinary" under these statutes. The insurance subsidiaries are required, under state insurance laws, to file detailed annual reports with the supervisory agencies in each of the states in which they do business. Their business and accounts are also subject to examination by these agencies.

The Company's cemetery and mortuary subsidiaries are subject to the Federal Trade Commission's comprehensive funeral industry rules and to state regulations in the various states where such operations are domiciled. The morticians must be licensed by the respective state in which they provide their services. Similarly, the mortuaries and cemeteries are governed and licensed by state statutes and city ordinances in Utah, Arizona and California. Reports are required to be kept on file on a yearly basis which include financial information concerning the number of spaces sold and, where applicable, funds provided to the Endowment Care Trust Fund. Licenses are issued annually on the basis of such reports. The cemeteries maintain city or county licenses where they conduct business.

The Company's mortgage loan subsidiary, SecurityNational Mortgage, is subject to the rules and regulations of the U.S. Department of Housing and Urban Development and to various state licensing acts and regulations. These regulations, among other things, specify minimum capital requirements, the procedures for the origination, the underwriting, the licensing of wholesale brokers, quality review audits and the amounts that can be charged to borrowers for all FHA and VA loans. Each year, the Company must have an audit by an independent registered public accounting firm to verify compliance under these regulations. In addition to the government regulations, the Company must meet loan requirements of various investors who purchase the loans.

Income Taxes

The Company's insurance subsidiaries, Security National Life, Security National Life of Louisiana, Memorial Insurance Company, Capital Reserve Life and Southern Security are taxed under the Life Insurance Company Tax Act of 1984. Under the act, life insurance companies are taxed at standard corporate rates on life insurance company taxable income. Life insurance company taxable income is gross income less general business deductions, reserves for future policyholder benefits (with modifications), and a small life insurance company deduction (up to 60% of life insurance company taxable income). The Company may be subject to the corporate Alternative Minimum Tax (AMT). The exposure to AMT is primarily a result of the small life insurance company deduction. Also, under the Tax Reform Act of 1986, distributions in excess of stockholders' surplus account or a significant decrease in life reserves will result in taxable income.

Security National Life, Security National Life of Louisiana, Memorial Insurance Company, Capital Reserve Life and Southern Security may continue to receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined assets of the Company must be less than $500,000,000 and the taxable income of the life insurance companies must be less than $3,000,000. To the extent that the net income limitation is exceeded, then the small life insurance company deduction is phased out over the next $12,000,000 of life insurance company taxable income.

Since 1990 Security National Life, Security National Life of Louisiana, Memorial Insurance Company, Capital Reserve Life and Southern Security have computed their life insurance taxable income after establishing a provision representing a portion of the costs of acquisition of such life insurance business. The effect of the provision is that a certain percentage of the Company's premium income is characterized as deferred expenses and recognized over a five to ten year period.

The Company's non-life insurance company subsidiaries are taxed in general under the regular corporate tax provisions. For taxable years beginning January 1, 1987, the Company may be subject to the Corporate Alternative Minimum Tax and the proportionate disallowance rules for installment sales under the Tax Reform Act of 1986.

Competition

The life insurance industry is highly competitive. There are approximately 2,000 legal reserve life insurance companies in business in the United States. These insurance companies differentiate themselves through marketing techniques, product features, price and customer service. The Company's insurance subsidiaries compete with a large number of insurance companies, many of which have greater financial resources, a longer business history, and more diversified line of insurance coverage than the Company. In addition, such companies generally have a larger sales force. Further, many of the companies with which the Company competes are mutual companies which may have a competitive advantage because all profits accrue to policyholders. Because the Company is small by industry standards and lacks broad diversification of risk, it may be more vulnerable to losses than larger, better-established companies. The Company believes that its policies and rates for the markets it serves are generally competitive.

The cemetery and mortuary industry is also highly competitive. In Salt Lake City, Phoenix and San Diego areas where the Company competes, there are a number of cemeteries and mortuaries which have longer business histories, more established positions in the community, and stronger financial positions than the Company. In addition, some of the cemeteries with which the Company must compete for sales are owned by municipalities and, as a result, can offer lower prices than can the Company. The Company bears the cost of a pre-need sales program that is not incurred by those competitors which do not have a pre-need sales force. The Company believes that its products and prices are generally competitive with those in the industry.

The mortgage loan industry is highly competitive with a number of mortgage companies and banks in the same geographic area in which the Company is operating. The mortgage market in general is sensitive to changes in interest rates and the refinancing market is particularly vulnerable to changes in interest rates.

Employees

As of December 31, 2008, the Company had –619 full-time and 136 part-time employees.

Item 2. Properties

The following table sets forth the location of the Company's office facilities and certain other information relating to these properties.

Location	Function	Owned Leased	Approximate Square Footage
5300 South 360 West Salt Lake City, Utah	Corporate Headquarters	Owned (1)	27,200
634 West Main Street Blytheville, Arkansas	Insurance Operations	Owned	3,000
755 Rinehart Road Lake Mary, Florida	Mortgage Sales	Owned (2)	3,500
3935 I-55 South, Frontage Road Jackson, Mississippi	Insurance Operations	Owned (3)	12,000
175 Jester Parkway Rainbow City, Alabama	Fast Funding Operations	Leased (4)	5,000
410 North 44th Street, Suite 190 Phoenix, Arizona	Mortgage Sales	Leased (5)	1,800
4634 Town Center Blvd., Suite 314 Eldorado Hills, California	Mortgage Sales	Leased (6)	600
12150 Tributary Point Dr., Suite 160 Gold River, California	Mortgage Sales	Leased (7)	2,000
16835 West Bernardo Drive, Suite 150 San Diego, California	Mortgage Sales	Leased (8)	1,300
27433 Tourney Road, Suites 130, 220 Santa Clarita, California	Mortgage Sales	Leased (9)	2,500
550 West Cienega, Suite H San Dimas, California	Mortgage Sales	Leased (10)	2,600
2441 West SR 426, Suite 1051 Oviedo, Florida	Mortgage Sales	Leased (11)	900

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Item 2. Properties (Continued)

Location	Function	Owned Leased	Approximate Square Footage
8950 Dr. MLK St. N., Suite 103 St. Petersburg, Florida	Mortgage Sales	Leased (12)	3,500
970 No. Kalaheo, Suite A-102 Kailua, Hawaii	Mortgage Sales	Leased (13)	1,800
45 South Park Blvd., Suite 45 Greenwood, Indiana	Mortgage Sales	Leased (14)	4,800
6900 College Blvd., Suite 950 Overland Park, Kansas	Mortgage Sales	Leased (15)	1,900
2500 Regency Parkway Cary, North Carolina	Mortgage Sales	Leased (16)	500
4045 NW 64th Street, Suite 500 Oklahoma City, Oklahoma	Mortgage Sales	Leased (17)	3,500
999 Southwest Disk Drive, Suite 104 Bend, Oregon	Mortgage Sales	Leased (18)	2,600
4800 SW Griffith Drive, Suite 250 Beaverton, Oregon	Mortgage Sales	Leased (19)	2,700
6805 Capital of Texas Highway, Suite 315 Austin, Texas	Mortgage Sales	Leased (20)	2,300
12750 Merit Drive, Suite 1212 Dallas, Texas	Mortgage Sales	Leased (21)	2,600
5353 W. Sam Houston Parkway N., Suite 170 Houston, Texas	Mortgage Sales	Leased (22)	5,400
613 Northwest Loop 410, Suite 685 San Antonio, Texas	Mortgage Sales	Leased (23)	2,300
6955 and 6975 South Union Park, Suites 100 and 150 Midvale, Utah	Mortgage Sales	Leased (24)	7,000
5247 Greenpine Drive	Insurance Operations		9,100

Murray, Utah		Owned (25)	
5251 Green Street, Suite 350 Salt Lake City, Utah	Mortgage Sales	Owned (26)	5,800
6740 South 1300 East, Suite 100 Salt Lake City, Utah	Mortgage Sales	Leased (27)	3,200

Item 2. Properties (Continued)

Location	Function	Owned Leased	Approximate Square Footage
970 East Murray-Holladay Rd., Suite 603 Salt Lake City, Utah	Mortgage Sales	Leased (28)	6,400
474 West 800 North, Suite 102 Orem, Utah	Mortgage Sales	Leased (29)	2,000
1173 South 250 West, Suite 107B St. George, Utah	Mortgage Sales	Leased (30)	200
1244 North Main Street, Suite 203 Tooele, Utah	Mortgage Sales	Leased (31)	1,200
3500-188th Street, S.W. Suite 275 Lynnwood, Washington	Mortgage Sales	Leased (32)	1,000
501 7th Street North, Suite 10 Columbus, Mississippi	Insurance Operations	Leased (33)	1,200

(1) The Company leases an additional 3,000 square feet of the facility to unrelated third parties for approximately $47,500 per year, under leases expiring at various dates after 2008.
(2) The Company leases an additional 9,100 square feet of the facility to unrelated third parties for approximately $196,200 per year, under leases expiring at various dates after 2008.
(3) The building is located on 104 undeveloped acres.
(4) The Company leases this facility for $14,400 per year. The lease expires in July 2010.
(5) The Company leases this facility for $42,500 per year. The lease expires in October 2009
(6) The Company leases this facility for $28,000 per year. The lease expires in July 2009
(7) The Company leases this facility for $49,900 per year. The lease expires in June 2009
(8) The Company leases this facility for $64,700 per year. The lease expires in December 2011.
(9) The Company leases this facility for $106,300 per year. The lease expires in February 2012.
(10) The Company leases this facility for $30,200 per year. The lease expires in February 2011.
(11) The Company leases this facility for $16,700 per year. The lease expires in June 2009.
(12) The Company leases this facility for $67,000 per year. The lease expires in March 2011.
(13) The Company leases this facility for $43,000 per year. The lease expires in February 2011.
(14) The Company leases this facility for $68,700 per year, but subleases approximately half for $30,000 per year. The lease expires in April 2012.
(15) The Company leases this facility for $39,100 per year. The lease expires in January 2010.
(16) The Company leases this facility for $30,000 per year. The lease expires in March 2009.
(17) The Company leases this facility for $49,700 per year. The lease expires in March 2010.
(18) The Company leases this facility for $40,900 per year. The lease expires in January 2012.
(19) The Company leases this facility for $45,600 per year. The lease expires in May 2009.
(20) The Company leases this facility for $48,900 per year. The lease expires in September 2011.
(21) The Company leases this facility for $43,100 per year. The lease expires in January 2009.
(22) The Company leases this facility for $64,300 per year. The lease expires in April 2013.
(23) The Company leases this facility for $47,500 per year. The lease expires in October 2012.

(24) The Company leases these facilities for $167,900 per year. The leases expire November 2011 and June 2010.

(25) The Company leases an additional 126,000 square feet of the facility to unrelated third parties for approximately $969,000 per year, under leases expiring at various dates after December 2008.

(26) The Company leases an additional 25,000 square feet of the facility to unrelated third parties for approximately $470,700 per year, under leases expiring at various dates after December 2008.

Item 2. Properties (Continued)

(27) The Company leases this facility for $70,900 per year. The lease expires in August 2012
(28) The Company leases this facility for $79,500 per year, with a month-to-month lease.
(29) The Company leases this facility for $43,400 per year. The lease expires in February 2010
(30) The Company leases this facility for $6,600 per year. With a month-to-month lease.
(31) The Company leases this facility for $26,400 per year. The lease expires in October 2010.
(32) The Company leases this facility for $18,100 per year. The lease expires in June 2010.
(33) The Company leases this facility for $7,100 per year. The lease expires in June 2009.

The Company believes the office facilities it occupies are in good operating condition and adequate for current operations, and has no plans to build or acquire additional office facilities. The Company believes its office facilities are adequate for handling its business in the foreseeable future. As leases expire the Company will either renew or find comparable leases or acquire additional office space.

The following table summarizes the location and acreage of the six Company owned cemeteries, each of which includes one or more mausoleums:

Name of Cemetery	Location	Date Acquired	Developed Acreage (1)	Total Acreage (1)	Net Saleable Acreage: Acres Sold as Cemetery Spaces (2)	Net Saleable Acreage: Total Available Acreage (1)
Memorial Estates, Inc.						
Lakeview Cemetery	1640 East Lakeview Drive Bountiful, Utah	1973	7	40	6	34
Mountain View Cemetery	3115 East 7800 South Salt Lake City, Utah	1973	15	54	14	40
Redwood Cemetery (4)	6500 South Redwood Road West Jordan, Utah	1973	27	78	28	50
Cottonwood Mortuary, Inc.						
Deseret Memorial Inc. Lake Hills Cemetery (3)	10055 South State Street Sandy, Utah	1991	9	41	4	37
Holladay Memorial Park (3)(4)	4900 South Memory Lane Holladay, Utah	1991	5	14	4	10
California Memorial Estates						
Singing Hills Memorial Park (5)	2800 Dehesa Road El Cajon, California	1995	8	35	4	31

(1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries.

(2) Includes spaces sold for cash and installment contract sales.

(3) As of December 31, 2008, there were mortgages of approximately $1,227,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, and Lakehills Cemetery.

(4) These cemeteries include two granite mausoleums.

(5) As of December 31, 2008, there was a mortgage of approximately $58,000, collateralized by the property

Item 2. Properties (Continued)

The following table summarizes the location, square footage and the number of viewing rooms and chapels of the eleven Company owned mortuaries:

Name of Mortuary	Location	Date Acquired	Viewing Room(s)	Chapel(s)	Square Footage
Memorial Mortuary	5850 South 900 East Murray, Utah	1973	3	1	20,000
Memorial Estates, Inc.:					
Redwood Mortuary(3)	6500 South Redwood Rd. West Jordan, Utah	1973	2	1	10,000
Mountain View Mortuary(3)	3115 East 7800 South Salt Lake City, Utah	1973	2	1	16,000
Lakeview Mortuary(3)	1640 East Lakeview Dr. Bountiful, Utah	1973	0	1	5,500
Paradise Chapel Funeral Home	3934 East Indian School Road Phoenix, Arizona	1989	2	1	9,800
Deseret Memorial, Inc.:					
Deseret Mortuary(1)	36 East 700 South Salt Lake City, Utah	1991	2	2	36,300
Lakehills Mortuary(3)	10055 South State St. Sandy, Utah	1991	2	1	18,000
Cottonwood Mortuary(1)(3)	4670 South Highland Dr. Holladay, Utah	1991	2	1	14,500
Greer-Wilson Funeral Home	5921 West Thomas Road Phoenix, Arizona	1995	2	2	25,000
Adobe Funeral Home(4)	218 North Central Avondale, Arizona	1995	1	1	1,850
Crystal Rose Funeral Home(2)	9155 W. VanBuren Tolleson, Arizona	1997	0	1	9,000

(1) As of December 31, 2008, there were mortgages of approximately $1,227,000, collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park and Lakehills Cemetery.
(2) As of December 31, 2008, there was a mortgage of approximately $86,000, collateralized by the property and facilities of Crystal Rose Funeral Home.
(3) These funeral homes also provide burial niches at their respective locations.
(4) As of December 31, 2008, there was a mortgage of approximately $107,000, collateralized by the property and facilities of Adobe Chapel Funeral Home.

Item 3. 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 marketed and sold by Southern Security Life and now marketed and sold by Security National Life. The proposed order states that as a result of an investigation the Florida Office of Insurance Regulation 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.

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 of the Insurance Regulation 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 of Insurance Regulation 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 of Insurance Regulation 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 has engaged in discussions with the Florida Office of Insurance Regulation 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 of Insurance Regulation 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.

Except for the proposed consent order from the Florida Office of Insurance Regulation, the Company is not a party to any material 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 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's shareholders during the quarter ended December 31, 2008.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's Class A Common Stock trades on the Nasdaq National Market under the symbol "SNFCA." Prior to August 13, 1987, there was no active public market for the Class A and Class C Common Stock. As of March 27, 2009, the closing sales price of the Class A Common Stock was $1.90 per share. The following were the high and low market closing sales prices for the Class A Common Stock by quarter as reported by Nasdaq since January 1, 2007:

Period (Calendar Year)		Price Range (1) High	Low
2007			
	First Quarter	$5.40	$4.22
	Second Quarter	5.90	4.49
	Third Quarter	5.44	3.71
	Fourth Quarter	4.27	2.95
2008			
	First Quarter	$4.41	$3.00
	Second Quarter	4.22	2.89
	Third Quarter	3.92	2.14
	Fourth Quarter	2.42	1.42
2009			
	First Quarter (through March 27, 2009)	$2.23	$1.25

(1) Sales prices have been adjusted retroactively for the effect of annual stock dividends.

The Class C Common Stock is not actively traded, although there are occasional transactions in such stock by brokerage firms. (See Note 13 to the Consolidated Financial Statements.)

The Company has never paid a cash dividend on its Class A or Class C Common Stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C Common Stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C Common Stock has been paid each year from 1990 through 2008.

The graph below compares the cumulative total stockholder return of the Company's Class A common stock with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's Insurance Index for the period from December 31, 2003 through December 31, 2008. The graph assumes that the value of the investment in the Company's Class A common stock and in each of the indexes was 100 at December 31, 2003 and that all dividends were reinvested.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company's Class A common stock.

	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
SNFC	100	44	54	81	63	28
S & P 500	100	109	112	128	127	84
S & P Insurance	100	106	119	131	120	49

The graph set forth above is required by the Securities and Exchange Commission and shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such acts.

As of December 31, 2008, there were 4,199 record holders of Class A Common Stock and 124 record holders of Class C Common Stock.

Item 6. Selected Financial Data - The Company and Subsidiaries (Consolidated)

The following selected financial data is for each of the five years ended December 31, 2008, are derived from the audited consolidated financial statements. The data as of December 31, 2008 and 2007, and for the three years ended December 31, 2008, should be read in conjunction with the consolidated financial statements, related notes and other financial information.

Consolidated Statement of Earnings Data:

	Year Ended December 31,				
	2008(1)	2007(2)	2006(3)	2005	2004(4)
Revenue					
Premiums	$ 35,981,000	$ 32,263,000	$ 30,776,000	$ 27,170,000	$ 25,979,000
Net investment income	28,104,000	31,956,000	23,246,000	19,387,000	15,939,000
Net mortuary and cemetery sales	12,726,000	13,189,000	12,123,000	10,839,000	11,661,000
Realized (losses) gains on investments	(1,734,000)	1,008,000	891,000	74,000	74,000
Mortgage fee income	143,412,000	130,472,000	85,113,000	71,859,000	62,690,000
Other	1,015,000	860,000	381,000	621,000	855,000
Total revenue	219,504,000	209,748,000	152,530,000	129,950,000	117,198,000
Expenses					
Policyholder benefits	32,904,000	29,742,000	27,319,000	24,477,000	23,362,000
Amortization of deferred policy acquisition costs	6,010,000	5,571,000	4,125,000	3,031,000	4,602,000
Selling, general and administrative expenses	169,973,000	155,504,000	105,728,000	90,690,000	82,097,000
Interest expense	7,449,000	13,271,000	6,141,000	4,921,000	2,174,000
Cost of goods and services of the mortuaries and cemeteries	2,437,000	2,537,000	2,322,000	2,103,000	2,304,000
Total benefits and expenses	218,773,000	206,625,000	145,635,000	125,222,000	114,539,000
Income before income tax expense	731,000	3,123,000	6,895,000	4,728,000	2,659,000
Income tax expense	(156,000)	(858,000)	(1,771,000)	(1,240,000)	(652,000)
Minority interest in (income) loss of subsidiary	--	--	--	--	115,000
Net earnings	$ 575,000	$ 2,265,000	$ 5,124,000	$ 3,488,000	$ 2,122,000
Net earnings per common share (5)	$ 0.07	$ 0.28	$ 0.66	$ 0.45	$ 0.28
Weighted average outstanding common shares (5)	8,160,000	8,011,000	7,808,000	7,734,000	7,704,000
Net earnings per common share-assuming dilution (5)	$ 0.07	$ 0.28	$ 0.64	$ 0.45	$ 0.27
Weighted average outstanding common shares-assuming dilution (5)	8,160,000	8,200,000	7,975,000	7,768,000	7,943,000

Item 6. Selected Financial Data - The Company and Subsidiaries (Consolidated) (Continued)

Balance Sheet Data:

			December 31,		
	2008(1)	2007(2)	2006	2005(3)	2004(4)
Assets					
Investments and restricted assets	$ 308,310,000	$ 257,410,000	$ 222,683,000	$ 211,249,000	$ 182,645,000
Cash	19,914,000	5,203,000	10,377,000	16,633,000	15,334,000
Receivables	33,021,000	80,445,000	74,695,000	61,787,000	54,013,000
Other assets	80,560,000	75,105,000	69,640,000	69,976,000	65,471,000
Total assets	$ 441,805,000	$ 418,163,000	$ 377,395,000	$ 359,645,000	$ 317,463,000
Liabilities					
Policyholder benefits	$ 330,533,000	$ 301,064,000	$ 272,923,000	$ 263,981,000	$ 226,785,000
Notes & contracts payable	6,640,000	13,372,000	7,671,000	10,273,000	12,263,000
Cemetery & mortuary liabilities	13,467,000	12,643,000	11,534,000	10,829,000	10,762,000
Cemetery perpetual care obligation	2,648,000	2,474,000	2,278,000	2,173,000	2,084,000
Other liabilities	34,605,000	32,826,000	30,018,000	26,691,000	20,091,000
Total liabilities	387,893,000	362,379,000	324,424,000	313,947,000	271,985,000
Minority interest	--	--	--	--	3,813,000
Stockholders’ equity	53,912,000	55,784,000	52,971,000	45,698,000	41,665,000
Total liabilities and stockholders’ equity	$ 441,805,000	$ 418,163,000	$ 377,395,000	$ 359,645,000	$ 317,463,000

(1) Includes the purchase of Southern Security Life Insurance Company effective, December 18, 2008.
(2) Includes the purchase of C & J Financial on July 16, 2007 and the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(3) Includes the purchase of Memorial Insurance Company of America on December 29, 2005.
(4) Includes the purchase of Paramount Security Life Insurance Company, now Security National Life Insurance Company of Louisiana, on March 16, 2004.
(5) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Item 7. 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) capitalizing on lower interest rates by originating and refinancing mortgage loans.

During the year ended December 31, 2008, SecurityNational Mortgage experienced an increase in revenues and expenses due to the increase in mortgage loan revenue. SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage 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. SecurityNational Mortgage obtains loans primarily from independent brokers and correspondents. SecurityNational Mortgage funds the loans from internal cash flows and loan purchase agreements with unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and correspondents a commission for loans that are brokered through SecurityNational Mortgage. For the twelve months ended December 31, 2008, 2007, and 2006, SecurityNational Mortgage originated and sold 19,321 loans (3,680,015,000 total volume), 20,656 loans ($3,852,801,000 total volume) and,14,427 loans ($2,461,000,000 total volume), respectively.

SecurityNational Mortgage has loan purchase agreements with unaffiliated warehouse banks. The total amount available under these loan purchase agreements at December 31, 2008 was $450,000,000. As of December 31, 2008, mortgage loans totaling approximately $222,781,000 have been sold and were outstanding. The terms of the loan purchase agreements are typically for one year, with interest rates ranging from 1.5% to 2.25% over the 30 days LIBOR rate (from 1.99% to 2.74% as of December 31, 2008). SecurityNational Mortgage renewed one of its loan purchase agreements that expired on September 30, 2008 for another one year term. The other loan purchase agreement is a non-committed purchase agreement with no expiration date; however, the Company received notice from the warehouse bank that the agreement would be terminated in February 2009. The Company is actively pursuing purchase agreements with other warehouse banks.

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to SFAS 140 at the time the sales of mortgage loans meet the sales criteria for the transfer of financial assets which are: (1) the transferred assets have been isolated from the Company and its creditors, (2) the transferee has the right to pledge or exchange the mortgage, and (3) the Company does not maintain effective control over the transferred mortgage. The Company has determined that all three criteria are met at the time the loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including any investor commitments for these loans prior to warehouse banks purchasing these loans under the purchase commitments.

The Company sells all loans to third party investors without recourse. However, the Company may be required to repurchase loans or pay a fee instead of repurchase under certain events such as the following:

- Failure to deliver original documents specified by the investor.
- The existence of fraud in the origination of the loan.
- The loan becomes delinquent due to nonpayment during the first several months after it is sold.
- Early pay-off of a loan, as defined by the agreements.
- Excessive time to settle a loan.
- Investor declines purchase.
- Discontinued product and expired commitment

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The Company accrues a monthly allowance for indemnification losses to investors of 0.175% (17.5 basis points) of total production. This estimate is based on the Company’s historical experience. The amount accrued for the twelve months ended December 31, 2008 was $8,932,000 and the charge to expense has been included in other general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses as of December 31, 2008 the balance was $2,775,000.

Purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company’s historical data shows that 99% of all loans originated by the Company are generally settled by the investors as agreed within 16 days after delivery. There are situations when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in the Company’s best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems with respect to such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce purchase commitments from third-party investors concerning mortgage loans and to cure any documentation problems with respect to such loans at a minimal cost for up to a six-month time period. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedy methods include, but are not limited to:

- Research reasons for rejection
- Provide additional documents
- Request investor exceptions
- Appeal rejection decision to purchase committee
- Commit to secondary investors

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six month time period, the loans are repurchased and transferred to the long term investment portfolio at the lower of cost or market value and previously recorded sales revenue is reversed. Any loan that subsequently becomes delinquent is evaluated by the Company at that time and any allowances for impairment are adjusted accordingly.

Determining lower of cost or market: Cost is equal to the amount paid to the warehouse bank and the amount originally funded by the Company. Market value is often difficult to determine, but is based on the following:

- For loans that have an active market we use the market price on the repurchased date.
- For loans where there is no market but there is a similar product, we use the market value for the similar product on the repurchased date.
- For loans where no active market exists on the repurchased date, we determine that the unpaid principal balance best approximates the market value on the repurchased date, after considering the fair value of the underlying real estate collateral and estimated future cash flows.

The appraised value of the real estate underlying the original loan adds significance to the Company's determination of fair value since, if the loan becomes delinquent, the Company has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase the Company looks at the total value of all of the loans since any sale of loans would be as a pool.

For mortgages originated and held for investment, mortgage fee income and related expenses are recognized when the loan is originated.

The mortgage industry is still 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 $5,505,000 (0.14% of the Company's production) in subprime loans during the twelve months ending December 31, 2007 and eliminated subprime loans from its product offerings in August 2007. 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%. As a result of these changes, the Company discontinued offering these loans in September 2007.

As a result of the volatile secondary market for mortgage loans, the Company sold mortgage loans to certain third party investors that experienced financial difficulties and were not able to settle the loans. The total amount of these loans was $52,556,000, of which $36,499,000 were in loans where the secondary market no longer exists. Due to these changes in circumstances, the Company regained control of the mortgages and, in accordance with SFAS No. 140, accounted for the loans retained in the same manner as a purchase of the assets from the former transferee(s) in exchange for liabilities assumed. At the time of repurchase, the loans were determined to be held for investment, and the fair value of the loans was determined to approximate the unpaid principal balances adjusted for chargeoffs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The financial statements reflect the transfer of the mortgage loans from "Mortgage Loans Sold to Investors" to "Mortgage Loans on Real Estate". The loan sale revenue recorded on the sale of the mortgage loans was reversed on the date the loans were repurchased.

As a standard in the industry, the Company received payments on the mortgage loans during the time period between the sale date and settlement or repurchase date. The Company will service these loans through Security National Life, its life insurance subsidiary.

As of December 31, 2008, the Company's long term mortgage loan portfolio had $28,195,000 in unpaid principal with delinquencies more than 90 days. Of this amount $23,329,000 was in foreclosure proceedings. The Company has not received any interest income on the $28,195,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2008, the Company increased its allowance for mortgage losses by $4,339,000, which was charged to loan loss expense and included in other general and administrative expenses for the period. The allowance for mortgage loan losses as of December 31, 2008 was $4,780,000.

Also at December 31, 2008, the Company has foreclosed on $20,104,000 in long term mortgage loans. The foreclosed property was shown in real estate. The Company will be able to carry the foreclosed property in Security National Life and SecurityNational Mortgage, its life and mortgage subsidiaries, and will rent the properties until it is feasible to sell.

In 1998, SecurityNational Mortgage entered into a Loan Purchase Agreement with Lehman Brothers Bank and its wholly owned subsidiary, Aurora Loan Services, LLC. Under the terms of the Loan Purchase Agreement, Lehman Brothers, through its subsidiary, Aurora Loan Services, agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Aurora Loan Services purchased a total of 1,490 mortgage loans in the aggregate amount of $352,774,000 from SecurityNational Mortgage. On January 17, 2008, Aurora Loan Services announced it was suspending all wholesale and correspondent mortgage originations. As a result of this policy change, Aurora Loan Services discontinued purchasing mortgage loans from all mortgage brokers and lenders, including SecurityNational Mortgage.

During 2007, Aurora Loan Services maintained that as part of its quality control efforts it reviewed mortgage loans purchased from SecurityNational Mortgage and determined that certain of the loans contained alleged misrepresentations and early payment defaults. Aurora Loan Services further maintained that these alleged breaches in the purchased mortgage loans provide it with the right to require SecurityNational Mortgage to immediately repurchase the mortgage loans containing the alleged breaches in accordance with the terms of the Loan Purchase Agreement. In order for Lehman Brothers and Aurora Loan Services to refrain from demanding immediate repurchase of the mortgage loans by SecurityNational Mortgage, SecurityNational Mortgage was willing to enter into an agreement to indemnify Lehman Brothers and Aurora Loan Services for any losses incurred in connection with the mortgage loans with alleged breaches that were purchased from SecurityNational Mortgage.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Brothers and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agrees to indemnify Lehman Brothers and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may have as a result of any current or future defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage and listed as an attachment to the Indemnification Agreement. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also requires SecurityNational Mortgage to indemnify Lehman Brothers and Aurora Loan Services for 100% of losses incurred on mortgage loans with alleged breaches that are not listed on the attachment to the agreement.

Concurrently with the execution of the Indemnification Agreement, SecurityNational Mortgage paid $395,000 to Aurora Loan Services as a deposit into a reserve account to secure the obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit is in addition to a $250,000 deposit that SecurityNational Mortgage made to Aurora Loan Services on December 10, 2007, for a total of $645,000. Losses from mortgage loans with alleged breaches are payable by SecurityNational Mortgage from the reserve account. However, Lehman Brothers and Aurora Loan Services are not to apply any funds from the reserve account to a particular mortgage loan until an actual loss has occurred.

The Indemnification Agreement further provides that SecurityNational Mortgage will be entitled to have held back 25 basis points on any mortgage loans that Aurora Loan Services purchases from SecurityNational Mortgage and to add the amount of the basis point holdbacks to the reserve account. SecurityNational Mortgage agreed to deliver to Aurora Loan Services at least $300,000,000 in mortgage loans on an annual basis or at least $600,000,000 in 24 months. These provisions may not be effective, however, because Aurora Loan Services has discontinued purchasing mortgage loans from SecurityNational Mortgage. SecurityNational Mortgage also agrees to pay to Aurora Loan Services the difference between the reserve account balance and $645,000, but in no event will SecurityNational Mortgage be required to pay any amount into the reserve account that would result in a total contribution, including both the basis point holdbacks and cash payments, in excess of $125,000 for any calendar month.

During 2007 and 2008, SecurityNational Mortgage made $1,730,000 in total payments to Aurora Loan Services. Payments by SecurityNational Mortgage for December 2008 and January, February and March of 2009 totaling $500,000 have not been made. When SecurityNational Mortgage entered into the Indemnification Agreement, it anticipated using basis point holdbacks from loan production credits toward satisfying the $125,000 monthly obligations. Because Aurora Loan Services discontinued purchasing mortgage loans from SecurityNational Mortgage shortly after the Indemnification Agreement was executed, SecurityNational Mortgage has not had the benefit of using the basis point holdbacks toward payment of the $125,000 monthly obligations. During 2008, funds were paid out of the reserve account to indemnify $1,700,000 in losses from 22 mortgage loans that were among the 54 mortgage loans with alleged breaches which were listed on the attachment to the Indemnification Agreement. The estimated potential losses from the remaining 32 mortgage loans listed on the attachment, which would require indemnification by SecurityNational Mortgage for such losses, is $3,357,000. Furthermore, Aurora Loan Services has made a request to be indemnified for losses related to ten mortgage loans not listed on the attachment to the Indemnification Agreement. Aurora Loan Services claims the total amount of such potential losses is $2,746,000.

In 1998, the Company, through its wholly owned subsidiary, Security National Life, purchased 57.4% of the outstanding shares of Southern Security Life Insurance Company, a Florida domiciled insurance company ("Southern Security Life"), for a total cost of $12,248,194. During the period from January 21, 1999 to April 10, 2003, Security National Life purchased an additional 19.3% of the outstanding shares of Southern Security Life. In January 2005, Security National Life purchased the remaining outstanding shares of Southern Security Life by means of a merger transaction, which resulted in Southern Security Life becoming a wholly owned subsidiary of Security National Life and the unaffiliated stockholders of Southern Security Life becoming entitled to receive a total of $1,884,733 for their shares.

On December 24, 2007, Southern Security Life was liquidated when Articles of Dissolution were filed with the Florida Division of Corporations. Southern Security Life was liquidated in accordance with the terms of the Agreement and Plan of Complete Liquidation, which the Board of Directors of Security National Life and Southern Security Life approved on December 12, 2005. On December 31, 2005, pursuant to the Agreement and Plan of Complete Liquidation, all of the insurance business and operations of Southern Security Life, including $48,528,000 in assets and liabilities, were transferred to Security National Life on December 28, 2005, by means of a reinsurance agreement, except for $3,500,000 in capital and surplus required to be maintained under Florida law. Also on December 31, 2005, Southern Security Life paid a $7,181,000 dividend to Security National Life. Southern Security Life's remaining assets, including its capital and surplus, were transferred to Security National Life, effective as of December 29, 2006.

On December 23, 2002, the Company completed an asset purchase transaction with Acadian Life Insurance Company, a Louisiana domiciled life insurance company ("Acadian"), in which it acquired from Acadian $75,000,000 in assets and $75,000,000 in insurance reserves through its wholly owned subsidiary, Security National Life. The acquired assets consist primarily of approximately 275,000 funeral insurance policies in force in the state of Mississippi. The assets, which were originally acquired by Acadian from Gulf National Life Insurance Company on June 6, 2001, consisted of all the insurance policies of Gulf National Life Insurance Company in force and in effect on June 1, 2001.

On March 16, 2004, Security National Life purchased all of the outstanding common shares of Paramount Security Life Insurance Company, now known as Security National Life of Louisiana, a Louisiana domiciled insurance company located in Shreveport, Louisiana. As of December 31, 2003, Security National Life of Louisiana had 9,383 policies in force and 29 agents. There were no material changes in the number of policies in force or the number of agents between December 31, 2003 and March 16, 2004. The purchase consideration was $4,398,000 and the transaction was effective on January 26, 2004. Security National Life of Louisiana is licensed in the State of Louisiana where it is permitted to appoint agents who do not have a full life insurance license.

On December 29, 2005, Security National Life and Southern Security Life purchased all of the outstanding common shares of Memorial Insurance Company of America, an Arkansas domiciled insurance company, located in Blytheville, Arkansas. As of December 31, 2005, Memorial Insurance Company had 116,116 policies in force and approximately 50 agents. The purchase consideration was $13,500,000.

On July 16, 2007, the Company completed a transaction to purchase C & J Financial, LLC, an Alabama limited liability company, for a total cost of $1,250,000 in cash and a promissory note from the Company to the seller in the amount of $381,500 plus interest at 5% per annum. The amount of the note was reduced by the difference between the total equity on the balance sheet of C & J Financial on May 31, 2007 and the total equity on the balance sheet on July 16, 2007, which was $47,000.

On December 20, 2007, the Company purchased all of the outstanding shares of Capital Reserve Life Insurance Company, a Missouri domiciled life insurance company. The purchase consideration was $2,521,687 less certain adjustments consisting of a $220,926 loss related to a litigation matter involving Capital Reserve, $152,269 representing the difference between Capital Reserve's adjusted capital and surplus at closing compared to its adjusted capital and reserve on September 30, 2007, and $185,902 being held in escrow representing the losses from a corporate bond held by Capital Reserve at closing. The company issuing the bond filed for bankruptcy prior to the closing of the transaction and the amount held in escrow is to reimburse Security National Life for such losses. As of December 31, 2006, Capital Reserve had 10,851 policies in force and approximately 30 agents, In addition, the statutory assets and the capital and surplus of Capital Reserve as of December 31, 2006 were $24,054,000 and $1,960,000, respectively.

On December 18, 2008, the Company, through its wholly owned subsidiary, Security National Life, completed a stock purchase transaction with Southern Security Life Insurance Company, a Mississippi domiciled insurance company ("Southern Security"), and its shareholders to purchase all of the outstanding shares of common stock of Southern Security from its shareholders. Under the terms of the transaction as set forth in the Stock Purchase Agreement among Security National Life, Southern Security and the shareholders of Southern Security, Security National Life paid to the shareholders of Southern Security purchase consideration equal to $1,352,134, representing the capital and surplus, interest maintenance reserve, and asset valuation reserve of Southern Security as of September 1, 2008, the date that Security National Life assumed administrative control over Southern Security, plus $1,500,000, representing the ceding commission that had been paid on August 29, 2008, plus $75,883, representing an allowance for the actual losses experienced by Southern Security in the second quarter ended June 30, 2008, less certain adjustments. Thus, the total purchase price before adjustments was $2,928,022.

As of December 31, 2007, Southern Security had 24,323 policies in force and approximately 393 agents. For the year ended December 31, 2007, Southern Security had revenues of $4,231,000 and a net loss of $496,000. As of December 31, 2007, the statutory assets and the capital and surplus of Southern Security were $24,402,000 and $758,000, respectively. As of June 30, 2008, the statutory assets and the capital and surplus of Southern Security were $24,780,000 and $713,000, respectively.

On December 31, 2008, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with Continental American Insurance Company (“Continental American”), a South Carolina domiciled insurance company effective November 30, 2008. The Company ceded to Continental American 100% of a block of deferred annuities in the amount of $4,828,487 as of December 31, 2008 and retained the assets and recorded a funds held under coinsurance liability for the same amount. Continental American has agreed to pay the Company an initial ceding commission of $60,000 and a quarterly management fee of $16,500 per quarter to administer the policies. The Company will also receive a 90% experience refund for any profits on the business. The Company has the right to recapture the business on January 1 subsequent to December 31, 2008 or any other date if mutually agreed and with 90 days written notice to Continental American.

Significant Accounting Policies

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. Please also refer to Note 1 of our consolidated financial statements.

Insurance Operations

In accordance with accounting principles generally accepted in the United States of America (GAAP), premiums and considerations received for interest sensitive products such as universal life insurance and ordinary annuities are reflected as increases in liabilities for policyholder account balances and not as revenues. Revenues reported for these products consist of policy charges for the cost of insurance, administration charges, amortization of policy initiation fees and surrender charges assessed against policyholder account balances. Surrender benefits paid relating to these products are reflected as decreases in liabilities for policyholder account balances and not as expenses.

The Company receives investment income earned from the funds deposited into account balances, a portion of which is passed through to the policyholders in the form of interest credited. Interest credited to policyholder account balances and benefit claims in excess of policyholder account balances are reported as expenses in the consolidated financial statements.

Premium revenues reported for traditional life insurance products are recognized as revenues when due. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

The costs related to acquiring new business, including certain costs of issuing policies and other variable selling expenses (principally commissions), defined as deferred policy acquisition costs, are capitalized and amortized into expense. For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued. For interest sensitive products, these costs are amortized generally in proportion to expected gross profits from surrender charges and investment, mortality and expense margins. This amortization is adjusted when the Company revises the estimate of current or future gross profits or margins. For example, deferred policy acquisition costs are amortized earlier than originally estimated when policy terminations are higher than originally estimated or when investments backing the related policyholder liabilities are sold at a gain prior to their anticipated maturity.

Death and other policyholder benefits reflect exposure to mortality risk and fluctuate from year to year on the level of claims incurred under insurance retention limits. The profitability of the Company is primarily affected by fluctuations in mortality, other policyholder benefits, expense levels, interest spreads (i.e., the difference between interest earned on investments and interest credited to policyholders) and persistency. The Company has the ability to mitigate adverse experience through sound underwriting, asset/liability duration matching, sound actuarial practices, adjustments to credited interest rates, policyholder dividends and cost of insurance charges.

Cemetery and Mortuary Operations

Pre-need sales of funeral services and caskets, including revenue and costs associated with the sales of pre-need funeral services and caskets, are deferred until the services are performed or the caskets are delivered.

Pre-need sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards No. 66, “Accounting for the Sales of Real Estate” (SFAS No. 66). Under SFAS 66, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of SFAS 66 described above.

Pre-need sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sales of pre-need cemetery merchandise are deferred until the merchandise is delivered.

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer obtaining costs - costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of Statement of Financial Accounting Standards No. 60, “Accounting and Reporting by Insurance Enterprises” (FAS No. 60). Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at-need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured and there are no significant obligations remaining.

Mortgage Operations

Mortgage fee income is generated through the origination and refinancing of mortgage loans and is realized in accordance with SFAS No. 140.

The majority of loans originated are sold to third party investors. The amounts sold to investors are shown on the balance sheet as mortgage loans sold to investors, and include the fees due from the investors.

Use of Significant Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized which could have a material impact on the financial statements. The following is a summary of our significant accounting estimates, and critical issues that impact them:

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Fixed Maturities and Equity Securities Available for Sale

Securities available-for-sale are carried at estimated fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income, which is included in stockholders' equity after adjustment for deferred income taxes and deferred acquisition costs related to universal life products.

The Company is required to exercise judgment to determine when a decline in the value of a security is other than temporary. When the value of a security declines and the decline is determined to be other than temporary, the carrying value of the investment is reduced to its fair value and a realized loss is recorded to the extent of the decline.

Deferred Acquisition Costs

Amortization of deferred policy acquisition costs for interest sensitive products is dependent upon estimates of current and future gross profits or margins on this business. Key assumptions used include the following: yield on investments supporting the liabilities, amount of interest or dividends credited to the policies, amount of policy fees and charges, amount of expenses necessary to maintain the policies, amount of death and surrender benefits, and the length of time the policies will stay in force.

For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued.

Value of Business Acquired

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred acquisition costs. The critical issues explained for deferred acquisition costs would also apply for value of business acquired.

Allowance for Doubtful Accounts

The Company accrues an estimate of potential losses for the collection of receivables. The significant receivables are the result of receivables due on mortgage loans sold to investors, cemetery and mortuary operations, mortgage loan operations and other receivables. The allowance is based upon the Company's experience. The critical issues that would impact recovery of the cemetery and mortuary receivables is the overall economy. The critical issues that would impact recovery of mortgage loan operations would be interest rate risk and loan underwriting.

Future Policy Benefits

Reserves for future policy benefits for traditional life insurance products requires the use of many assumptions, including the duration of the policies, mortality experience, expenses, investment yield, lapse rates, surrender rates, and dividend crediting rates.

These assumptions are made based upon historical experience, industry standards and a best estimate of future results and, for traditional life products, include a provision for adverse deviation. For traditional life insurance, once established for a particular series of products, these assumptions are generally held constant.

Unearned Revenue

The universal life products the Company sells have significant policy initiation fees (front-end load) that are deferred and amortized into revenues over the estimated expected gross profits from surrender charges and investment, mortality and expense margins. The same issues that impact deferred acquisition costs would apply to unearned revenue.

Deferred Pre-need Cemetery and Funeral Contracts Revenues and Estimated Future Cost of Pre-need Sales

The revenue and cost associated with the sales of pre-need cemetery merchandise and funeral services are deferred until the merchandise is delivered or the service is performed.

The Company, through its mortuary and cemetery operations, provides a guaranteed funeral arrangement wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy.

Mortgage Allowance for Loan Loss and Loan Loss Reserve

The Company provides allowances for losses on its mortgage loans through an allowance for loan losses (a contra-asset account) and through the mortgage loan loss reserve (a liability account). The allowance for loan losses and doubtful accounts is an allowance for losses on the Company's mortgage loans held for investment. When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real estate collateral. Once a loan is past due more than 90 days the Company does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed the carrying value will approximate its fair value and the amount will be classified as real estate. The Company will be able to carry the foreclosed property in Security National Life and SecurityNational Mortgage, its life and mortgage subsidiaries, and will rent the properties until it is feasible to sell them. The Company is currently able to rent properties at a 5.5% average return.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. The Company may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities. The Company believes the Allowance for Loan Losses and Doubtful Accounts and the Loan Loss Reserve represent probable loan losses incurred as of the balance sheet date.

Deferred Compensation

The Company has deferred compensation agreements with several of its current and past executive officers. The deferred compensation is payable upon retirement or death of these individuals either in annual installments (ten years) or lump sum settlement, if approved by the Board of Directors. The Company has accrued the present value of these benefits based upon their future retirement dates and other factors, on its consolidated financial statements.

Depreciation

Depreciation is calculated principally on the straight-line-method over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Self-Insurance

The Company is self insured for certain casualty insurance, workers compensation and liability programs. Self–Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverages. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided independent third-party actuaries. Management reviews its assumptions with its independent third-party administrators and actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims and unreported claims for incidents incurred but not reported as of the balance sheet date.

Results of Operations

2008 Compared to 2007

Total revenues increased by $9,756,000, or 4.7%, to $–219,504,000 for fiscal year 2008 from $209,748,000 for the fiscal year 2007. Contributing to this increase in total revenues was a $12,939,000 increase in mortgage fee income, a $3,719,000 increase in insurance premiums and other considerations, and a $155,000 increase in other revenues. This increase in total revenues was partially offset by a $3,853,000 decrease in net investment income, a $463,000 decrease in net mortuary and cemetery sales, and a $2,741,000 decrease in realized gains (losses) on investments and other assets.

Insurance premiums and other considerations increased by $–––––3,719,000, or 11.5%, to $35,981,000 for 2008, from $32,262,000 for the comparable period in 2007. This increase was primarily the result of additional premiums realized from new insurance sales, the acquisition of Capital Reserve Life Insurance Company on December 20, 2007, and the reinsurance agreement with Southern Security Life Insurance Company, effective September 1, 2008.

Net investment income decreased by $––––––3,853,000, or 12.1%, to 28,104,000 for 2008, from $31,957,000 for the comparable period in 2007. This reduction was primarily attributable to decreased interest income from mortgage loans on real estate but partially offset by an increase in investment income from the purchases of C&J Financial and Capital Reserve Life, and the reinsurance agreement with Southern Security Life Insurance Company on September 1, 2008.

Net mortuary and cemetery sales decreased by $463,000, or 3.5%, to $12,726,000 for 2008, from $13,189,.000 for the comparable period in 2007. This reduction was due to a decrease in at-need sales in the cemetery and mortuary operations and a decrease in pre-need land sales of burial spaces in the cemetery operations.

Realized gains (losses) on investments and other assets decreased by $2,741,000 to a $1,734,000 realized loss for 2008, from a $1,007,000 realized gain for the comparable period in 2007. This increase in realized losses on investments was due to $2,253,000 in realized losses from fixed maturity securities deemed to be other than temporarily impaired and $651,000 in realized gain from equity securities sales. During 2007 there was a $516,000 net gain from the sale of Colonial Funeral Home, which was partially offset by a $91,000 loss on the foreclosure and subsequent sale of the funeral home in 2008.

Mortgage fee income increased by $12,939,000, or 9.9%, to $143,411,000 for 2008, from $130,472,000 for the comparable period in 2007. This increase was primarily attributable to an increase in loan fees charged to originate loans, and secondary gains during 2008 on loan production at existing offices.

Other revenues increased by $155,000, or 18.0%, to $1,015,000 for 2008 from $860,000 for the comparable period in 2007. This increase was due to increases in several small income items throughout the Company's operations.

Total benefits and expenses were $218,773,000, or 99.7% of total revenues, for 2008, as compared to $206,625,000, or 98.5% of total revenues, for the comparable period in 2007.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $3,162,000, or 10.6%, to $32,904,000 for 2008, from $29,742,000 for the comparable period in 2007. This increase was primarily the result of increased insurance business, increased reserves for policyholder benefits and death claims, the acquisition of Capital Reserve Life on December 20, 2007, and the reinsurance agreement with Southern Security Life Insurance Company, effective September 1, 2008.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by $439,000, or 7.9%, to $6,010,000 for 2008, from $5,571,000 for the comparable period in 2007. This increase was primarily due to an increase in new business and higher policy terminations from the previous year.

General and administrative expenses increased by $14,469,000, or 9.3%, to $169,973,000 for 2008, from $155,504,000 for the comparable period in 2007. Salaries increased by $2,261,000 from $23,945,000 in 2007 to $26,206,000 in 2008, 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 $10,202,000 from $34,602,000 in 2007 to $44,804,000 in 2008. The increase in other expenses primarily resulted from increased costs at SecurityNational Mortgage Company, increases in the loan reserve and loan allowances balance. Commission expenses increased by $2,006,000, from $96,957,000 in 2007 to $98,963,000 in 2008, due to increased mortgage loan origination costs made by SecurityNational Mortgage.

Interest expense decreased by $5,823,000, or 43.9%, to $7,448,000 for 2008, from $13,271,000 for the comparable period in 2007. This reduction was primarily due to decreased warehouse lines of credit required, and lower interest rates.

Cost of goods and services sold of the mortuaries and cemeteries decreased by $100,000, or 3.9%, to $2,437,000 for 2008, from $2,537,000 for the comparable period in 2007. This increase was primarily due to decreased at-need cemetery sales and mortuary sales.

2007 Compared to 2006

Total revenues increased by $57,218,000, or 37.5 %, from $152,530,000 for fiscal year 2006 to $209,748,000 for fiscal year 2007. Contributing to this increase in total revenues was a $45,359,000 increase in mortgage fee income, a $1,487,000 increase in insurance premiums and other considerations, a $8,711,000 increase in net investment income, a $1,066,000 increase in mortuary and cemetery sales, a $116,000 increase in realized gains on investments and other assets, and a $479,000 increase in other revenues.

Insurance premiums and other considerations increased by $1,487,000, or 4.8%, from $30,776,000 in 2006 to $32,263,000 in 2007. This increase was primarily due to the additional insurance premiums realized from new insurance sales.

Net investment income increased by $8,711,000, or 37.5%, from $23,246,000 in 2006 to $31,956,000 in 2007. This increase was primarily attributable to additional interest income from increased long-term bond and mortgage purchases.

Net mortuary and cemetery sales increased by $1,066,000, or 8.8%, from $12,123,000 in 2006 to $13,189,000 in 2007. This 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 increased by $116,000, or 13.0%, from $892,000 in 2006 to $1,008,000 in 2007. This increase was primarily due to a net increase in several small income items throughout the Company’s operations.

Mortgage fee income increased by $45,359,000, or 53.3%, from $85,113,000 in 2006 to $130,472,000 in 2007. This increase was primarily attributable to an increase in the number of loan originations and an increase in loan origination fees during 2007.

Other revenues increased by $479,000, or 125.7%, from $381,000 in 2006 to $860,000 in 2007. This increase was due to increases in several small income items throughout the Company’s operations and to a $172,000 payment from the City of Phoenix as compensation for the condemnation of the Camelback Funeral Home to construct a light rail facility.

Total benefits and expenses were $206,625,000 for 2007, which constituted 98.5% of the Company’s total revenues, as compared to $145,635,000, or 95.5% of the Company’s total revenues for 2006.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $2,423,000, or 8.9%, from $27,319,000 in 2006 to $29,742,000 in 2007. This net increase was primarily due to increased business and to the expected increase in reserves for policyholder benefits and death claims.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by $1,446,000 from $4,125,000, or 35.1%, in 2006 to $5,571,000 in 2007. This increase was primarily due to increased deferred acquisition costs associated with interest-sensitive products increased business and pre-need cemetery contracts, and the recapture of the Mega reinsurance agreement in the first quarter of 2006.

General and administrative expenses increased by $49,776,000, or 47.1%, from $105,728,000 in 2006 to $155,504,000 in 2007. Contributing to this increase was a $33,277,000 increase in commission expenses, from $63,680,000, or 52.3% in 2006 to $96,957,000 in 2007 due to a greater number of mortgage loan originations made by SecurityNational Mortgage Company during 2007. Salaries increased by $5,997,000, or 33.4%, from $17,948,000 in 2006 to $23,945,000 in 2007, primarily due to merit increases in the salaries of existing employees and an increase in the number of employees necessitated as the result of the Company’s expanding business operations. Other expenses increased by $10,502,000, or 43.6%, from $24,100,000 in 2006 to $34,602,000 in 2007. The increase in other expenses primarily resulted from increased costs at SecurityNational Mortgage Company during 2007 due to a greater number of loan originations.

Interest expense increased by $7,130,000, or 116.1%, from $6,141,000 in 2006 to $13,271,000 in 2007. 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 of the mortuaries and cemeteries increased by $215,000, or 9.3%, from $2,322,000 in 2006 to $2,537,000 in 2007. This increase was primarily due to increased cemetery and mortuary sales.

Risks

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

Legal/Regulatory Risk - the risk that changes in the legal or regulatory environment in which the Company operates will create additional expenses and/or risks not anticipated by the Company in developing and pricing its products. That is, regulatory initiatives designed to reduce insurer profits, new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the consolidated financial statements. In addition, changes in tax law with respect to mortgage interest deductions or other public policy or legislative changes may affect the Company's mortgage sales. Also, the Company may be subject to further regulations in the cemetery/mortuary business. The Company mitigates these risks by offering a wide range of products and by diversifying its operations, thus reducing its exposure to any single product or jurisdiction, and also by employing underwriting practices which identify and minimize the adverse impact of such risks.

The recent adverse developments in the mortgage industry and credit markets have adversely affected the Company's ability to sell certain of its mortgage loans to investors, which has impacted the Company's financial results by requiring it to assume the risk of holding and servicing many of these loans.

The mortgage industry is still 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 twelve months ending December 31, 2007 and eliminated subprime loans from its product offerings in August 2007. 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%. As a result of these changes, the Company discontinued offering these loans in September 2007.

As a result of the volatile secondary market, for mortgage loans, the Company sold mortgage loans to certain third party investors that experienced financial difficulties and were not able to settle the loans. The total amount of these loans was $52,556,000, of which $36,499,000 were in loans where the secondary market no longer exists. Due to these changes in circumstances, the Company regained control of the mortgages and, in accordance with SFAS No. 140, accounted for the loans retained in the same manner as a purchase of the assets from the former transferee(s) in exchange for liabilities assumed. At the time of repurchase, the loans were determined to be held for investment, and the fair value of the loans was determined to approximate the unpaid principal balances adjusted for chargeoffs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The financial statements reflect the transfer of the mortgage loans from "Mortgage Loans Sold to Investors" to "Mortgage Loans on Real Estate". The loan sale revenue recorded on the sale of the mortgage loans was reversed on the date the loans were repurchased.

As a standard in the industry, the Company received payments on the mortgage loans during the time period between the sale date and settlement or repurchase date. The Company will service these loans through Security National Life, its life insurance subsidiary.

The Company provides allowances for losses on its mortgage loans through an allowance for loan losses (a contra-asset account) and through the mortgage loan loss reserve (a liability account). The allowance for loan losses and doubtful accounts is an allowance for losses on the Company's mortgage loans held for investment. When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real estate collateral. Once a loan is past due more than 90 days the Company does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed, the carrying value will approximate its fair value and the amount will be classified as real estate. The Company will be able to carry the foreclosed property in Security National Life and SecurityNational Mortgage, its life and mortgage subsidiaries, and will rent the properties until it is feasible to sell. The Company is currently able to rent properties at a 5.5% average return.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. The Company may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities. The Company believes the Allowance for Loan Losses and Doubtful Accounts and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

As of December 31, 2008, the Company's long term mortgage loan portfolio had $28,195,000 in unpaid principal with delinquencies more than 90 days. Of this amount $23,329,000 was in foreclosure proceedings. The Company has not received any interest income on the $28,195,000 in mortgage loans with delinquencies more than 90 days. During the year ended December 31, 2008, the Company has increased its allowance for mortgage loan losses by $4,339,000 which allowance was charged to loan loss expense and is included in other general and administrative expenses for the period. The allowance for mortgage loan losses as of December 31, 2008 was $4,780,000.

Also, at December 31, 2008, the Company had foreclosed on $20,104,000 in long term mortgage loans. The foreclosed property is shown in real estate. The Company will be able to carry the foreclosed property in Security National Life and SecurityNational Mortgage, its life and mortgage subsidiaries, and will rent the properties until it is feasible to sell.

In addition to the allowance for mortgage loan losses, the Company also accrues a monthly allowance for indemnification losses to investors of 17.5 basis points of total production. The amount accrued for the twelve months ended December 31, 2008 was $8,932,000 and included in other general and administrative expenses. The reserve for indemnification losses is included in other liabilities and, as of December 31, 2008, the balance was $2,775,000.

SecurityNational Mortgage has entered into loan purchase agreements with unaffiliated warehouse banks. The total amount available under these loan purchase agreements at December 31, 2008 was $450,000,000. As of December 31, 2008, mortgage loans totaling approximately $222,781,000 have been sold and were outstanding. The terms of the loan purchase agreements are typically for one year, with interest rates ranging from 1.5% to 2.25% over the 30 days LIBOR rate (from 1.99% to 2.74% as of December 2008). SecurityNational Mortgage renewed one of its loan purchase agreements that expired on September 30, 2008 for another one year term. The other loan purchase agreement is a non-committed purchase agreement with no expiration date; however, the Company received notice from the warehouse bank that the agreement would be terminated in February 2009. The Company is actively pursuing purchase agreements with other warehouse bank.

Interest Rate Risk - the risk that interest rates will change which may cause a decrease in the value of the Company's investments or impair the ability of the Company to market its mortgage and cemetery/mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and/or by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company might have to borrow funds or sell assets prior to maturity and potentially recognize a loss on the sale.

Mortality/Morbidity Risk - the risk that the Company's actuarial assumptions may differ from actual mortality/morbidity experience may cause the Company's products to be underpriced, may cause the Company to liquidate insurance or other claims earlier than anticipated and other potentially adverse consequences to the business. The Company minimizes this risk through sound underwriting practices, asset/liability duration matching, and sound actuarial practices.

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, construction loans and other receivables, 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 adequate.

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 twelve months ended December 31, 2008, the Company's operations provided cash of $56,403,000, while cash totaling $10,009,000 was provided by operations during the twelve months ended December 31, 2007. This was due primarily to a decrease of $35,367,000 in 2008 and an increase of $6,883,000 in 2007 in the balance of mortgage loans sold to investors.

The Company's liability for future life, annuity and other benefits is expected to be paid out over long-term due to the Company's market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities the Company is able to hold to maturity its bonds and mortgage loans thus reducing the risk of liquidating these long-term investments as a result of any sudden changes in market values.

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 $126,583,000 as of December 31, 2008 compared to $119,777,000 as of December 31, 2007. This represents 41.6% and 47.6% of the total investments as of December 31, 2008, and December 31, 2007, 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 December 31, 2008, 2.8% (or $3,485,000) and at December 31, 2007, 3.1% (or $3,708,000) 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.

See Footnote 3 in the consolidated financial statement for the schedule of the maturity of fixed maturity securities.

The amortized cost and contractual payments on mortgage loans on real estate available for sale by category are shown below. Expected principal payments may differ from contractual obligations because certain borrowers may elect to pay down or pay off mortgage obligations with or without early payment penalties.

	Total	Principal Amounts Due in 2009	Principal Amounts Due in 2010-2013	Principal Amounts Due Thereafter
Residential	$ 70,082,011	$ 572,104	$ 2,074,604	$ 67,435,303
Residential Construction	35,742,891	35,742,891	-	-
Commercial	23,548,243	7,616,384	15,931,859	-
Total	$ 129,373,145	$ 43,931,379	$ 18,006,463	$ 67,435,303

Financial Accounting Standards Board (FASB) Statement No. 157, Fair Value Measurements ("SFAS No. 157") is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities that are measured at fair value. SFAS No. 157:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation as of the measurement date;
- Expands disclosures about financial instruments measured at fair value.

Financial assets and financial liabilities recorded on the consolidated balance sheet at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in non-active markets; or
c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

We utilize a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities by their classification in the consolidated balance sheet at December 31, 2008.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Investment in securities available for sale	$ 5,854,237	$ 5,854,237	$ -	$ -
Short-term investments	5,282,986	5,282,986	-	-
Restricted assets of cemeteries and mortuaries	1,241,038	1,241,038	-	
Cemetery perpetual care trust investments	1,840,119	1,840,119	-	-
Total assets accounted for at fair value on a recurring basis	$ 14,218,380	$ 14,218,380	$ -	$ -
Liabilities accounted for at fair value on a recurring basis				
Investment-type insurance contracts	$ (112,351,916)	$ -	$ -	$ (112,351,916)
Dervatives: assets (liabilities)		-	-	-
Interest rate lock commitments	362,231	-	-	362,231
Bank loan interest rate swaps	(113,049)	-	-	(113,049)
Total liabilities accounted for at fair value on a recurring basis	$ (112,102,734)	$ -	$ -	$ (112,102,734)

Following is a summary of changes in the consolidated balance sheet line items measured using level 3 inputs:

	Investment Type Insurance Contracts	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2007	$ (106,939,120)	$ 627,116	$ (26,951)
Total Losses:			
Included in earnings	(5,412,796)	-	-
Included in other comprehensive income	-	(264,885)	(86,098)
Purchases, issuances, and settlements	-	-	-
Transfers	-	-	-
Balance - December 31, 2008	$ (112,351,916)	$ 362,231	$ (113,049)

The items shown under level one are valued as follows:

On a quarterly basis, the Company reviews its fixed investment securities related to corporate securities and other public utilities, consisting of bonds and preferred stocks that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios and projected earnings and revenue growth rates. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

On a quarterly basis, the Company reviews its investment in industrial, miscellaneous and all other equity securities that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios, projected earnings and revenue growth rates. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

The items shown under level three are valued as follows:

Investment type insurance contracts. Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%.

Interest Rate Lock Commitments. During 2005, the Company's mortgage banking activities implemented new practices relating to mortgage loan commitments, including interest rate lock commitments and forward commitments to sell loans to third-party investors. The Company also implemented a hedging strategy for these transactions. A mortgage loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after inception of the mortgage loan commitment. Mortgage loan commitments are derivatives under Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 149 ("SFAS 149"), Amendment of Statement 133 on Derivative Instruments and Hedging Activities and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded as part of other comprehensive income from mortgage banking operations.

Bank loan interest rate swaps. Management considers the interest rate swap instrument an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swap is a derivative financial instrument carried at its fair value.

If market conditions were to cause interest rates to change, the market value of the fixed income portfolio (of approximately $243,686,000) could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

	-200 bps	-100 bps	+100 bps	+200 bps
Change in Market Value (in thousands)	$20,853	$11,157	$(12,541)	$(25,441)

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2008 was 9.0% as compared to a rate of 7.9% for 2007.

At December 31, 2008, $21,359,000 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.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information about their businesses without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. The Company desires to take advantage of the "safe harbor" provisions of the act.

This Annual Report of Form 10-K contains forward-looking statements, together with related data and projections, about the Company's projected financial results and its future plans and strategies. However, actual results and needs of the Company may vary materially from forward-looking statements and projections made from time to time by the Company on the basis of management's then-current expectations. The business in which the Company is engaged involves changing and competitive markets, which may involve a high degree of risk, and there can be no assurance that forward-looking statements and projections will prove accurate.

Factors that may cause the Company's actual results to differ materially from those contemplated or projected, forecast, estimated or budgeted in such forward looking statements include among others, the following possibilities: (i) heightened competition, including the intensification of price competition, the entry of new competitors, and the introduction of new products by new and existing competitors; (ii) adverse state and federal legislation or regulation, including decreases in rates, limitations on premium levels, increases in minimum capital and reserve requirements, benefit mandates and tax treatment of insurance products; (iii) fluctuations in interest rates causing a reduction of investment income or increase in interest expense and in the market value of interest rate sensitive investment; (iv) failure to obtain new customers, retain existing customers or reductions in policies in force by existing customers; (v) higher service, administrative, or general expense due to the need for additional advertising, marketing, administrative or management information systems expenditures; (vi) loss or retirement of key executives or employees; (vii) increases in medical costs; (viii) changes in the Company's liquidity due to changes in asset and liability matching; (ix) restrictions on insurance underwriting based on genetic testing and other criteria; (x) adverse changes in the ratings obtained by independent rating agencies; (xi) failure to maintain adequate reinsurance; (xii) possible claims relating to sales practices for insurance products and claim denials and (xiii) adverse trends in mortality and morbidity.

Off-Balance Sheet Agreements

At December 31, 2008, the Company was contingently liable under a standby letter of credit aggregating $344,853, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's self-insurance casualty program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

SecurityNational Mortgage has loan purchase agreements with unaffiliated warehouse banks. The total amount available under these loan purchase agreements at December 31, 2008 was $450,000,000. As of December 31, 2008, mortgage loans totaling approximately $222,781,000 have been sold and were outstanding. The terms of the loan purchase agreements are typically for one year, with interest rates ranging from 1.5% to 2.25% over the 30 days LIBOR rate (from 1.99% to 2.74% as of September 30, 2008). SecurityNational Mortgage renewed one of its loan purchase agreements that expired on September 30, 2008 for another one year term. The other loan purchase agreement is a non-committed purchase agreement with no expiration date; however, the Company received notice from the warehouse bank that the agreement would be terminated in February 2009. The Company is actively pursuing purchase agreements with other warehouse banks.

The Company leases office space and equipment under various non-cancelable agreements, with remaining terms up to five years. Minimum lease payments under these non-cancelable operating leases as of December 31, 2008, are approximately as follows:

Years Ending December 31:		
2009	$	1,177,000
2010		695,000
2011		411,000
2012		143,000
2013		26,000
Thereafter		--
Total	$	2,452,000

Total rent expense related to these non-cancelable operating leases for the years ended December 31, 2008, 2007 and 2006 was approximately $2,071,000, $1,957,000 and $1,222,000, respectively.

The total of the Company unfunded residential construction loan commitments as of December 31, 2008 was $6,205,000.

Variable Interest Entities

In conjunction with the Company's casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. This entity meets the definition of a variable interest entity (VIE); however, based on the criteria set forth in FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, "there is not a requirement to include this entity in the consolidated financial statements. The maximum exposure to loss related to the Company's involvement with this entity is limited to approximately $344,853, a majority of which is collateralized under a standby letter of credit issued on the insurance entity's behalf. See Note 11, "Reinsurance, Commitments and Contingencies," for additional discussion of commitments associated with the insurance program and Note 1, "Significant Accounting Policies", for further information on a standby letter of credit. As of December 31, 2008, there are no other entities that met the definition of a variable interest entity.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard Number 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 related to financial assets and financial liabilities were effective during 2008. With respect to certain nonfinancial assets and nonfinancial liabilities, SFAS No. 157 is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company does not expect that the adoption of SFAS No. 157 with respect to nonfinancial assets and nonfinancial liabilities will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income should be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company does not expect that the adoption of SFAS No. 141(R) or SFAS No. 160 will have a material impact on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS No. 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. FSP FAS 140-3 requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction under SFAS No. 140 unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. FSP FAS 140-3 is effective for fiscal years beginning after November 15, 2008, and will be applied to new transactions entered into after the date of adoption. Early adoption is prohibited. The Company does not expect that the adoption of FSP FAS 140-3 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect that the adoption of SFAS No. 161 will have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS FAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on the Company’s financial statements.

In May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts. SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how SFAS No. 60, Accounting and Reporting by Insurance Enterprises, as amended, applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. This Statement also requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise's risk-management activities. Early application is not permitted. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of SFAS No. 163.

In June 2008, the FASB ratified EITF Issue No. 08-3, Accounting for Lessees for Maintenance Deposits Under Lease Arrangements. EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of EITF 08-3.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company does not expect that the adoption of FSP EITF 03-6-1 will have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3 Determining Fair Value of a Financial Asset in a Market That Is Not Active. FSP FAS 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The Company has evaluated the impact and adoption of FSP FAS 157-3 will not have a material impact on its consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of EITF 08-6.

In December 2008, the FASB issued FASB Staff Position FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. FSP FAS 140-4 and FIN 46(R)-8 amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and FIN 46(R), FASB Interpretation No. 46 (R), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, to require public entities to provide additional disclosures about transfers of financial assets and their involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 is effective for the first interim or annual reporting period ending after December 15, 2008. The Company has not yet determined the effect on its consolidated financial statements, if any, that will occur upon adoption of FSP FAS 140 and FIN 46(R)-8.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company has no activities in derivative financial or commodity instruments other than those recorded and disclosed in the financial statements. See note 20 of the consolidated financial statements included elsewhere in this Form 10-K. The Company’s exposure to market risks (i.e., interest rate risk, foreign currency exchange rate risk and equity price risk) through other financial instruments, including cash equivalents, accounts receivable and lines of credit, is not material.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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Registered with the Public Company Accounting Oversight Board

A Member of the Forum of Firms

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Stockholders
Security National Financial Corporation

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the periods ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental Schedules II, IV and V, are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 31, 2009

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
Assets	2008	2007
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$ 125,346,194	$ 116,896,016
Fixed maturity securities, available for sale, at estimated fair value	1,236,562	2,880,920
Equity securities, available for sale, at estimated fair value	4,617,675	5,861,292
Mortgage loans on real estate and construction loans held for investment, net of allowances or losses of $4,780,467 and $1,435,131 for 2008 and 2007	124,592,678	92,884,055
Real estate, net of accumulated depreciation of $5,009,571 and $4,340,390 for 2008 and 2007	22,417,639	7,946,304
Policy, student and other loans net of allowance for doubtful accounts of $555,146 and $492,089 for 2008 and 2007	18,493,751	16,860,874
Short-term investments	5,282,986	5,337,367
Accrued investment income	2,245,201	3,032,285
Total investments	304,232,686	251,699,113
Cash and cash equivalents	19,914,110	5,203,060
Mortgage loans sold to investors	19,885,994	66,700,694
Receivables, net	13,135,080	13,743,682
Restricted assets of cemeteries and mortuaries	4,077,076	5,711,054
Cemetery perpetual care trust investments	1,840,119	1,604,600
Receivable from reinsurers	5,823,379	746,336
Cemetery land and improvements	10,626,296	9,760,041
Deferred policy and pre-need contract acquisition costs	32,424,512	30,786,229
Property and equipment, net	14,049,232	14,828,699
Value of business acquired	11,377,276	11,686,080
Goodwill	1,075,039	1,075,039
Other	3,343,726	4,618,018
Total Assets	$ 441,804,525	$ 418,162,645

See accompanying notes to consolidated financial statements.

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

	December 31,	
Liabilities and Stockholders' Equity	2008	2007
Liabilities		
Future life, annuity, and other benefits	$ 325,668,454	$ 296,068,767
Unearned premium reserve	4,863,919	4,995,664
Bank loans payable	6,138,202	12,552,666
Notes and contracts payable	501,778	818,810
Deferred pre-need cemetery and mortuary contract revenues	13,467,132	12,643,199
Cemetery perpetual care obligation	2,647,984	2,473,758
Accounts payable	1,941,777	1,833,188
Other liabilities and accrued expenses	17,688,756	14,812,845
Income taxes	14,974,244	16,179,596
Total liabilities	387,892,246	362,378,493
Commitments and Contingencies	--	--
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 8,284,109 shares in 2008 and 7,885,229 shares in 2007	16,568,218	15,770,458
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 8,912,315 shares in 2008 and 8,530,699 shares in 2007	1,782,463	1,706,140
Additional paid-in capital	17,985,848	17,737,172
Accumulated other comprehensive income and other items, net of taxes	417,101	1,596,791
Retained earnings	21,023,179	21,104,156
Treasury stock, at cost - 1,598,568 Class A shares and -0- Class C shares in 2008; 1,635,864 Class A shares and -0- Class C shares in 2007	(3,864,530)	(2,130,565)
Total stockholders' equity	53,912,279	55,784,152
Total Liabilities and Stockholders' Equity	$ 441,804,525	$ 418,162,645

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31, 2008	2007	2006
Revenues:			
Insurance premiums and other consideration	$ 35,981,297	$ 32,262,837	$ 30,776,491
Net investment income	28,103,509	31,956,444	23,245,631
Net mortuary and cemetery sales	12,725,930	13,188,655	12,122,728
Realized gains (losses) on investments and other assets	(1,733,715)	1,007,574	891,304
Mortgage fee income	143,411,459	130,472,166	85,112,831
Other	1,015,370	860,406	381,548
Total revenues	219,503,850	209,748,082	152,530,533
Benefits and expenses:			
Death benefits	17,100,688	16,274,813	15,155,711
Surrenders and other policy benefits	2,094,482	2,078,415	1,700,741
Increase in future policy benefits	13,709,135	11,389,019	10,462,384
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	6,010,273	5,570,799	4,124,747
Selling, general and administrative expenses:			
Commissions	98,962,941	96,957,340	63,680,122
Salaries	26,206,331	23,944,999	17,947,902
Other	44,803,582	34,601,551	24,099,924
Interest expense	7,448,454	13,270,871	6,141,298
Cost of goods and services sold – mortuaries and cemeteries	2,437,453	2,537,244	2,322,066
Total benefits and expenses	218,773,339	206,625,051	145,634,895
Earnings before income taxes	730,511	3,123,031	6,895,638
Income tax expense	(155,658)	(857,635)	(1,771,188)
Net earnings	$ 574,853	$ 2,265,396	$ 5,124,450
Net earnings per Class A equivalent common share (1)	$ 0.07	$ 0.28	$ 0.66
Net earnings per Class A equivalent common share - assuming dilution(1)	$ 0.07	$ 0.28	$ 0.64
Weighted average Class A equivalent common shares outstanding (1)	8,160,422	8,010,635	7,808,470
Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	8,160,422	8,199,961	7,974,986

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common 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 or $0.01, $0.03 and $0.07 per share for 2008, 2007 and 2006, respectively, and $0.01, $0.03 and $0.07 per share-assuming dilution for 2008, 2007 and 2006, respectively.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss) and Other Items	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2006	$ 14,196,726	$ 1,356,212	$ 15,650,344	$ 117,647	$ 17,460,024	$ (3,082,535)	$ 45,698,418
Comprehensive income:							
Net earnings	—	—	—	—	5,124,450	—	5,124,450
Unrealized gains	—	—	—	1,585,508	—	—	1,585,508
Total comprehensive income							6,709,958
Exercise of stock options	149,040	—	(43,441)	—	—	—	105,599
Purchase of Treasury stock	—	—	—	—	—	(3,901)	(3,901)
Sale of Treasury stock	—	—	154,154	—	—	304,448	458,602
Issuance for compensation	1,000	—	1,020	—	—	—	2,020
Stock dividends	719,212	67,788	1,302,411	—	(2,089,411)	—	—
Conversion Class C to Class A	482	(482)	—	—	—	—	—
Balance at December 31, 2006	15,066,460	1,423,518	17,064,488	1,703,155	20,495,063	(2,781,988)	52,970,696
Comprehensive income:							
Net earnings	—	—	—	—	2,265,396	—	2,265,396
Unrealized gains (losses)	—	—	—	(106,364)	—	—	(106,364)
Total comprehensive income							2,159,032
	(76,974)	231,525	(55,261)	—	(96,289)	—	3,001

Exercise of stock options							
Sale of Treasury stock	—	—	—	—	—	651,423	651,423
Stock dividends	750,826	81,244	727,944	—	(1,560,014)	—	—
Conversion Class C to Class A	30,146	(30,147)	1	—	—	—	—
Balance at December 31, 2007	15,770,458	1,706,140	17,737,172	1,596,791	21,104,156	(2,130,565)	55,784,152
Comprehensive income:							
Net earnings	—	—	&#8212				