

SECURITY NATIONAL FINANCIAL CORP  
Form 10-Q  
November 15, 2010

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarter ended September 30, 2010, or

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

Commission file number: 000-09341

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

UTAH  
(State or other jurisdiction of incorporation or  
organization)

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

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

84123  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Class A Common Stock, \$2.00 par value	8,741,852
Title of Class	Number of Shares Outstanding as of November 12, 2010

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Class C Common Stock, \$.20 par value	9,200,145
Title of Class	Number of Shares Outstanding as of November 12, 2010

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  Accelerated filer  Non-accelerated filer  Smaller reporting  
company

(Do not check if a smaller reporting company)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2010

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

Assets	September 30, 2010	December 31, 2009
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 100,614,704	\$ 115,832,300
Fixed maturity securities, available for sale, at estimated fair value	135,454	1,149,523
Equity securities, available for sale, at estimated fair value	6,686,738	5,786,614
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$7,093,550 and \$6,808,803 for 2010 and 2009, respectively	97,181,360	103,290,076
Real estate held for investment, net of accumulated depreciation and allowances for losses of \$4,851,855 and \$4,046,272 for 2010 and 2009, respectively	54,913,589	46,901,832
Policy, student and other loans, net of allowances for doubtful accounts	16,250,443	18,145,029
Short-term investments	1,056,685	7,144,319
Accrued investment income	1,913,315	2,072,495
Total investments	278,752,288	300,322,188
Cash and cash equivalents	26,531,667	39,463,803
Mortgage loans sold to investors	94,150,703	39,269,598
Receivables, net	11,502,991	10,873,207
Restricted assets of cemeteries and mortuaries	2,981,336	2,593,413
Cemetery perpetual care trust investments	1,310,899	1,104,046
Receivable from reinsurers	4,576,812	5,776,780
Cemetery land and improvements	11,106,659	10,987,833
Deferred policy and pre-need contract acquisition costs	35,462,412	34,087,951
Property and equipment, net	11,359,905	11,994,284
Value of business acquired	9,257,600	10,252,670
Goodwill	1,075,039	1,075,039
Other	3,338,234	2,776,086
<b>Total Assets</b>	<b>\$ 491,406,545</b>	<b>\$ 470,576,898</b>

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2010	December 31, 2009
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$ 343,670,931	\$ 336,343,433
Unearned premium reserve	5,119,116	4,780,645
Bank loans payable	26,792,271	8,656,245
Notes and contracts payable	221,234	283,744
Deferred pre-need cemetery and mortuary contract revenues	13,212,329	13,381,662
Cemetery perpetual care obligation	2,849,536	2,756,174
Accounts payable	2,427,963	2,601,149
Other liabilities and accrued expenses	20,945,741	24,623,535
Income taxes	15,621,216	17,344,869
Total liabilities	430,860,337	410,771,456
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 8,741,852 shares in 2010 and 8,730,227 shares in 2009	17,483,704	17,460,454
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 9,200,145 shares in 2010 and 9,214,211 in 2009	1,840,029	1,842,842
Additional paid-in capital	19,687,388	19,191,606
Accumulated other comprehensive income, net of taxes	1,651,984	1,593,327
Retained earnings	23,150,395	23,178,944
Treasury stock at cost - 1,333,664 Class A shares in 2010 and 1,454,974 Class A shares in 2009	(3,267,292 )	(3,461,731 )
Total stockholders' equity	60,546,208	59,805,442
Total Liabilities and Stockholders' Equity	\$ 491,406,545	\$ 470,576,898

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Insurance premiums and other considerations	\$ 9,249,421	\$ 9,622,381	\$ 28,902,805	\$ 28,716,070
Net investment income	4,860,315	4,803,809	14,616,096	16,107,643
Net mortuary and cemetery sales	2,973,291	2,584,846	8,996,452	8,958,092
Realized gains on investments and other assets	718,446	459,363	1,372,363	752,132
Mortgage fee income	28,686,744	30,734,493	73,432,864	110,534,277
Other	186,487	449,775	1,300,789	1,088,482
<b>Total revenues</b>	<b>46,674,704</b>	<b>48,654,667</b>	<b>128,621,369</b>	<b>166,156,696</b>
<b>Benefits and expenses:</b>				
Death benefits	4,587,639	4,417,986	14,451,976	13,827,134
Surrenders and other policy benefits	461,203	362,894	1,103,834	1,238,804
Increase in future policy benefits	3,664,300	4,134,055	11,753,649	11,156,238
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,623,542	1,452,899	4,339,167	5,132,219
<b>Selling, general and administrative expenses:</b>				
Commissions	16,917,406	17,702,231	44,929,148	59,148,409
Salaries	6,728,178	7,029,507	20,773,759	20,655,984
Provision for loan losses and loss reserve	1,640,840	3,489,830	3,741,354	13,924,452
Other	8,797,975	8,953,745	24,451,140	27,546,069
Interest expense	842,549	483,051	2,152,755	2,246,045
Cost of goods and services sold-mortuaries and cemeteries	597,886	561,983	1,699,533	1,790,584
<b>Total benefits and expenses</b>	<b>45,861,518</b>	<b>48,588,181</b>	<b>129,396,315</b>	<b>156,665,938</b>
<b>Earning (loss) before income taxes</b>	<b>813,186</b>	<b>66,486</b>	<b>(774,946 )</b>	<b>9,490,758</b>
Income tax benefit (expense)	(309,757 )	(3,437 )	746,562	(3,104,310 )
<b>Net earnings (loss)</b>	<b>\$ 503,429</b>	<b>\$ 63,049</b>	<b>\$ (28,384 )</b>	<b>\$ 6,386,448</b>
<b>Net earnings (loss) per Class A Equivalent common share (1)</b>	<b>\$ 0.06</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.83</b>
<b>Net earnings (loss) per Class A Equivalent common share-assuming dilution (1)</b>	<b>\$ 0.06</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.83</b>
<b>Weighted-average Class A equivalent common share outstanding (1)</b>	<b>8,313,160</b>	<b>7,747,304</b>	<b>8,267,408</b>	<b>7,698,171</b>

Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	8,400,983	7,864,147	8,467,408	7,698,171
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(1) Earnings (loss) per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings (loss) per common share represent net earnings (loss) per equivalent Class A common share. Net earnings (loss) per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net cash provided (used) by operating activities	\$ (46,765,822 )	\$ 13,984,418
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(7,637,611 )	(9,263,264 )
Calls and maturities - fixed maturity securities	24,507,847	18,894,983
Securities available for sale:		
Purchase - equity securities	(4,358,860 )	(3,337,640 )
Sales - equity securities	3,509,569	3,620,935
Purchase of short-term investments	(6,220,779 )	(16,732,142 )
Sales of short-term investments	12,308,413	17,234,580
Sales (Purchase) of restricted assets	(382,899 )	1,615,632
Changes in assets for perpetual care trusts	(217,757 )	(182,023 )
Amount received for perpetual care trusts	93,362	89,453
Mortgage, policy, and other loans made	(78,542,784 )	(66,250,817 )
Payments received for mortgage, policy and other loans	74,413,760	60,540,550
Purchase of property and equipment	(664,417 )	(579,740 )
Disposal of property and equipment	-	845
Purchase of real estate	(1,362,865 )	(2,301,340 )
Sale of real estate	4,640,479	2,847,495
Net cash provided by investing activities	20,085,458	6,197,507
Cash flows from financing activities:		
Annuity contract receipts	6,445,453	6,839,117
Annuity contract withdrawals	(10,725,043 )	(10,525,938 )
Repayment of bank loans on notes and contracts	(1,247,182 )	(1,027,511 )
Change in line of credit borrowings	19,275,000	(225,000 )
Net cash provided (used) by financing activities	13,748,228	(4,939,332 )
Net change in cash and cash equivalents	(12,932,136 )	15,242,593
Cash and cash equivalents at beginning of period	39,463,803	19,914,110
Cash and cash equivalents at end of period	\$ 26,531,667	\$ 35,156,703
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	\$ 12,146,777	\$ 22,000,875

See accompanying notes to condensed consolidated financial statements.



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2010 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2009, included in the Company's Annual Report on Form 10-K (file number 000-9341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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

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

Certain 2009 amounts have been reclassified to bring them into conformity with the 2010 presentation.

2) Recent Accounting Pronouncements

**Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts:** In October 2010, the FASB issued guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company has not yet determined the effect, if any, the adoption of this guidance will have on its consolidated financial statements.

**Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses:** In July 2010, the FASB issued accounting guidance requiring that entities provide additional disclosure about the credit quality of its financing receivables and the related allowance for credit losses. Entities are required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

**Consolidation Analysis Considering Investments Held through Separate Accounts:** In April 2010, the FASB issued guidance clarifying that an insurer is not required to combine interests in investments held in a qualifying separate account with its interests in the same investments held in the general account when performing a consolidation evaluation. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with

early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

**Stock-Based Compensation:** In April 2010, the FASB issued guidance to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

September 30, 2010 (Unaudited)

## 3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of September 30, 2010 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2010:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$2,707,657	\$476,934	\$-	\$3,184,591
Obligations of states and political subdivisions	1,804,968	163,233	(16,147 )	1,952,054
Corporate securities including public utilities	87,769,462	8,490,222	(639,599 )	95,620,085
Mortgage-backed securities	6,745,329	301,842	(665,117 )	6,382,054
Redeemable preferred stock	1,587,288	66,380	(472 )	1,653,196
Total fixed maturity securities held to maturity	\$100,614,704	\$9,498,611	\$(1,321,335)	\$108,791,980
Securities available for sale carried at estimated fair value:				
Fixed maturity securities available for sale:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$98,341	\$37,113	\$-	\$135,454
Total fixed maturity securities available for sale	\$98,341			