

SECURITY NATIONAL FINANCIAL CORP

Form 10-K

March 30, 2012

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011, or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934f
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 87-0345941
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

5300 South 360 West, Suite 250 Salt Lake City, Utah 84123
(Address of principal executive offices) (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 No

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 No

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 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.

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

Nonaccelerated filer

Smaller reporting company

(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 No

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. \$13,582,000

As of March 29, 2012, there were outstanding 9,638,798 shares of Class A Common Stock, \$2.00 par value per share, and 10,135,976 shares of Class C Common Stock, \$.20 par value per share.

Documents Incorporated by Reference

None.

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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 cemetery in the state of California, and seven mortuaries in the state of Utah and one mortuary in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery, mortuary 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 or otherwise purchases residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 73 wholesale and retail offices in sixteen states, and is an approved mortgage lender in several other 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 insurance departments is mortgage 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 the Company’s 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 sales of life insurance and annuities and through the acquisition of other insurance companies.

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies. In 1989, the Company acquired Paradise Chapel Funeral Home, Inc. and, in 1991, it acquired Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. In 1993, the Company formed SecurityNational Mortgage Company (“SecurityNational Mortgage”) to originate and refinance residential mortgage loans. See note 14 of the 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, Memorial Insurance Company of America (“Memorial Insurance Company”) and Southern Security Life Insurance Company (“Southern Security”), issues and distributes selected lines of life insurance and annuities. The Company’s life insurance business includes funeral plans, and 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.

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 coverage. 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.

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.

A majority of the Company’s funeral plan premiums come from the states of Florida, Louisiana, Mississippi, Oklahoma, Tennessee, Texas and Utah.

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 120% 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, 2011:

	2011	2010	2009	2008	2007
Life Insurance Policy/Cert. Count as of December 31	414,411 (3)	398,774	407,673	415,656 (2)	405,224 (1)
Insurance in force as of December 31 (omitted 000)	\$ 2,969,648 (3)	\$ 3,003,622	\$ 2,617,946	\$ 2,454,409 (2)	\$ 2,434,733 (1)
Premiums Collected (omitted 000)	\$ 47,982 (3)	\$ 38,579	\$ 38,399 (2)	\$ 36,063 (1)	\$ 32,173

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

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

(3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

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
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0-50	\$100,000
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 that range from 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.

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. 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.

The following table summarizes the annuity business for the five years ended December 31, 2011:

	2011	2010	2009	2008	2007
Annuities Policy/Cert. Count as of					
December 31	11,313 (3)	12,344	12,366	11,411 (2)	11,175 (1)
Deposits Collected (omitted 000)	\$5,757 (3)	\$6,166	\$6,737	\$8,959 (1)(2)	\$4,080

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

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

(3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

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 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, 2011:

	2011	2010	2009	2008	2007
Accident and Health Policy/Cert. Count as of December 31	8,268	9,269	13,436	14,060	14,845
Premiums Collected (omitted 000)	\$175	\$203	\$219	\$232	\$257

Reinsurance

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 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.

The Company's policy is to retain no more than \$100,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2011, reinsured by other companies, aggregated \$87,441,000, representing approximately 3.0% of the Company's life insurance in force on that date.

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 reinsurance.

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, and 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 non-denominational cemeteries and eight wholly-owned mortuaries. 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 plots, 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 four 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 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.

Potential customers are located via telephone sales prospecting, responses to letters mailed by the pre planning consultants, newspaper inserts, referrals, and door-to-door canvassing. The Company trains its sales representatives and generates leads for them.

Mortgage Loans

Products

Beginning in 1993, the Company, through its wholly owned subsidiary, SecurityNational Mortgage Company (“SecurityNational Mortgage”) has been active in the residential real estate market. The Company has current approvals through HUD, Fannie Mae, Freddie Mac and other substantial secondary market investors, which enable it to originate a variety of residential mortgage loan products that are subsequently sold to investors and the Company uses internal and external funding sources with unaffiliated financial institutions.

Security National Life, an affiliate of SecurityNational Mortgage, originates commercial real estate loans both for internal investment as well as for sale to unaffiliated investors and also originates residential construction loans.

Markets and Distribution

The Company’s residential mortgage lending services are marketed primarily to mortgage originators. SecurityNational Mortgage maintains a majority of its retail origination presence in the Utah, Florida, California, Illinois and Texas markets in addition to five wholesale branch offices located in California, Florida, Kansas, Texas and Utah, 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

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,525,875. In addition, North America Life transferred \$15,703,641 in assets and \$19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,641 in assets included \$12,990,444 in cash, \$8,997 in policy loans, and \$2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

On September 1, 2011 Security National Life with the approval of the Texas Department of Insurance assumed all of the policies which were issued by North America Life previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

Regulation

The Company's insurance subsidiaries, Security National Life, Memorial Insurance Company 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, Arkansas and Mississippi 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 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, Memorial Insurance Company 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, Memorial Insurance Company and Southern Security may not continue to receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined tax 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 on a tax accounting basis. To the extent that the net income limitation is exceeded, 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, Memorial Insurance Company 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 industry is highly competitive with a large number of mortgage companies and banks in the same geographic area in which the Company is operating. The mortgage industry 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, 2011, the Company had 652 full-time and 288 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.

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount	Expiration
5300 South 360 West	Salt Lake City	UT	Corporate Headquarters	Owned	30,317	\$356,760/ yr	month to month
755 Rinehart Road	Lake Mary	FL	Mortgage Sales	Owned	9,348	\$121,151/ yr	month to month
3935 I-55 South, Frontage Road	Jackson	MS	Insurance Operations	Owned	12,000	\$84,000/ yr	month to month
5247 Greenpine Drive	Murray	UT	Cemetery & Insurance Sales	Owned	1,700	\$3,106/ mo	month to month
497-A Sutton Bridge Road	Rainbow City	AL	Fast Funding Operations	Leased	5,500	\$26,400/ yr	06/30/14
222 N Hervey, Suite B	Hope	AR	Mortgage Sales	Leased	1,000	\$300/ mo	month to month
3807 McCain Park Dr. #110	North Little Rock	AR	Mortgage Sales	Leased	1,125	\$1,000/ mo	month to month
5701 Talavi Blvd. #155	Glendale	AZ	Mortgage Sales	Leased	2,214	\$45,500/ yr	05/06/15
4740 Green River Road, #107	Corona	CA	Mortgage Sales	Leased	1,677	\$23,142/ yr	04/15/12
12150 Tributary Point Dr., Suite 160	Gold River	CA	Mortgage Sales	Leased	2,400	\$49,400/ yr	06/30/12
27344 Tourney Road Suite 220	San Clarita	CA	Mortgage Sales	Leased	2,455	\$72,000/ yr	04/30/14
27451 Tourney Road Suite 130	San Clarita	CA	Mortgage Sales	Leased	1,191	\$33,600/ yr	04/30/14
421 S. Cataract	San Dimas	CA	Mortgage Sales	Leased	6,200	\$56,400/ yr	03/31/13
8695 College Parkway	Ft Myers	FL	Mortgage Sales	Leased	1,000	\$11,100/ yr	06/30/12
2435 US Highway 19 North Suite #208	Holiday	FL	Mortgage Sales	Leased	305	\$250/ mo	month to month
905 Lee Road	Orlando	FL	Mortgage Sales	Leased	201	\$925/ mo	month to month
935 Main Street, Suite C-2	Safe Harbor	FL	Mortgage Sales	Leased	1,050	\$17,334/ yr	10/11/12
1221 Kapiolani Blvd #930	Honolulu	HI	Mortgage Sales	Leased	1,340	\$15,912/ yr	08/27/12
970 No. Kalaheo Ave, Suite A-214	Kailua	HI	Mortgage Sales	Leased	665	\$19,094/ yr	09/30/12
360 Sun Valley Road Suite 2	Ketchum	ID	Mortgage Sales	Leased	1,430	\$24,000/ yr	11/30/14
1540 W North Ave. #2	Chicago	IL	Mortgage Sales	Leased	1,000	\$19,200/ yr	04/30/12
7227 West Madison Avenue	Forest Park	IL	Mortgage Sales	Leased	1,800	\$21,600/ yr	05/31/12
1200 Jorie Blvd #220	Oak Brook	IL	Mortgage Sales	Leased	4,763	\$84,543/ yr	10/31/14
2525-24th Suite #208	Rock Island	IL	Mortgage Sales	Leased	1,000	\$2,400/ mo	month to month
6813 Hobson Valley Drive #104	Woodridge	IL	Mortgage Sales	Leased	1,000	\$3,000/ yr	11/30/12

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47-51 Southpark Boulevard	Greenwood	IN	Mortgage Sales	Leased	4,818	\$22,800/	yr	03/31/12
1655 Thornapple Circle	Valparaiso	IN	Mortgage Sales	Leased	744	\$10,416/	yr	07/31/12
822 North Main	McPhearson	KS	Mortgage Sales	Leased	560	\$900/	mo	month to month
6900 College Blvd., Suite 950	Overland Park	KS	Mortgage Sales	Leased	2,800	\$55,100/	yr	01/31/13
150 A Andover Street	Danvers	MA	Mortgage Sales	Leased	2,138	\$28,863/	yr	05/30/13
2016 NW South Outer Road	Blue Spring	MO	Mortgage Sales	Leased	1,000	\$10,800/	yr	11/30/12
200 NE Missouri Road #235	Lee's Summit	MO	Mortgage Sales	Leased	1,000	\$150/	mo	month to month
111 West Port Plaza, Suite 600	St. Louis	MO	Mortgage Sales	Leased	300	\$7,600/	yr	08/30/11
12977 North Forty Drive Ste 203	St. Louis	MO	Mortgage Sales	Leased	2,933	\$50,881/	yr	11/30/14
1400 Battleground Ave #202-A	Greensboro	NC	Mortgage Sales	Leased	600	\$300/	mo	month to month
375 N Stephanie #2311	Henderson	NV	Mortgage Sales	Leased	3,938	\$47,256/	yr	08/31/14
3035 South Jones Blvd #5	Las Vegas	NV	Mortgage Sales	Leased	890	\$1,100/	mo	month to month
3285 North Fort Apache Road	Las Vegas	NV	Mortgage Sales	Leased	1,000	\$11,500/	mo	month to month
2499 Capital of Texas Hwy #102	Austin	TX	Mortgage Sales	Leased	1,363	\$2,428/	mo	month to month
2900 South Congress #101	Austin	TX	Mortgage Sales	Leased	916	\$1,070/	mo	month to month
5000 Plaza on the Lake Drive, Suite 250	Austin	TX	Mortgage Sales	Leased	9,500	\$1,254/	mo	month to month
6805 Capitol of Texas Highway, Suite 315	Austin	TX	Mortgage Sales	Leased	2,300	\$4,275/	mo	month to month
8700 Manchca Road #603	Austin	TX	Mortgage Sales	Leased	1,000	\$300/	mo	month to month
9737 Great Hills Trail, Suite 200	Austin	TX	Mortgage Sales	Leased	8,000	\$2,500/	mo	month to month
1213 East Alton Gloor Blvd Suite H	Brownsville	TX	Mortgage Sales	Leased	1,000	\$13,200/	yr	09/30/12
255 Elk Drive Suite D	Burleson	TX	Mortgage Sales	Leased	1,182	\$19,503/	yr	01/31/14
12201 Merit Drive, Suite 400	Dallas	TX	Mortgage Sales	Leased	4,613	\$83,034/	yr	06/01/12
501 Wynnewood Village #210	Dallas	TX	Mortgage Sales	Leased	1,000	\$12,000/	yr	06/30/14
5211 South McColl Road Suite G	Edinburg	TX	Mortgage Sales	Leased	1,000	\$450/	mo	month to month
17000 El Camino Real #103D	Houston	TX	Mortgage Sales	Leased	750	\$750/	mo	month to month
17347 Village Green Drive-102A	Houston	TX	Mortgage Sales	Leased	3,000	\$4,195/	mo	month to month
5353 W. Sam Houston Parkway N., Suite 170	Houston	TX	Mortgage Sales	Leased	5,442	\$69,756/	yr	04/30/13
7410 Westview	Houston	TX	Mortgage Sales	Leased	1,000	\$7,260/	yr	03/31/15
21394 Provincial Blvd	Katy	TX	Mortgage Sales	Leased	1,250	\$15,720/	yr	01/31/12

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201 Kingwood Medical Drive A400	Kingwood	TX	Mortgage Sales	Leased	1,850	\$4,420/	mo	month to month
1310 RR 620 S #C15	Lakeway	TX	Mortgage Sales	Leased	2,472	\$3,060/	mo	03/31/12
1354 North Loop 1604 East	San Antonio	TX	Mortgage Sales	Leased	3,622	\$56,684/	mo	03/18/13
2511 N Loop 1604 West Ste 100	San Antonio	TX	Mortgage Sales	Leased	1,100	\$1,500/	mo	month to month
613 Northwest Loop 410, Suite 685	San Antonio	TX	Mortgage Sales	Leased	1,170	\$48,500/	yr	10/31/12
1095 Evergreen CircleThe #214	Woodlands	TX	Mortgage Sales	Leased	1,000	\$17,760/	yr	02/29/12
1201 Lake WoodlandsThe Drive #4016	Woodlands	TX	Mortgage Sales	Leased	2,648	\$15,600/	yr	02/28/12

Item 2. Properties (Continued)

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount	Expiration
6965 Union Park Center #200	Cottonwood Heights	UT	Mortgage Sales	Leased	7,620	\$14,065/ yr	07/31/15
288 SR 248, Suite 2A	Kamas	UT	Mortgage Sales	Leased	1,480	\$22,200/ yr	02/01/12
1558 N Woodland Park Drive #400	Layton	UT	Mortgage Sales	Leased	1,000	\$2,500/ yr	month to month
6965 South Union Park, Suites 200, 470 & 480	Midvale	UT	Mortgage Sales	Leased	7,978	\$15,351/ yr	08/31/16
378 East 720 South	Orem	UT	Mortgage Sales	Leased	2,048	\$19,200/ yr	05/31/12
1245 Deer Valley Drive #3A	Park City	UT	Mortgage Sales	Leased	2,183	\$43,660/ yr	12/31/14
6584 North Creekside Lane, Suite 150	Park City	UT	Mortgage Sales	Leased	200	\$4,800/ yr	month to month
1864 West 12600 South	Riverton	UT	Mortgage Sales	Leased	277	\$6,911/ yr	03/14/12
5525 South 900 East, Suite 210	Salt Lake City	UT	Mortgage Sales	Leased	2,000	\$37,000/ yr	month to month
6740 South 1300 East, Suite 100	Salt Lake City	UT	Mortgage Sales	Leased	3,200	\$79,796/ yr	04/17/12
970 East Murray-Holladay Rd., Suite 603	Salt Lake City	UT	Mortgage Sales	Leased	6,357	\$43,742/ yr	01/31/13
9815 S. Monroe Street	Sandy	UT	Mortgage Sales	Leased	2,800	\$59,988/ yr	03/31/16
1099 West South Jordan Parkway	South Jordan	UT	Mortgage Sales	Leased	3,329	\$60,913/ yr	10/31/14
1244 North Main Street, Suite 203	Tooele	UT	Mortgage Sales	Leased	1,230	\$2,200/ mo	month to month
70 South Main Street	Tooele	UT	Mortgage Sales	Leased	1,230	\$24,000/ yr	04/19/14
8831 South Redwood Rd	West Jordan	UT	Mortgage Sales	Leased	1,000	\$97,248/ yr	07/31/12
5909 6th Avenue A	Kenosha	WI	Mortgage Sales	Leased	1,000	\$950/ mo	month to month

The Company believes the office facilities it occupies are in good operating condition and adequate for current operations. The company will enter into additional leases as expansion warrants. Those leases will be month to month where possible. 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)	Net Saleable Acreage		
				Total Acreage (1)	Acres Sold as Cemetery Spaces (2)	Total Available Acreage (1)
Memorial Estates, Inc. Lakeview Cemetery	1640 East Lakeview Drive	1973	7	40	6	34

Bountiful, Utah						
Mountain View Cemetery	3115 East 7800 South Salt Lake City, Utah	1973	15	54	15	39
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	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, 2011, there were mortgages of approximately \$878,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, and Lake Hills Cemetery.

(4) These cemeteries include two granite mausoleums.

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(2)	6500 South Redwood Rd. West Jordan, Utah	1973	2	1	10,000
Mountain View Mortuary(2)	3115 East 7800 South Salt Lake City, Utah	1973	2	1	16,000
Lakeview Mortuary(2)	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(2)	10055 South State St. Sandy, Utah	1991	2	1	18,000
Cottonwood Mortuary(1)(2)	4670 South Highland Dr. Holladay, Utah	1991	2	1	14,500

(1) As of December 31, 2011, there were mortgages of approximately \$878,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park and Lake Hills Cemetery.

(2) These funeral homes also provide burial niches at their respective locations.

Item 3. Legal Proceedings

Lehman Brothers – Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage Company (“SecurityNational Mortgage”) entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of \$125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2009, 2010 and 2011, the Company recognized alleged losses of \$1,032,000, \$1,289,000 and \$0, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2011, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Brothers Bank FSB (hereinafter "Lehman Bank"), and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged "sunset" provision and that the amount of the requested payments made was not justified under the "sunset" provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings' subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 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, 2011.

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 29, 2012, the closing sales price of the Class A Common Stock was \$1.30 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, 2010:

Period (Calendar Year)	Price Range (1)	
	High	Low
2010		
First Quarter	\$3.75	\$3.00
Second Quarter	\$3.25	\$1.94
Third Quarter	\$2.13	\$1.73
Fourth Quarter	\$2.03	\$1.72
2011		
First Quarter	\$2.13	\$1.65
Second Quarter	\$1.80	\$1.36
Third Quarter	\$1.58	\$1.17
Fourth Quarter	\$1.55	\$1.05

2012	
First Quarter	
(through March 29,	
2012)	\$1.70 \$1.23

(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 11 of the Notes to 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 2011.

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, 2007 through December 31, 2011. 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, 2007 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.

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
SNFC	100	45	97	57	44
S & P 500	100	62	76	86	86
S & P Insurance	100	41	45	52	47

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, 2011, there were 3,809 record holders of Class A Common Stock and 101 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, 2011, and is derived from the audited consolidated financial statements. The data as of December 31, 2011 and 2010, and for the three years ended December 31, 2011, 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,				
	2011(3)	2010	2009	2008(1)	2007(2)
Revenue					
Premiums	\$48,479,000	\$38,528,000	\$38,413,000	\$35,981,000	\$32,263,000
Net investment income	20,011,000	18,616,000	19,915,000	28,201,000	33,227,000
Net mortuary and cemetery sales	10,761,000	11,520,000	11,974,000	12,726,000	13,189,000
Realized gains on investments	2,464,000	1,615,000	1,223,000	1,018,000	1,008,000
Other than temporary impairments	(841,000)	(674,000)	(326,000)	(2,752,000)	-
Mortgage fee income	77,605,000	97,343,000	144,275,000	143,259,000	130,472,000
Other	1,110,000	1,582,000	1,415,000	1,015,000	860,000
Total revenue	159,589,000	168,530,000	216,889,000	219,448,000	211,019,000
Expenses					
Policyholder benefits	44,486,000	36,452,000	35,920,000	32,904,000	29,742,000
Amortization of deferred policy acquisition costs	7,509,000	5,945,000	7,161,000	6,010,000	5,571,000
Selling, general and administrative expenses	102,513,000	122,217,000	161,785,000	169,917,000	156,775,000
Interest expense	1,961,000	2,779,000	3,326,000	7,449,000	13,271,000
Cost of goods and services of the mortuaries and cemeteries	1,883,000	2,226,000	2,349,000	2,437,000	2,537,000
Total benefits and expenses	158,352,000	169,619,000	210,541,000	218,717,000	207,896,000
Income before income tax benefit (expense)	1,237,000	(1,089,000)	6,348,000	731,000	3,123,000
Income tax benefit (expense)	62,000	658,000	(2,574,000)	(156,000)	(858,000)
Net earnings (loss)	\$1,299,000	\$(431,000)	\$3,774,000	\$575,000	\$2,265,000
Net earnings (loss) per common share (4)	\$0.14	\$(0.05)	\$0.41	\$0.06	\$0.25
Weighted average outstanding common shares (4)	9,375,000	9,169,000	9,149,000	9,555,000	8,922,000
Net earnings (loss) per common share-assuming dilution (4)	\$0.14	\$(0.05)	\$0.41	\$0.06	\$0.25
Weighted average outstanding common shares-assuming dilution (4)	9,478,000	9,169,000	9,152,000	9,555,000	9,121,000

Balance Sheet Data:

	2011(3)	2010	December 31, 2009	2008(1)	2007(2)
Assets					
Investments and restricted assets	\$ 336,124,000	\$ 278,949,000	\$ 302,915,000	\$ 309,142,000	\$ 258,242,000
Cash	17,084,000	39,557,000	39,464,000	19,914,000	5,203,000
Receivables	87,274,000	71,054,000	50,143,000	33,021,000	80,445,000
Other assets	80,657,000	76,075,000	78,055,000	79,728,000	74,273,000
Total assets	\$ 521,139,000	\$ 465,635,000	\$ 470,577,000	\$ 441,805,000	\$ 418,163,000
Liabilities					
Policyholder benefits	\$ 386,626,000	\$ 350,186,000	\$ 341,124,000	\$ 330,533,000	\$ 301,064,000
Bank & other loans payable	25,019,000	7,066,000	8,940,000	6,640,000	13,372,000
Cemetery & mortuary liabilities	13,140,000	13,192,000	13,382,000	13,467,000	12,643,000
Cemetery perpetual care obligation	2,983,000	2,854,000	2,756,000	2,648,000	2,474,000
Other liabilities	32,140,000	32,408,000	44,570,000	34,605,000	32,826,000
Total liabilities	459,908,000	405,706,000	410,772,000	387,893,000	362,379,000
Stockholders' equity	61,231,000	59,929,000	59,805,000	53,912,000	55,784,000
Total liabilities and stockholders' equity	\$ 521,139,000	\$ 465,635,000	\$ 470,577,000	\$ 441,805,000	\$ 418,163,000

(1) Includes the purchase of Southern Security Life Insurance Company on 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 assumption reinsurance of North America Life Insurance Company on March 30, 2011.

(4) 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 low interest rates by originating and refinancing mortgage loans.

Mortgage Operations

Over 50% of the Company's revenues and expenses are through its wholly owned subsidiary, SecurityNational Mortgage. 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 its mortgage sales offices and independent brokers. SecurityNational Mortgage funds the loans from internal

cash flows, including loan purchase agreements from Security National Life, and 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 usually retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the twelve months ended December 31, 2011, 2010 and 2009, SecurityNational Mortgage originated and sold 8,100 loans (\$1,407,212,000 total volume), 11,251 loans (\$2,094,738,000 total volume), and 17,797 loans (\$3,243,734,000 total volume), respectively.

The loan volume in 2011 was lower than 2010 primarily due to reduced refinancing activity in 2011. For the first six months of 2011, the loan volume was primarily compared to home purchases and was lower from the same period in 2010 due to the slow-down in the economy, the reduced demand in the housing sector, and new regulations affecting mortgage origination and lending activities. For the third and fourth quarters of 2011, the loan volume increased from the previous two quarters due to new office openings and an increase in retail sales production.

SecurityNational Mortgage anticipates the loan volume for 2012 to remain at the \$80,000,000 to \$150,000,000 per month range. SecurityNational Mortgage continues to monitor staff size and funding costs, and will make adjustments based on levels of loan production.

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The amount available to originate loans under this agreement at December 31, 2011 was \$65,000,000. SecurityNational Mortgage originates the loans and immediately sells them to third party investors. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances as noted below in the Mortgage Accounting Policy section, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the settlement date with third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with an unaffiliated warehouse bank, which had expired on December 19, 2011, for an indefinite period.

The following table shows the condensed financial results for the year 2011, 2010 and 2009. See note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2011	2010	2011 vs 2010 % Increase (Decrease)	2009	2010 vs 2009 % Increase (Decrease)
Revenues from external customers					
Revenues from loan originations	\$64,415	\$78,450	(20 %)	\$106,852	(27 %)
Secondary gains from investors	13,190	18,892	(30 %)	37,422	(50 %)
Total	\$77,605	\$97,342	(22 %)	\$144,274	(33 %)
Earnings (Losses) before income taxes	\$(1,922)	\$(1,964)	2 %	\$6,910	(128 %)

The losses for the twelve months ended December 31, 2011 was due to the lower loan volume and lower secondary gains from investors. However, there were earnings in the third and fourth quarters for 2011 due to increased loan volume during that period.

Mortgage Accounting Policy

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 generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria is as follows: (i) the transferred assets have been isolated from SecurityNational Mortgage and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) SecurityNational Mortgage does not maintain effective control over the transferred mortgage.

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As

of December 31, 2011, there was \$64,991,000 in mortgage loans in which settlements with third party investors were still pending.

SecurityNational Mortgage sells all mortgage loans to third party investors without recourse. However, it may be required to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor.
- The existence of misrepresentation or 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.

Loan 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 SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage's historical data shows that 99% of all loans originated are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

It is SecurityNational Mortgage's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. SecurityNational Mortgage believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- 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 later becomes delinquent is evaluated by SecurityNational Mortgage at that time and any impairment is 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 SecurityNational Mortgage. Market value, while often difficult to determine, is based on the following guidelines:

- For loans that have an active market, SecurityNational Mortgage uses the market price on the repurchase date.
 - For loans where there is no market but there is a similar product, SecurityNational Mortgage uses the market value for the similar product on the repurchase date.
- For loans where no active market exists on the repurchase date, SecurityNational Mortgage determines that the unpaid principal balance best approximates the market value on the repurchase 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 mortgage loan adds significance to SecurityNational Mortgage's determination of fair value because, if the loan becomes delinquent, SecurityNational Mortgage 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, SecurityNational Mortgage considers the total value of all of the loans because any sale of loans would be made as a pool.

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

Mortgage Loan Repurchases and Delinquencies

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. SecurityNational Mortgage funded \$5,505,000 (0.14% of its production) in subprime loans during the twelve months ending December 31, 2007 and eliminated subprime loans from its product offerings in August 2007. SecurityNational Mortgage 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, SecurityNational Mortgage discontinued offering these loans in September 2007.

As a result of the volatile secondary market for mortgage loans, SecurityNational Mortgage sold mortgage loans in 2007 and 2008 to certain third party investors, including Lehman Brothers-Aurora Loan Services and Bear Stearns-EMC Mortgage Corp. 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 loans in which the secondary market no longer existed. Due to these changes in circumstances, SecurityNational Mortgage regained control of the mortgages and, in accordance with generally accepted accounting principles, accounted for the loans retained in the same manner as a purchase of assets from former transferees in exchange for liabilities assumed.

At the time of repurchase, the loans were determined to be held for investment purposes, and the fair value of the loans was determined to approximate the unpaid principal balances adjusted for charge-offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The 2009, 2010 and 2011 financial statements reflect the transfer of 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 standard in the industry, SecurityNational Mortgage receives payments on the mortgage loans during the time period between the sale date and settlement or repurchase date. Also during this period, SecurityNational Mortgage services these loans.

As of December 31, 2011, the Company's long term mortgage loan portfolio consisted of \$19,880,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$13,016,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$19,880,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2011 and 2010, the Company increased its allowance for mortgage losses by \$1,236,000 and \$630,000, respectively, which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2011 and 2010 were \$4,881,000 and \$7,070,000, respectively.

Also at December 31, 2011, the Company had foreclosed on a total of \$52,192,000 in long term mortgage loans, of which \$9,228,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2011. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. The amounts accrued for loan losses in years ended December 31, 2011 and 2010 were \$1,668,000 and \$4,534,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2011 and 2010, the balances were \$2,338,000 and \$5,899,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault in regards to either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. From April 8, 2011 to December 31, 2011, Wells Fargo deducted a total of \$530,329, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period. SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells Fargo. From April 8, 2011 to December 31, 2011, SecurityNational Mortgage paid Wells Fargo a total of \$50,393, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period. Finally, SecurityNational Mortgage is required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 28 real estate properties with a total book value of \$5,597,900 as of December 31, 2011.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of December 31, 2011, the Company reserved and accrued \$2,338,000 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers.

Mortgage Loan Loss Demands

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of December 31, 2011, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than \$20,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2011. The Company has reserved and accrued \$2,338,000 as of December 31, 2011 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$17,351,000 on December 31, 2011, and its reserve for mortgage loan loss, which was \$2,338,000 on December 31, 2011. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal because it regarded the language in the settlement documents as unreasonable, the investor notified SecurityNational Mortgage by letter dated October 20, 2010 of its decision to terminate its business relationship with SecurityNational Mortgage.

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting \$5,971,000 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage.

SecurityNational Mortgage believes the investor wrongfully applied the \$5,971,000 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. The investor has asserted potential claims and notices of potential claims concerning the alleged defective loans that SecurityNational Mortgage sold to such investor. SecurityNational Mortgage disagrees with these potential claims and notices and believes it has significant defenses to such claims and notices, as well as a claim against the investor for the return of the \$5,971,000 that the investor had wrongfully taken from the over/under account.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification relating to mortgage loans that EMC Mortgage, LLC (“EMC Mortgage”) allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase & Co. (“JP Morgan Chase”) in behalf of EMC Mortgage. According to the notice, the alleged indemnification claims relate to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claims from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery. A copy of the complaint and the amended complaint has been provided by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage’s assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter from JP Morgan Chase accompanying a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example, neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the

aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of \$125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2009, 2010 and 2011, the Company recognized alleged losses of \$1,032,000, \$1,289,000 and \$0, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2011, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to

Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

Life Insurance Acquisitions, Mergers and Reinsurance

Reinsurance with American Life and Security Corporation

On May 24, 2010, the Company completed a stock purchase transaction with American Life and Security Corporation ("American Life"), a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the Stock Purchase Agreement among the Company, American Life, and the shareholders of the Company, American Life paid the Company at closing purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of \$1,692,576, plus additional consideration in the amount of \$105,000 for a total of \$1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate Capital Reserve into the Company in 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. American Life obtained approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, the Company entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Under the terms of the agreement, the Company ceded to American Life a block of deferred annuities in the amount of \$2,678,931 and a block of whole life policies in the amount of \$1,048,134, together with net due and deferred premiums in the amount of \$12,305, advance premiums in the amount of \$353, claims liability in the amount of \$14,486, and net policy loans in the amount of \$128,487. The total initial consideration of \$3,601,112 in cash was transferred to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of a custodial agreement.

The agreement further requires American Life to pay the Company an initial ceding commission of \$375,000 and a management fee of \$3,500 per quarter to administer the policies. American Life agreed to indemnify the Company for these contracts and risks. The initial term on this agreement will be for a period of one year. After the initial one year term, this agreement will be automatically renewed unless American Life notifies the Company in writing of its intention not to renew, no less than 180 days prior to the expiration of the then current agreement. Each automatic renewal period of this agreement will be for a term of one year. The accounting and settlement of this agreement will be on a quarterly basis and calculated pursuant to the terms thereof.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company ("North America Life"), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement.

Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,525,875. In addition, North America Life transferred \$15,703,641 in assets and \$19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,641 in assets included \$12,990,444 in cash, \$8,997 in policy loans, and \$2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

On September 1, 2011, Security National Life, with the approval of the Texas Department of Insurance, assumed all of the policies which were issued by North America Life and previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

On August 31, 2011 the Company entered into a stock purchase agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company (“Trans-Western”), a Texas domiciled insurance company and a wholly owned subsidiary of North America Life. Under the terms of the transaction as set forth in a Stock Purchase Agreement involving the Company and North America Life, the Company agreed to pay to North America Life purchase consideration equal to the capital and surplus of Trans-Western as of the date of closing. As of September 30, 2011, the capital and surplus of Trans-Western was \$544,000. The Stock Purchase Agreement was approved by the Texas Insurance Department on March 20, 2012. All of Trans-Western’s insurance business has been ceded to North America Life, of which approximately 47% of the insurance in force has been assumed by the Company under the Coinsurance Agreement explained above.

Insurance Operations

The Company’s insurance business includes funeral plans, and 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.

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 coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person’s death. On a per thousand dollar cost of insurance basis these policies can be more expensive to the policy holder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the financial results for the years ended December 31, 2011, 2010 and 2009. See note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)						
	2011	2010	2011 vs 2010 % Increase (Decrease)		2009	2010 vs 2009 % Increase (Decrease)	
Revenues from external customers							
Insurance premiums	\$48,480	\$38,528	26	%	\$38,413	0	%
Net investment income	17,296	14,738	17	%	15,869	(7	%)
Other	1,468	2,008	(27	%)	1,676	20	%
Total	\$67,244	\$55,274	22	%	\$55,958	(1	%)
Intersegment revenue	\$5,833	\$6,817	(14	%)	\$5,041	35	%
Earnings before income taxes	\$2,698	\$1,860	45	%	\$(434)	529	%

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2011 has improved due to increases in net investment income and insurance premiums primarily due to the reinsurance transaction with North America Life entered into during March 2011.

Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah and one mortuary in Phoenix, Arizona. The Company also sells cemetery products and services through its five cemeteries in Salt Lake City, Utah and one cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

The following table shows the condensed financial results for the years ended December 31, 2011, 2010 and 2009. See note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				2010 vs 2009	
	2011	2010	2011 vs 2010 % Increase (Decrease)	2009	% Increase (Decrease)	
Revenues from external customers						
Mortuary revenues	\$4,864	\$6,211	(22 %)	\$6,368	(2 %)	
Cemetery revenues	5,897	5,309	11 %	5,605	(5 %)	
Realized gains (losses)	868	(27)	3,315 %	-	-	
Other	308	321	300 %	247	19 %	
Total	\$11,937	\$11,814	1 %	\$12,220	(3 %)	
Earnings (Losses) before income taxes	\$461	\$(986)	147 %	\$(128)	670 %	

The realized gain in 2011 is due to the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home. Included in other revenue is rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income is offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates has recorded depreciation on these properties of \$1,025,000 and \$841,000 for the twelve months ended December 31, 2011 and 2010, respectively.

Significant Accounting Policies

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. See Note 1 of the Notes to 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 accounting principles generally accepted in the United States (GAAP). Under GAAP, 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 FASB Codification Topic 360-20, 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 GAAP related to Financial Services - Insurance. 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 GAAP related to sales of financial assets.

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:

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.

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 issue 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 cemetery and mortuary 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 is an allowance for losses on the Company's mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral.

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 owned. The Company carries the foreclosed property in Security National Life, Memorial Estates and SecurityNational Mortgage, its life, cemeteries and mortuaries and mortgage subsidiaries, and will rent the properties until it is deemed desirable to sell them. The Company is currently able to rent properties at a 2% to 6% gross 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.

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 based on total production. This estimate is based on the Company's historical experience. The amount accrued for and the charge to expense is included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses. The Company believes the allowance for loan losses 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 coverage. 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 for incidents incurred but not reported as of the balance sheet date.

Results of Consolidated Operations

2011 Compared to 2010

Total revenues decreased by \$8,941,000, or 5.3%, to \$159,589,000 for fiscal year 2011 from \$168,530,000 for the fiscal year 2010. Contributing to this decrease in total revenues was a \$19,737,000 decrease in mortgage fee income, a \$759,000 decrease in net cemetery and mortuary sales, a \$473,000 decrease in other revenue, and a \$167,000 increase in other than temporary impairments. This decrease in total revenues was offset by a \$9,951,000 increase in insurance premiums and other considerations, a \$1,395,000 increase in net investment income, and an \$849,000 increase in realized gains on investments and other assets.

Insurance premiums and other consideration increased by \$9,951,000, or 25.8%, to \$48,479,000 for 2011, from \$38,528,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life that was completed in March 2011, an increase in renewal premiums, and an increase in first year premiums due to increased insurance sales.

Net investment income increased by \$1,395,000, or 7.5%, to \$20,011,000 for 2011, from \$18,616,000 for the comparable period in 2010. This increase was primarily attributable to a \$1,002,000 increase in fixed maturity securities income, a \$930,000 increase in interest on mortgage loans on real estate, and a \$552,000 decrease in investment expenses. This increase was partially offset by a \$960,000 decrease in income from short-term investments and a \$99,000 decrease in income from real estate.

Net cemetery and mortuary sales decreased by \$759,000, or 6.6%, to \$10,761,000 for 2011, from \$11,520,000 for the comparable period in 2010. This reduction was primarily due to a decline in at-need sales of mortuary operations as a result of the sale of two Arizona funeral homes in 2011.

Realized gains on investments and other assets increased by \$849,000, or 52.6%, to \$2,464,000 in realized gains for 2011, from \$1,615,000 in realized gains for the comparable period in 2010. This increase in realized gains on investments and other assets was primarily due to an \$887,000 gain on the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home in 2011, which was partially offset by a decrease in realized gains on fixed maturity securities.

Other than temporary impairments on investments increased by \$167,000, or 24.7%, to \$841,000 for 2011 from \$674,000 for the comparable period in 2010. This increase is due to impairments on other real estate owned held for investment offset by a decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by \$19,737,000, or 20.3%, to \$77,605,000 for 2011, from \$97,342,000 for the comparable period in 2010. This decrease was primarily attributable to a decrease in secondary gains on mortgage loans sold to investors and a decrease in loan volume due to a reduced demand in the housing sector caused by the slow growth of the economy.

Other revenues decreased by \$473,000, or 29.9%, to \$1,108,000 for 2011 from \$1,581,000 for the comparable period in 2010. This decrease was due to a reduction in miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$158,353,000, or 99.2% of total revenues, for 2011, as compared to \$169,619,000, or 100.6% of total revenues, for the comparable period in 2010.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$8,034,000 or 22.0%, to \$44,486,000 for 2011, from \$36,452,000 for the comparable period in 2010. This increase

was primarily the result of increased future policy benefits, increased death benefits, and increased surrender and other policy benefits primarily due to the reinsurance transaction with North America Life Insurance Company.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$1,564,000, or 26.3%, to \$7,509,000 for 2011, from \$5,945,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life Insurance Company and an increase in business in force.

Selling, general and administrative expenses decreased by an aggregate of \$19,704,000, or 16.1%, to \$102,514,000 for 2011, from \$122,218,000 for the comparable period in 2010. This decrease was the result of a reduction in commission expenses of \$10,925,000, from \$58,440,000 in 2010 to \$47,515,000 in 2011, due to a decrease in sales in the mortgage operations and the cemetery operations, which was partially offset by an increase in life insurance first year and renewal commissions during 2011. Salaries decreased by \$2,875,000 from \$26,406,000 in 2010 to \$23,531,000 in 2011, primarily due to a reduction in the number of employee equivalents. Provision for loan losses decreased by \$3,334,000 from \$5,404,000 in 2010 to \$2,070,000 in 2011, primarily due to a decrease in monthly loan origination volume and a reduction in investor demands due to previous settlements. Costs related to funding mortgage loans decreased by \$1,804,000 from \$6,044,000 in 2010 to \$4,240,000 in 2011 due primarily to fewer loans funded as a result of reduced demand in the housing sector. Other expenses decreased by \$766,000 from \$25,923,000 in 2010 to \$25,157,000 in 2011.

Interest expense decreased by \$818,000, or 29.4%, to \$1,961,000 for 2011, from \$2,779,000 for the comparable period in 2010. This reduction was primarily due to decreased outstanding balances on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$343,000, or 15.4%, to \$1,883,000 for 2011, from \$2,226,000 for the comparable period in 2010. This decrease was primarily due to decreased at-need cemetery sales and mortuary sales.

Comprehensive income for the years ended December 31, 2011 and December 31, 2010 amounted to a gain of \$765,000 and a loss of \$836,000, respectively. This increase of \$1,601,000 in 2011 was primarily the result of a \$1,729,000 increase in net income, a \$1,122,000 decrease in unrealized gains in securities available for sale, and a gain of \$994,000 in derivatives related to mortgage loans.

2010 Compared to 2009

Total revenues decreased by \$48,359,000, or 22.3%, to \$168,530,000 for fiscal year 2010 from \$216,888,000 for the fiscal year 2009. Contributing to this decrease in total revenues was a \$46,932,000 decrease in mortgage fee income, a \$1,299,000 decrease in net investment income, a \$453,000 decrease in net cemetery and mortuary sales, and a \$348,000 increase in other than temporary impairments. This decrease in total revenues was partially offset by a \$392,000 increase in realized gains on investments and other assets, a \$115,000 increase in insurance premiums and other considerations, and a \$166,000 increase in other revenue.

Insurance premiums and other considerations increased by \$115,000, or 0.3%, to \$38,528,000 for 2010, from \$38,413,000 for the comparable period in 2009. This increase was primarily the result of an increase in renewal premiums offset by a decrease in insurance sales causing a decrease in first year premiums.

Net investment income decreased by \$1,299,000, or 6.5%, to \$18,616,000 for 2010, from \$19,915,000 for the comparable period in 2009. This reduction was primarily attributable to a \$701,000 increase in investment expenses, a \$681,000 decrease in income from short-term investments primarily due to lower interest rates from mortgage loans sold to investors, a \$556,000 decrease in equity securities income, and a \$380,000 decrease in fixed maturity securities income. This decrease was offset by a \$692,000 increase in interest on mortgage loans on real estate, and a \$240,000 increase in income from real estate.

Net cemetery and mortuary sales decreased by \$453,000, or 3.8%, to \$11,520,000 for 2010, from \$11,974,000 for the comparable period in 2009. This reduction was primarily due to a decline in pre-need land sales of burial spaces in the cemetery and mortuary operations, and a decline in at-need sales of mortuary operations.

Realized gains on investments and other assets increased by \$392,000, or 32.1%, to \$1,615,000 in realized gains for 2010, from \$1,223,000 in realized gains for the comparable period in 2009. This increase in realized gains on investments was due to gains from the sale of fixed maturity securities.

Other than temporary impairments on investments increased by \$348,000, or 106.7%, to \$674,000 for 2010, from \$326,000 for the comparable period in 2009. This increase is due to impairments on other real estate owned held for investment offset by a decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by \$46,932,000, or 32.5%, to \$97,342,000 for 2010, from \$144,274,000 for the comparable period in 2009. This decrease was primarily attributable to a decrease in secondary gains on mortgage loans sold to investors, a decrease in loan volume due to a reduced demand in the housing sector, and fluctuating interest rates that adversely impacted the refinancing markets.

Other revenues increased by \$166,000, or 11.8%, to \$1,581,000 for 2010 from \$1,415,000 for the comparable period in 2009. This increase was due to additional miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$169,619,000, or 100.6% of total revenues, for 2010, as compared to \$210,541,000, or 97.1% of total revenues, for the comparable period in 2009.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$532,000 or 1.5%, to \$36,452,000 for 2010, from \$35,920,000 for the comparable period in 2009. This increase was primarily the result of increased future policy benefits, and increased death benefits that were partially offset by decreases in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$1,216,000, or 17.0%, to \$5,945,000 for 2010, from \$7,161,000 for the comparable period in 2009. This decrease was primarily due to a decrease in business in force.

Selling, general and administrative expenses decreased by \$39,567,000, or 24.5%, to \$122,218,000 for 2010, from \$161,785,000 for the comparable period in 2009. This decrease was the result of a reduction in commission expenses of \$21,070,000, from \$79,510,000 in 2009 to \$58,440,000 in 2010, due to a decrease in sales in the mortgage operations and the cemetery operations, and a decrease in life insurance first year and renewal commissions during 2010. Salaries decreased by \$945,000 from \$27,352,000 in 2009 to \$26,406,000 in 2010, primarily due to a reduction in the number of employees. Provision for loan losses decreased by \$14,143,000 from \$19,547,000 in 2009 to \$5,405,000 in 2010 due primarily to a decreased loan loss reserve and loan allowance balances at SecurityNational Mortgage. Costs related to funding mortgage loans decreased by \$3,998,000 from \$10,042,000 in 2009 to \$6,044,000 in 2010 due primarily to a decrease in loans funded. Other expenses increased by \$589,000 from \$25,335,000 in 2009 to \$25,923,000 in 2010 due to an increase in bank charges, rent, advertising, legal fees, insurance, and other fees and taxes other than income taxes offset by decreases in accounting fees, travel expenses, general supplies, and training and seminars.

Interest expense decreased by \$547,000, or 16.5%, to \$2,779,000 for 2010, from \$3,326,000 for the comparable period in 2009. This reduction was primarily due to decreased borrowing rates on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$123,000, or 5.3%, to \$2,226,000 for 2010, from \$2,349,000 for the comparable period in 2009. This decrease was primarily due to decreased at-need cemetery sales and mortuary sales.

Comprehensive income for the years ended December 31, 2010 and December 31, 2009 amounted to a loss of \$836,000 and a gain of \$4,950,000, respectively. This decrease of \$5,786,000 in 2010 was primarily the result of a \$4,204,000 decrease in net income, a \$344,000 decrease in unrealized gains in securities available for sale, and a \$1,237,000 loss in derivatives related to mortgage loans.

Risks

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

Legal and Regulatory Risks - 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.

Mortgage Industry Risks - Developments in the mortgage industry and credit markets adversely affected the Company's ability to sell certain of its mortgage loans to investors, which impacted the Company's financial results by requiring it to assume the risk of holding and servicing many of these loans.

As a result of the volatile secondary market, for mortgage loans, SecurityNational Mortgage sold mortgage loans in 2007 and 2008 to certain third party investors, including Lehman Brothers-Aurora Loan Services and Bear Stearns-EMC Mortgage Corp. that experienced financial difficulties and were not able to settle the loans. The total amount of the loans was \$52,556,000, of which \$36,499,000 were loans in which the secondary market no longer exists. Due to these changes in circumstances, the Company regained control of the mortgages and, in accordance with generally accepted accounting principles, accounted for the loans retained in the same manner as a purchase of assets from former transferees in exchange for liabilities assumed.

At the time of repurchase, the loans were determined to be held for investment purposes, and the fair value of the loans was determined to approximate the unpaid principal balances adjusted for charge-offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The 2009, 2010 and 2011 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.

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. SecurityNational Mortgage 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. SecurityNational Mortgage's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, SecurityNational Mortgage initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. SecurityNational Mortgage accrues a monthly allowance for indemnification losses to investors based on SecurityNational Mortgage's historical experience. The amounts accrued for loan losses in years ended December 31, 2011, 2010 and 2009 were \$1,667,805, \$4,534,231 and \$17,306,471, respectively, and the charge to expense has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2011 and 2010, the balances were \$2,337,875 and \$5,899,027, respectively. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of December 31, 2011. However, there is a risk that future loan losses may exceed the loan loss reserves and allowances.

As of December 31, 2011, the Company's long term mortgage loan portfolio consisted of \$19,880,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$13,016,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$19,880,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2011 and 2010, SecurityNational Mortgage increased its allowance for mortgage losses by \$1,236,000 and \$630,000, respectively, which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2011 and 2010 were \$4,881,000 and \$7,070,000, respectively.

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of December 31, 2011, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than \$20,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2011. The Company has reserved and accrued \$2,338,000 as of December 31, 2011 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$17,351,000 on December 31, 2011, and its reserve for mortgage loan loss, which was \$2,338,000 on December 31, 2011. SecurityNational Mortgage disagrees with the claims and notices of

potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Also at December 31, 2011, the Company had foreclosed on a total of \$52,192,000 in long term mortgage loans, of which \$9,228,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2011. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

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, estimate of probable loan loss reserve, 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, 2011, the Company's operations provided cash of \$6,866,000, while cash totaling \$14,251,000 was used by operations during the twelve months ended December 31, 2010. This was due primarily to a \$15,145,000 increase in 2011 and an increase of \$23,957,000 in 2010 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, real estate 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.

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 \$127,579,000 as of December 31, 2011 compared to \$98,048,000 as of December 31, 2010. This represents 38.3% and 35.5% of the total investments as of December 31, 2011, and December 31, 2010, 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, 2011, 4.1% (or \$5,182,000) and at December 31, 2010, 6.2% (or \$6,019,000) 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 note 2 of the Notes to Consolidated Financial Statements for the schedule of the maturity of fixed maturity securities and for the schedule of principal payments for mortgage loans on real estate and construction loans held for investment.

If market conditions were to cause interest rates to change, the market value of the fixed income portfolio (of approximately \$256,213,000) 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)	\$17,118	\$8,522	\$(10,967)	\$(20,061)

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At December 31, 2011, and December 31, 2010, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable were \$86,250,000 as of December 31, 2011, as compared to \$66,994,000 as of December 31, 2010. Stockholders' equity as a percent of total capitalization was 71.0% and 89.5% as of December 31, 2011 and December 31, 2010, respectively. Bank debt and notes payable increased \$17,953,000 for the twelve months ended December 31, 2011 when compared to December 31, 2010, thus decreasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2011 was 6.5% as compared to a rate of 8.0% for 2010.

At December 31, 2011, \$26,923,000 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 on 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; (xiv) deterioration of real estate markets and (xv) lawsuits in the ordinary course of business.

Off-Balance Sheet Agreements

At December 31, 2011, the Company was contingently liable under a standby letter of credit aggregating \$383,114, 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.

At December 31, 2011, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency related to claims filed in states where SecurityNational Mortgage is licensed. SecurityNational Mortgage does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The total amount available to originate loans under this agreement at December 31, 2011 was \$65,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. Generally, when certain mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with an unaffiliated warehouse bank that expired on December 19, 2011.

As of December 31, 2011, there was \$64,991,000 in mortgage loans in which settlements with third party investors were still pending.

The total of the Company unfunded residential construction loan commitments as of December 31, 2011 was \$3,582,000.

Contractual Obligations

The Company's contractual obligations as of December 31, 2011 and the payments due by period are shown in the following table:

	Less than 1 year	1-3 years	4-5 years	over 5 years	Total
Non-cancelable operating leases	\$1,315,512	\$1,320,530	\$37,155	\$-	\$2,673,197
Notes and contracts payable	18,018,145	6,680,693	173,190	147,091	25,019,119
	\$19,333,657	\$8,001,223	\$210,345	\$147,091	\$27,692,316

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, under generally accepted accounting principles, "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 \$383,114, a majority of which is collateralized under a standby letter of credit issued on the insurance entity's behalf. See Note 9, "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, 2011, there are no other entities that met the definition of a variable interest entity.

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 18 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

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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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. 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 were 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, 2011 and 2010 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011 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, is 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 30, 2012

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets	December 31,	
	2011	2010
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 127,579,087	\$ 98,048,016
Equity securities, available for sale, at estimated fair value	6,299,392	6,784,643
Mortgage loans on real estate and construction loans held for investment, net of allowances for losses of \$4,881,173 and \$7,070,442 for 2011 and 2010	115,155,967	96,154,107
Real estate held for investment, net of accumulated depreciation of \$4,189,641 and \$3,849,695 for 2011 and 2010	3,786,780	3,996,777
Other real estate owned held for investment, net of accumulated depreciation of \$1,810,238 and \$1,090,532 for 2011 and 2010	46,398,095	44,422,829
Other real estate owned held for sale	5,793,900	5,086,400
Policy, student and other loans net of allowance for doubtful accounts of \$427,136 and \$380,506 for 2011 and 2010	18,463,277	17,044,897
Short-term investments	6,932,023	2,618,349
Accrued investment income	2,323,080	1,726,854
Total investments	332,731,601	275,882,872
Cash and cash equivalents	17,083,604	39,556,503
Mortgage loans sold to investors	77,339,445	63,226,686
Receivables, net	9,934,075	7,827,114
Restricted assets of cemeteries and mortuaries	3,392,497	3,066,379
Cemetery perpetual care trust investments	1,810,185	1,454,694
Receivable from reinsurers	7,484,466	4,476,237
Cemetery land and improvements	11,105,809	11,096,129
Deferred policy and pre-need contract acquisition costs	36,237,069	35,767,101
Property and equipment, net	9,300,185	11,111,059
Value of business acquired	11,020,834	9,017,696
Goodwill	677,039	1,075,039
Other	3,022,113	2,077,396
Total Assets	\$ 521,138,922	\$ 465,634,905

See accompanying notes to consolidated financial statements.

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

	December 31,	
	2011	2010
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$381,595,568	\$344,972,099
Unearned premium reserve	5,030,443	5,213,948
Bank and other loans payable	25,019,119	7,065,975
Deferred pre-need cemetery and mortuary contract revenues	13,140,483	13,192,499
Cemetery perpetual care obligation	2,983,077	2,853,727
Accounts payable	2,672,479	2,472,996
Other liabilities and accrued expenses	14,456,887	14,579,008
Income taxes	15,010,279	15,356,185
Total liabilities	459,908,335	405,706,437
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 9,638,798 shares in 2011 and 9,178,945 shares in 2010	19,277,596	18,357,890
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$0.20 par value; 15,000,000 shares authorized; issued 10,135,976 shares in 2011 and 9,660,152 shares in 2010	2,027,195	1,932,031
Additional paid-in capital	19,487,565	19,689,993
Accumulated other comprehensive income, net of taxes	654,443	1,188,246
Retained earnings	22,546,623	21,907,579
Treasury stock, at cost - 1,198,167 Class A shares and -0- Class C shares in 2011; 1,322,074 Class A shares and -0- Class C shares in 2010	(2,762,835)	(3,147,271)
Total stockholders' equity	61,230,587	59,928,468
Total Liabilities and Stockholders' Equity	\$521,138,922	\$465,634,905

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31,		
	2011	2010	2009
Revenues:			
Insurance premiums and other considerations	\$48,479,519	\$38,528,437	\$38,413,329
Net investment income	20,010,704	18,615,984	19,915,072
Net mortuary and cemetery sales	10,761,469	11,520,369	11,973,676
Realized gains on investments and other assets	2,464,353	1,615,418	1,223,312
Other than temporary impairments	(840,735)	(673,981)	(326,000)
Mortgage fee income	77,605,105	97,342,215	144,274,227
Other	1,108,969	1,581,115	1,414,680
Total revenues	159,589,384	168,529,557	216,888,296
Benefits and expenses:			
Death benefits	22,184,112	19,350,176	19,003,933
Surrenders and other policy benefits	1,761,608	1,575,812	1,677,335
Increase in future policy benefits	20,540,375	15,525,542	15,238,380
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	7,509,328	5,944,859	7,160,488
Selling, general and administrative expenses:			
Commissions	47,514,804	58,439,664	79,509,946
Salaries	23,531,407	26,406,153	27,351,618
Provision for loan losses and loss reserve	2,070,399	5,404,645	19,547,162
Costs related to funding mortgage loans	4,240,377	6,044,020	10,041,731
Other	25,156,515	25,923,413	25,334,654
Interest expense	1,961,249	2,778,920	3,326,161
Cost of goods and services sold – mortuaries and cemeteries	1,882,657	2,225,773	2,349,230
Total benefits and expenses	158,352,831	169,618,977	210,540,638
Earnings (loss) before income taxes	1,236,553	(1,089,420)	6,347,658
Income tax benefit (expense)	62,205	658,796	(2,573,778)
Net earnings (loss)	\$1,298,758	\$(430,624)	\$3,773,880
Net earnings (loss) per Class A equivalent common share (1)	\$0.14	\$(0.05)	\$0.41
Net earnings (loss) per Class A equivalent common share -assuming dilution(1)	\$0.14	\$(0.05)	\$0.41
Weighted average Class A equivalent common shares outstanding (1)	9,375,045	9,169,150	9,149,451

Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	9,477,852	9,169,150	9,151,937
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(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, \$0.00 and \$0.04 per share for 2011, 2010 and 2009, respectively, and \$0.01, \$0.00 and \$0.04 per share-assuming dilution for 2011, 2010 and 2009, 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, 2009, 2010 and 2011

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2009	\$16,568,218	\$1,782,463	\$17,985,848	\$417,101	\$21,023,179	\$(3,864,530)	\$53,912,279
Comprehensive income:							
Net earnings	—	—	—	—	3,773,880	—	3,773,880
Unrealized gains (losses)	—	—	—	1,176,226	—	—	1,176,226
Total comprehensive income	—	—	—	—	—	—	4,950,106
Grant of stock options	—	—	485,986	—	—	—	485,986
Exercise stock options	32,962	—	(32,962)	—	—	—	—
Sale of treasury stock	—	—	54,271	—	—	402,799	457,070
Stock dividends	831,736	87,755	698,524	—	(1,618,015)	—	—
Odd lot purchase	160	—	(60)	—	(100)	—	—
Conversion Class C to Class A	27,377	(27,376)	(1)	—	—	—	—
Balance at December 31, 2009	17,460,454	1,842,842	19,191,606	1,593,327	23,178,944	(3,461,731)	59,805,442
Comprehensive income:							
Net loss	—	—	—	—	(430,624)	—	(430,624)
Unrealized gains (losses)	—	—	—	(405,081)	—	—	(405,081)
Total comprehensive income	—	—	—	—	—	—	(835,705)
Grant of stock options	—	—	520,457	—	—	—	520,457
Exercise of stock options	20,348	—	(20,348)	—	—	—	—
Sale of treasury stock	—	—	123,814	—	—	314,460	438,274
Stock dividends	874,276	92,002	(125,537)	—	(840,741)	—	—
Conversion Class C to Class A	2,812	(2,813)	1	—	—	—	—
Balance at December 31, 2010	18,357,890	1,932,031	19,689,993	1,188,246	21,907,579	(3,147,271)	59,928,468
Comprehensive income:							
Net earnings	—	—	—	—	1,298,758	—	1,298,758
Unrealized gains (losses)	—	—	—	(533,803)	—	—	(533,803)
Total comprehensive income	—	—	—	—	—	—	764,955
Grant of stock options	—	—	253,934	—	—	—	253,934
Exercise of stock options	—	—	—	—	—	—	—
Sale of treasury stock	—	—	(101,206)	—	—	384,436	283,230
Stock dividends	918,336	96,535	(355,157)	—	(659,714)	—	—
Conversion Class C to Class A	1,370	(1,371)	1	—	—	—	—
Balance at December 31, 2011	\$19,277,596	\$2,027,195	\$19,487,565	\$654,443	\$22,546,623	\$(2,762,835)	\$61,230,587

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
Cash flows from operating activities:			
Net earnings (loss)	\$1,298,758	\$(430,624)	\$3,773,880
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Realized gains on investments and other assets	(2,464,353)	(1,615,418)	(1,223,312)
Other than temporary impairments	840,735	673,981	326,000
Depreciation	2,814,585	2,917,513	2,801,417
Provision for losses on real estate accounts and loans receivable	1,644,171	(198,062)	2,804,620
Amortization of premiums and discounts	(539,896)	(19,505)	(740,124)
Provision for deferred and other income taxes	524,868	(1,197,023)	1,570,989
Policy and pre-need acquisition costs deferred	(6,806,486)	(6,956,154)	(7,754,706)
Policy and pre-need acquisition costs amortized	6,367,350	5,225,032	6,035,882
Value of business acquired amortized	1,141,978	719,827	1,124,606
Stock based compensation expense	253,934	520,457	485,986
Benefit plans funded with treasury stock	283,230	438,274	457,070
Change in assets and liabilities:			
Land and improvements held for sale	(9,680)	(108,296)	(361,537)
Future life and other benefits	20,522,528	16,843,261	15,423,587
Receivables for mortgage loans sold	(15,144,933)	(23,957,088)	(19,383,604)
Other operating assets and liabilities	(3,860,964)	(7,107,055)	11,831,350
Net cash provided by (used in) operating activities	6,865,825	(14,250,880)	17,172,104
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(50,566,004)	(8,251,365)	(12,897,225)
Calls and maturities - fixed maturity securities	21,631,908	27,878,797	22,610,141
Securities available for sale:			
Purchase - equity securities	(4,574,717)	(5,462,028)	(5,640,738)
Sales - equity securities	4,161,140	5,014,194	5,788,996
Purchases of short-term investments	(70,895,829)	(9,590,929)	(20,784,977)
Sales of short-term investments	66,582,155	14,115,870	18,923,574
Sales (purchases) of restricted assets	(338,310)	(441,441)	1,552,830
Change in assets for perpetual care trusts	(266,056)	(282,605)	(230,498)
Amount received for perpetual care trusts	129,350	97,553	108,190
Mortgage, policy, and other loans made	(127,867,064)	(102,328,203)	(89,298,195)
Payments received for mortgage, policy, and other loans	103,865,163	97,675,289	83,312,074
Purchases of property and equipment	(765,633)	(859,988)	(736,210)
Disposal of property and equipment	2,296,247	-	2,749
Purchases of real estate	(441,444)	(1,813,784)	(801,297)
Sale of real estate	2,605,454	6,424,961	1,965,740
Cash Received for Reinsurance with North American Life	12,990,444	-	-
Net cash provided by (used in) investing activities	(41,453,196)	22,176,321	3,875,154
See accompanying notes to consolidated financial statements			

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

	Years Ended December 31,		
	2011	2010	2009
Cash flows from financing activities:			
Annuity contract receipts	\$7,967,701	\$8,428,798	\$9,101,675
Annuity contract withdrawals	(13,910,925)	(14,372,244)	(13,920,526)
Repayment of bank loans and notes and contracts payable	(1,957,389)	(1,889,295)	(1,633,714)
Proceeds from bank borrowings	3,615,085	-	4,955,000
Change in line of credit borrowings	16,400,000	-	-
Net cash provided by (used in) financing activities	12,114,472	(7,832,741)	(1,497,565)
Net change in cash and cash equivalents	(22,472,899)	92,700	19,549,693
Cash and cash equivalents at beginning of year	39,556,503	39,463,803	19,914,110
Cash and cash equivalents at end of year	\$17,083,604	\$39,556,503	\$39,463,803
Non Cash Investing and Financing Activities			
Mortgage loans foreclosed into real estate	\$9,228,249	\$12,985,041	\$24,441,490

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

1) Significant Accounting Policies

General Overview of Business

Security National Financial Corporation and its wholly owned subsidiaries (the “Company”) operate 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 marketed primarily in the intermountain west, California and eleven southern states. The cemetery and mortuary segment of the Company consists of five cemeteries in Utah, one cemetery in California, seven mortuaries in Utah and one mortuary in Arizona. 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 primarily in California, Florida, Illinois, Kansas, Texas, and Utah.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of certain amounts in prior years has been reclassified to conform to the 2011 presentation.

Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Investments

The Company’s management determines the appropriate classifications of investments in fixed maturity securities and equity securities at the acquisition date and re-evaluates the classifications at each balance sheet date.

Fixed maturity securities held to maturity are carried at cost, adjusted for amortization of premium or accretion of discount. Although the Company has the ability and intent to hold these investments to maturity, infrequent and unusual conditions could occur under which it would sell certain of these securities. Those conditions include unforeseen changes in asset quality, significant changes in tax laws, and changes in regulatory capital requirements or permissible investments.

Fixed maturity and equity securities available for sale are carried at estimated fair value. Changes in fair values net of income taxes are reported as unrealized appreciation or depreciation and recorded as an adjustment directly to stockholders’ equity and, accordingly, have no effect on net income.

Mortgage loans on real estate, and construction loans are carried at their principal balances adjusted for charge-offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The Company defers related material loan origination fees, net of related direct loan origination costs, and amortizes the net fees over the term of the loans.

Mortgage loans are collateral dependent and require an appraisal at the time of underwriting and funding. Generally the Company will fund a loan not to exceed 80% of the loan's collateral fair market value. Amounts over 80% will require mortgage insurance by an approved third party insurer. Once a loan is deemed to be impaired the Company will review the market value of the collateral and provide an allowance for any impairment.

Mortgage loans sold to investors are carried at the amount due from third party investors, which is the estimated fair value at the balance sheet date since these amounts are generally collected within a short period of time.

Real estate held for investment is carried at cost, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the properties, or is adjusted to a new basis for impairment in value, if any.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

1) Significant Accounting Policies (Continued)

Other real estate owned held for investment are foreclosed properties which the Company intends to hold for investment purposes. These properties are recorded at the lower of cost or market value upon foreclosure. Depreciation is provided on a straight line basis over the estimated useful life of the properties. These properties are analyzed for impairment periodically in accordance with our policy for long-lived assets.

Other real estate owned held for sale are foreclosed properties which the Company intends to sell. These properties are carried at the lower of cost or fair value, less cost to sell.

Policy and other loans are carried at the aggregate unpaid balances, less allowances for possible losses.

Short-term investments are carried at cost and consist of certificates of deposit and commercial paper with maturities of up to one year.

Restricted assets of cemeteries and mortuaries are assets held in a trust account for future mortuary services and merchandise and consist of cash; participations in mortgage loans with Security National Life; mutual funds carried at cost; equity securities carried at fair market value; and a surplus note with Security National Life.

Cemetery and mortuary perpetual care trust business segment contains six wholly owned cemeteries. Of the six cemeteries owned by the Company, four cemeteries are endowment care properties. Under endowment care arrangements a portion of the price for each lot sold is withheld and invested in a portfolio of investments similar to those described in the prior paragraph. The earnings stream from the investments is designed to fund future maintenance and upkeep of the cemetery.

Realized gains and losses on investments arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If in management's judgment a decline in the value of an investment below cost is other-than-temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in judging whether an impairment is other-than-temporary include: the financial condition, business prospects and credit worthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of the decline, and the Company's ability and intent to hold the investment until the fair value recovers, which is not assured.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Cemetery Land and Improvements

The development of a cemetery involves not only the initial acquisition of raw land but the installation of roads, water lines, landscaping and other costs to establish a marketable cemetery lot. The costs of developing the cemetery are shown as an asset on the balance sheet. The amount on the balance sheet is reduced by the total cost assigned to the development of a particular lot when the criterion for recognizing a sale of that lot is met.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated principally on the straight-line method over the estimated useful lives of the assets which range from three to forty years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Recognition of Insurance Premiums and Other Considerations

Premiums for traditional life insurance products (which include those products with fixed and guaranteed premiums and benefits and consist principally of whole life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies) are recognized as revenues when due from policyholders. Revenues for interest-sensitive insurance policies (which include universal life policies, interest-sensitive life policies, deferred annuities, and annuities without life contingencies) are recognized when earned and consist of policy charges for the policy administration charges, and surrender charges assessed against policyholder account balances during the period.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
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1) Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs and Value of Business Acquired

Commissions and other costs, net of commission and expense allowances for reinsurance ceded, that vary with and are primarily related to the production of new insurance business have been deferred. Deferred policy acquisition costs (“DAC”) for traditional life insurance are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. For interest-sensitive insurance products, deferred policy acquisition costs are amortized generally in proportion to the present value of expected gross profits from surrender charges, investment, mortality and expense margins. This amortization is adjusted when estimates of current or future gross profits to be realized from a group of products are reevaluated. Deferred acquisition costs are written off when policies lapse or are surrendered.

The Company follows accounting principles generally accepted in the United States of America when accounting for DAC on internal replacements of insurance and investment contracts. An internal replacement is a modification in product benefits, features, rights or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract are accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract are written-off. Modifications that result in a contract that is substantially unchanged from the replaced contract are accounted for as a continuation of the replaced contract.

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred policy acquisition costs.

Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with FASB codification topic 450.

Receivables are the result of cemetery and mortuary operations, mortgage loan operations and life insurance operations. The allowance is based upon the Company’s historical experience for collectively evaluated impairment. Other allowances are based upon receivables individually evaluated for impairment. Collectability of the cemetery and mortuary receivables is significantly influenced by current economic conditions. The critical issues that impact recovery of mortgage loan operations are interest rate risk, loan underwriting, new regulations and the overall economy.

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company’s historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in note 2 for additional information. In addition, when a mortgage 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 is classified as other real estate owned held for investment or sale. The Company will rent the properties until it is deemed desirable to sell them.

The allowance for losses on mortgage loans held for investment could change based on changes in the value of the underlying collateral, the performance status of the loans, or the Company's actual collection experience. The actual losses could change, in the near term, from the established allowance, based upon the occurrence or non-occurrence of these events.

Loan Loss Reserve

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.

SECURITY NATIONAL FINANCIAL CORPORATION
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1) Significant Accounting Policies (Continued)

The loan loss reserve analysis involves mortgage loans that have been sold to third party investors where the Company has received a demand from the investor. There are generally three types of demands: make whole, repurchase, or indemnification. These types of demands are more particularly described as follows:

Make whole demand – A make whole demand occurs when an investor forecloses on a property and then sells the property. The make whole amount is calculated as the difference between the original unpaid principal balance, accrued interest and fees, less the sale proceeds.

Repurchase demand – A repurchase demand usually occurs when there is a significant payment default, error in underwriting or detected loan fraud.

Indemnification demand – On certain loans the Company has negotiated a set fee that is to be paid in lieu of repurchase. The fee varies by investor and by loan product type.

Additional information related to the Loan Loss Reserve is included in note 2.

Future Life, Annuity and Other Policy Benefits

Future policy benefit reserves for traditional life insurance are computed using a net level method, including assumptions as to investment yields, mortality, morbidity, withdrawals, and other assumptions based on the life insurance subsidiaries' experience, modified as necessary to give effect to anticipated trends and to include provisions for possible unfavorable deviations. Such liabilities are, for some plans, graded to equal statutory values or cash values at or prior to maturity. The range of assumed interest rates for all traditional life insurance policy reserves was 4.5% to 10%. Benefit reserves for traditional limited-payment life insurance policies include the deferred portion of the premiums received during the premium-paying period. Deferred premiums are recognized as income over the life of the policies. Policy benefit claims are charged to expense in the period the claims are incurred. Increases in future policy benefits are charged to expense.

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 3% to 6.5%.

Participating Insurance

Participating business constituted 2%, 2%, and 2% of insurance in force for 2011, 2010 and 2009, respectively. The provision for policyholders' dividends included in policyholder obligations is based on dividend scales anticipated by management. Amounts to be paid are determined by the Board of Directors.

Reinsurance

The Company follows the procedure of reinsuring risks in excess of \$100,000 to provide for greater diversification of business to allow management to control exposure to potential losses arising from large risks, and provide additional

capacity for growth. The Company remains liable for amounts ceded in the event the reinsurers are unable to meet their obligations.

The Company entered into coinsurance agreements with unaffiliated insurance companies under which the Company assumed 100% of the risk for certain life insurance policies and certain other policy-related liabilities of the insurance company.

Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Expense allowances received in connection with reinsurance ceded are accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

Cemetery and Mortuary Operations

Pre-need contract sales of funeral services and caskets - 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.

SECURITY NATIONAL FINANCIAL CORPORATION
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1) Significant Accounting Policies (Continued)

Sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sale of cemetery interment rights are recognized in accordance with the retail land sales provisions based on accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected.

Pre-need contract sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sale of pre-need cemetery merchandise is deferred until the merchandise is delivered. Pre-need contract sales of cemetery services (primarily merchandise delivery, 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 acquisition costs - costs incurred related to obtaining new pre-need contract cemetery and prearranged funeral services are accounted for under the guidance of the provisions based on accounting principles generally accepted in the United States of America. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral services, 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.

The Company, through its cemetery and mortuary operations, provides guaranteed funeral arrangements 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. However, management believes that given current inflation rates and related price increases of goods and services, the risk of exposure is minimal.

Mortgage Fee Income

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 generally accepted accounting principles at the time the sales of mortgage loans comply with the sales criteria for the transfer of financial assets, which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time a loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans, prior to warehouse banks purchasing the loans under the purchase commitments.

The Company, through SecurityNational Mortgage, sells all mortgage loans to third party investors without recourse. However, it may be required to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor.
- The existence of misrepresentation or 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.

SECURITY NATIONAL FINANCIAL CORPORATION
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1) Significant Accounting Policies (Continued)

Loan 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 SecurityNational Mortgage are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, 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 its best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- 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 later becomes delinquent is evaluated by the Company at that time and any impairment is 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 the Company uses the market price on the repurchased date.
- For loans where there is no market but there is a similar product, the Company uses the market value for the similar product on the repurchased date.
- For loans where no active market exists on the repurchased date, the Company determines 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 mortgage loan adds significance to the Company's determination of fair value because 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 considers the total value of all of the loans because any sale of loans would be made as a pool.

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

The Company's current policy is to not lend more than 80% of the appraised market value at the time of funding unless third party mortgage insurance is obtained to insure the amount in excess of the 80% limitation. New appraisals are

not obtained on mortgages in a current payment status.

Fair Value

The company provides an allowance for loan losses on its mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired.

Commercial Loans

Each quarter, management reviews the current commercial loans and determines if an allowance is required based on the Company's actual experience of losses on impaired commercial loans. To date, the Company has not incurred any significant losses. As a result, management has determined that no allowance is required on current commercial loans in its portfolio. The carrying value of all commercial loans is supported by appraisals and cash flow analysis of revenue received. Also, the Company has not accrued any interest income or capitalized any of the foreclosure costs on the impaired commercial loans.

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Notes to Consolidated Financial Statements
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1) Significant Accounting Policies (Continued)

Residential and Construction Loans

The Company believes that in an orderly market fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

Each quarter the Company also analyzes its current loan portfolio and determines the level of allowance needed for loans that are listed as current in the portfolio. The basis of the analysis places a higher weight on loans with high loan to value ratios, those that lack mortgage insurance, and certain loan types that have a higher percentage of default based on the Company's experience.

Each quarter the Company makes further analysis of the foreclosed properties to determine if any additional allowances are necessary by comparing national indexes of loan to value ratios by region to the Company's loan to value ratios. Base upon the above procedures, the Company's management believes that residential and construction loans are reflected in the Company's financial statements at the lower of cost or market in accordance with GAAP requirements.

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 coverage. 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 by 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 for incidents incurred but not reported as of the balance sheet date.

Goodwill

Previous acquisitions have been accounted for as purchases under which assets acquired and liabilities assumed were recorded at their fair values with the excess purchase price recognized as goodwill. The Company evaluates annually

or when changes in circumstances warrant the recoverability of goodwill and if there is a decrease in value, the related impairment is recognized as a charge against income. No impairment of goodwill has been recognized in the accompanying financial statements.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. No impairment of long-lived assets has been recognized in the accompanying financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
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1) Significant Accounting Policies (Continued)

Income Taxes

Income taxes include taxes currently payable plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the temporary differences in the financial reporting basis and tax basis of assets and liabilities and operating loss carry-forwards. Deferred tax assets are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled.

Liabilities are established for uncertain tax positions expected to be taken in income tax returns when such positions are judged to meet the “more-likely-than-not” threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax penalties are included as a component of other expenses.

Earnings Per Common Share

The Company computes earnings per share in accordance with accounting principles generally accepted in the United States of America which requires presentation of basic and diluted earnings per share. Basic earnings per equivalent Class A common share are computed by dividing net earnings by the weighted-average number of Class A common shares outstanding during each year presented, after the effect of the assumed conversion of Class C common stock to Class A common stock. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the year used to compute basic earnings per share plus dilutive potential incremental shares. Basic and diluted earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Options to purchase 1,611,470 shares of Common Stock were outstanding during 2011, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

Stock Based Compensation

The cost of employee services received in exchange for an award of equity instruments is recognized in the financial statements and is measured based on the fair value on the grant date of the award. The fair value of stock options is calculated using the Black Scholes method. Stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Advertising Expense

The Company expenses advertising costs as incurred. The total amount charged to advertising expense for 2011, 2010 and 2009 was \$2,237,000, \$2,122,000 and \$1,532,000, respectively.

Recent Accounting Pronouncements

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

Goodwill Impairment Test – In September 2011, the FASB issued authoritative guidance that amends how goodwill is tested for impairment. The amendments provide an option to perform a qualitative assessment to determine whether it is necessary to perform the annual two-step quantitative goodwill impairment test. This guidance will be effective for annual and interim goodwill impairment tests for fiscal years beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

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1) Significant Accounting Policies (Continued)

Comprehensive Income – In June 2011, the FASB issued authoritative guidance regarding the presentation of comprehensive income. This guidance provides companies with the option to present the total of comprehensive income, components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The objective of the standard is to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS. The standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and should be applied retrospectively. Early adoption is permitted. The Company has not yet determined the effect, if any, the adoption this guidance will have on its consolidated financial statements.

Fair Value Measurements – In May 2011, the FASB issued authoritative guidance regarding fair value measurements. This guidance establishes common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. It also clarifies the FASB's intent on the application of existing fair value measurement requirements. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and should be applied prospectively. The Company has not yet determined the effect, if any, the adoption this guidance will have on its consolidated financial statements.

Reconsideration of Effective Control for Repurchase Agreements – In April 2011, the FASB issued authoritative guidance which amends the Transfers and Servicing topic of the FASB Codification to remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this update. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (2) the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and (3) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring – In April 2011, the FASB issued authoritative guidance to assist creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. Under this guidance, in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: 1) the restructuring constitutes a concession; and 2) the debtor is experiencing financial difficulties. A creditor may determine that a debtor is experiencing financial difficulties, even though the debtor is not currently in default, if the creditor determines it is probable that the debtor would default on its payments for any of its debts in the foreseeable future without the loan modification. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and must be applied retrospectively. Early adoption is permitted. The adoption of this guidance did not have a material

impact on the Company's results of operations or financial position.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts - In October 2010, the FASB issued authoritative 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.

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2) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S				
Government agencies	\$2,820,159	\$551,740	\$-	\$3,371,899
Obligations of states and political subdivisions				
	3,024,425	309,986	(13,156)	3,321,255
Corporate securities including public utilities				
	113,648,447	10,075,071	(2,268,146)	121,455,372
Mortgage-backed securities				
	6,575,178	354,286	(356,900)	6,572,564
Redeemable preferred stock				
	1,510,878	72,639	(129,200)	1,454,317
Total fixed maturity securities held to maturity				
	\$127,579,087	\$11,363,722	\$(2,767,402)	\$136,175,407

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2) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$20,281	\$-	\$(1,843)	\$18,438
Common stock:				
Industrial, miscellaneous and all other	7,250,991	363,387	(1,333,424)	6,280,954
Total equity securities available for sale at estimated fair value	\$7,271,272	\$363,387	\$(1,335,267)	\$6,299,392
Total securities available for sale carried at estimated fair value	\$7,271,272	\$363,387	\$(1,335,267)	\$6,299,392
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$54,344,327			
Residential construction	17,259,666			
Commercial	48,433,147			
Less: Allowance for loan losses	(4,881,173)			
Total mortgage loans on real estate and construction loans held for investment	\$115,155,967			
Real estate held for investment - net of depreciation	\$3,786,780			
Other real estate owned held for investment - net of depreciation	46,398,095			
Other real estate owned held for sale	5,793,900			
Total real estate	\$55,978,775			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	\$18,463,277			
Short-term investments at amortized cost	\$6,932,023			

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2) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2010 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S Government agencies	\$2,855,303	\$325,935	\$-	\$3,181,238
Obligations of states and political subdivisions	1,773,904	122,565	(18,574)	1,877,895
Corporate securities including public utilities	85,354,245	6,626,582	(716,007)	91,264,820
Mortgage-backed securities	6,469,942	239,719	(654,959)	6,054,702
Redeemable preferred stock	1,594,622	27,158	(32,171)	1,589,609
Total fixed maturity securities held to maturity	\$98,048,016	\$7,341,959	\$(1,421,711)	\$103,968,264

SECURITY NATIONAL FINANCIAL CORPORATION
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2) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$20,282	\$-	\$(4,224)	\$16,058
Common stock:				
Industrial, miscellaneous and all other	6,418,151	707,798	(357,364)	6,768,585
Total equity securities available for sale at estimated fair value	\$6,438,433	\$707,798	\$(361,588)	\$6,784,643
Total securities available for sale carried at estimated fair value	\$6,438,433	\$707,798	\$(361,588)	\$6,784,643
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$60,285,273			
Residential construction	18,436,495			
Commercial	24,502,781			
Less: Allowance for loan losses	(7,070,442)			
Total mortgage loans on real estate and construction loans held for investment	\$96,154,107			
Real estate held for investment - net of depreciation	\$3,996,777			
Other real estate owned held for investment - net of depreciation	44,422,829			
Other real estate owned held for sale	5,086,400			
Total real estate	\$53,506,006			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	\$17,044,897			
Short-term investments at amortized cost	\$2,618,349			

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Notes to Consolidated Financial Statements
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2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities, which are carried at amortized cost, at December 31, 2011 and 2010. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At December 31, 2011					
Redeemable Preferred Stock	\$800	1	\$128,400	1	\$129,200
Obligations of States and Political Subdivisions	-	0	13,156	2	\$13,156
Corporate Securities	1,544,224	47	723,922	12	\$2,268,146
Mortgage and other asset-backed securities	161,300	3	195,599	1	356,899
Total unrealized losses	\$1,706,324	51	\$1,061,077	16	\$2,767,401
Fair Value	\$24,249,533		\$3,762,892		\$28,012,425
At December 31, 2010					
Redeemable Preferred Stock	\$4,022	4	\$28,149	1	\$32,171
Obligations of States and Political Subdivisions	-	0	18,574	3	18,574
Corporate Securities	70,934	10	645,073	25	716,007
Mortgage and other asset-backed securities	8,971	2	645,988	3	654,959
Total unrealized losses	\$83,927	16	\$1,337,784	32	\$1,421,711
Fair Value	\$4,527,041		\$10,037,150		\$14,564,191

As of December 31, 2011, the average market value of the related fixed maturities was 91.0% of amortized cost and the average market value was 91.1% of amortized cost as of December 31, 2010. During 2011, 2010 and 2009, an other than temporary decline in market value resulted in the recognition of credit losses on fixed maturity securities of \$125,129, \$150,059 and \$326,000, respectively.

On a quarterly basis, the Company reviews its available for sale 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, 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.

No other than temporary impairment loss was considered to exist for these fixed maturities as of December 31, 2011.

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2) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at December 31, 2011 and 2010. The unrealized losses were primarily the result of decreases in market value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At December 31, 2011					
Non-redeemable preferred stock	\$-	-	\$1,843	2	\$1,843
Industrial, miscellaneous and all other	955,400	79	378,024	14	1,333,424
Total unrealized losses	\$955,400	79	\$379,867	16	\$1,335,267
Fair Value	\$2,857,082		\$560,529		\$3,417,611
At December 31, 2010					
Non-redeemable preferred stock	\$-	-	\$4,224	2	\$4,224
Industrial, miscellaneous and all other	192,742	42	164,622	13	357,364
Total unrealized losses	\$192,742	42	\$168,846	15	\$361,588
Fair Value	\$1,895,632		\$530,253		\$2,425,885

As of December 31, 2011, the average market value of the equity securities available for sale was 71.9% of the original investment and the average market value was 87.0% of the original investment as of December 31, 2010. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During 2011, 2010, and 2009, an other than temporary decline in the market value resulted in the recognition of an impairment loss on equity securities of \$52,775, \$23,922 and \$0-, respectively.

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. No other than temporary impairment loss was considered to exist for these equity securities as of December 31, 2011 and December 31, 2010.

The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in

the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments. The fair values for equity securities are based on quoted market prices.

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2) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2012	\$985,359	\$993,962
Due in 2013 through 2016	19,284,419	20,765,747
Due in 2017 through 2021	50,127,588	52,829,557
Due after 2021	49,095,665	53,559,260
Mortgage-backed securities	6,575,178	6,572,564
Redeemable preferred stock	1,510,878	1,454,317
Total held to maturity	\$127,579,087	\$136,175,407

The amortized cost and estimated fair value of available for sale securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in 2012	\$-	\$-
Due in 2013 through 2016	-	-
Due in 2017 through 2021	-	-
Due after 2021	-	-
Non-redeemable preferred stock	20,281	18,438
Common stock	7,250,991	6,280,954
Total available for sale	\$7,271,272	\$6,299,392

The Company's realized gains and losses and other than temporary impairments from investments and other assets are summarized as follows:

	2011	2010	2009
Fixed maturity securities held to maturity:			
Gross realized gains	\$939,672	\$1,300,187	\$500,795
Gross realized losses	(162,716)	(494,678)	(151,069)
Other than temporary impairments	(125,129)	(150,059)	(326,000)

Securities available for sale:			
Gross realized gains	590,455	686,788	1,018,217
Gross realized losses	(118,417)	(61,530)	(152,757)
Other than temporary impairments	(52,775)	(23,922)	-
Other assets:			
Gross realized gains	1,295,217	393,943	8,126
Gross realized losses	(79,858)	(209,292)	-
Other than temporary impairments	(662,831)	(500,000)	-
Total	\$1,623,618	\$941,437	\$897,312

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2) Investments (Continued)

The net carrying amount for sales of securities classified as held to maturity was \$12,341,156, \$16,220,943 and \$1,700,388, for the years ended December 31, 2011, 2010 and 2009, respectively. The net realized gain related to these sales was \$462,267, \$346,225 and \$181,285, for the years ended December 31, 2011, 2010 and 2009, respectively. Certain circumstances lead to these decisions to sell. The Company sold held to maturity securities in 2009 that experienced significant deterioration in their value and were liquidated to avoid a potential complete loss in the bond investments of Lehman Brothers and General Motors. Bonds categorized as held to maturity and sold in 2010 were liquidated in order to meet an unexpected increase in mortgage funding demand and the non-renewal of an expired loan purchase agreement with a warehouse bank by SecurityNational Mortgage during the latter part of 2010. This was a rare and unusual event in the history of the Company. In 2011, the Company sold certain held to maturity bonds in gain positions to reduce its risk in certain industries or companies.

Other than investments issued or guaranteed by the United States Government, there is one long-term mortgage loan investment in the amount of \$8,500,000 which exceeds 10% of shareholders' equity (before net unrealized gains and losses on available for sale securities) at December 31, 2011.

Major categories of net investment income are as follows:

	2011	2010	2009
Fixed maturity securities	\$7,762,894	\$6,761,254	\$7,140,920
Equity securities	272,011	238,929	794,845
Mortgage loans on real estate	7,084,995	6,154,760	5,462,533
Real estate	2,288,537	2,387,489	2,147,981
Policy, student and other loans	835,312	897,945	811,684
Short-term investments, principally gains on sale of mortgage loans	6,255,581	7,215,927	7,896,518
Gross investment income	24,499,330	23,656,304	24,254,481
Investment expenses	(4,488,626)	(5,040,320)	(4,339,409)
Net investment income	\$20,010,704	\$18,615,984	\$19,915,072

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of \$626,688, \$635,652 and \$576,689 for 2011, 2010 and 2009, respectively.

Net investment income on real estate consists primarily of rental revenue received under short-term leases. Investment expenses consist primarily of depreciation, property taxes, operating expenses of real estate and an estimated portion of administrative expenses relating to investment activities.

Securities on deposit for regulatory authorities as required by law amounted to \$9,593,318 at December 31, 2011 and \$9,302,578 at December 31, 2010. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 10.5%, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk

arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At December 31, 2011, the Company has 37%, 11% and 11% of its mortgage loans from borrowers located in the states of Utah, Florida and California, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$4,881,173 and \$7,070,442 at December 31, 2011 and 2010, respectively.

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2) Investments (Continued)

The Company establishes a valuation allowance for credit losses in its portfolio.

The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

Allowance for Credit Losses and Recorded Investment in Mortgage Loans
For the Years Ended December 31, 2011, and 2010

	Commercial	Residential	Residential Construction	Total
2011				
Allowance for credit losses:				
Beginning balance	\$-	\$6,212,072	\$ 858,370	\$7,070,442
Charge-offs	-	(2,994,715)	(430,274)	(3,424,989)
Provision	-	1,121,448	114,272	1,235,720
Ending balance	\$-	\$4,338,805	\$ 542,368	\$4,881,173
Ending balance: individually evaluated for impairment				
	\$-	\$738,975	\$ 250,524	\$989,499
Ending balance: collectively evaluated for impairment				
	\$-	\$3,599,830	\$ 291,844	\$3,891,674
Ending balance: loans acquired with deteriorated credit quality				
	\$-	\$-	\$ -	\$-
Mortgage loans:				
Ending balance	\$48,433,147	\$54,344,327	\$ 17,259,666	\$120,037,140
Ending balance: individually evaluated for impairment				
	\$2,758,235	\$4,611,995	\$ 5,645,865	\$13,016,095
Ending balance: collectively evaluated for impairment				
	\$45,674,912	\$49,732,332	\$ 11,613,801	\$107,021,045
Ending balance: loans acquired with deteriorated credit quality				
	\$-	\$-	\$ -	\$-
2010				
Allowance for credit losses:				
Beginning balance	\$-	\$5,917,792	\$ 891,011	\$6,808,803
Charge-offs	-	(335,853)	(32,641)	(368,494)
Provision	-	630,133	-	630,133
Ending balance	\$-	\$6,212,072	\$ 858,370	\$7,070,442

Ending balance: individually evaluated for impairment	\$-	\$5,131,779	\$ 740,000	\$5,871,779
Ending balance: collectively evaluated for impairment	\$-	\$1,080,293	\$ 118,370	\$1,198,663
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$ -	\$-
Mortgage loans:				
Ending balance	\$24,502,781	\$60,285,273	\$ 18,436,495	\$103,224,549
Ending balance: individually evaluated for impairment	\$439,794	\$7,236,095	\$ 2,085,467	\$9,761,356
Ending balance: collectively evaluated for impairment	\$24,062,987	\$53,049,178	\$ 16,351,028	\$93,463,193
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$ -	\$-

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Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2) Investments (Continued)

The following is a summary of the aging of mortgage loans for the periods presented.

Age Analysis of Past Due Mortgage Loans
Years Ended December 31, 2011 and 2010

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days 1)	In Foreclosure 1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Net Mortgage Loans
Commercial	\$-	\$-	\$1,053,500	\$2,758,235	\$3,811,735	\$44,621,412	\$48,433,147	\$-	\$48,433,147
Residential	2,478,084	2,058,261	5,500,340	4,611,995	14,648,680	39,695,647	54,344,327	(4,338,805)	50,005,522
Residential Construction	859,651	682,532	309,651	5,645,865	7,497,699	9,761,967	17,259,666	(542,368)	16,717,298
Total	\$3,337,735	\$2,740,793	\$6,863,491	\$13,016,095	\$25,958,114	\$94,079,026	\$120,037,140	\$(4,881,173)	\$115,155,967
Commercial	\$-	\$734,756	\$-	\$439,794	\$1,174,550	\$23,328,231	\$24,502,781	\$-	\$24,502,781
Residential	767,970	782,174	3,537,616	7,236,095	12,323,855	47,961,418	60,285,273	(6,212,072)	54,073,201
Residential Construction	849,375	1,543,593	994,046	2,085,467	5,472,481	12,964,014	18,436,495	(858,370)	17,578,115
Total	\$1,617,345	\$3,060,523	\$4,531,662	\$9,761,356	\$18,970,886	\$84,253,663	\$103,224,549	\$(7,070,442)	\$96,154,107

There was not any interest income recognized on loans past due greater than 90 days or in foreclosure.

Impaired Mortgage Loans

Impaired mortgage loans include loans with a related specific valuation allowance or loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary. The recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, for each reporting period and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

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2) Investments (Continued)

Impaired Loans
For the Years Ended December 31, 2011, and 2010

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2011					
With no related allowance recorded:					
Commercial	\$3,811,735	\$3,811,735		\$3,811,735	\$ -
Residential	5,500,340	5,500,340		5,500,340	-
Residential construction	309,651	309,651		309,651	-
With an allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	4,611,995	4,611,995	738,975	4,611,995	-
Residential construction	5,645,865	5,645,865	250,524	5,645,865	-
Total:					
Commercial	\$3,811,735	\$3,811,735	\$-	\$3,811,735	\$ -
Residential	10,112,335	10,112,335	738,975	10,112,335	-
Residential construction	5,955,516	5,955,516	250,524	5,955,516	-
2010					
With no related allowance recorded:					
Commercial	\$439,794	\$439,794		\$439,794	\$ -
Residential	3,537,616	3,537,616		3,537,616	-
Residential construction	994,046	994,046		994,046	-
With an allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	7,236,095	7,236,095	5,131,779	7,236,095	-
Residential construction	2,085,467	2,085,467	740,000	2,085,467	-
Total:					
Commercial	\$439,794	\$439,794	\$-	\$439,794	\$ -
Residential	10,773,711	10,773,711	5,131,779	10,773,711	-
Residential construction	3,079,513	3,079,513	740,000	3,079,513	-

Credit Risk Profile Based on Performance Status

The Company's mortgage loan portfolio is monitored based on performance of the loans. Monitoring a mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. The Company defines non-performing mortgage loans as loans 90 days or greater delinquent or on non-accrual status.

The Company's performing and non-performing mortgage loans were as follows:

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity
As of December 31, 2011, and 2010

	Commercial		Residential		Residential Construction		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Performing	\$44,621,412	\$24,062,987	\$44,231,992	\$49,511,562	\$11,304,150	\$15,356,982	\$100,157,554	\$88,931,531
Nonperforming	3,811,735	439,794	10,112,335	10,773,711	5,955,516	3,079,513	19,879,586	14,293,018
Total	\$48,433,147	\$24,502,781	\$54,344,327	\$60,285,273	\$17,259,666	\$18,436,495	\$120,037,140	\$103,224,549

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2) Investments (Continued)

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals \$2,023,000 and \$1,852,000 as of December 31, 2011 and 2010, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

	Mortgage Loans on Nonaccrual Status As of December 31, 2011, and 2010	
	2011	2010
Commercial	\$3,811,735	\$439,794
Residential	10,112,335	10,773,711
Residential construction	5,955,516	3,079,513
Total	\$19,879,586	\$14,293,018

Principal Amounts Due

The amortized cost and contractual payments on mortgage loans on real estate and construction loans held for investment by category as of December 31, 2011 are shown below. Expected principal payments may differ from contractual obligations because certain borrowers may elect to pay off mortgage obligations with or without early payment penalties.

	Total	Principal Amounts Due in 2012	Principal Amounts Due in 2013-2016	Principal Amounts Due Thereafter
Residential	\$54,344,327	\$1,888,024	\$5,911,105	\$46,545,198
Residential Construction	17,259,666	17,259,666	-	-
Commercial	48,433,147	29,132,743	12,225,603	7,074,801
Total	\$120,037,140	\$48,280,433	\$18,136,708	\$53,619,999

Loan Loss Reserve

When a repurchase demand is received from a third party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand.

In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third party investor without having to make any payments to the investor.

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2) Investments (Continued)

The following is a summary of the loan loss reserve which is included in other liabilities and accrued expenses:

	Years Ended December 31,	
	2011	2010
Balance, beginning of period	\$5,899,025	\$11,662,897
Provisions for losses	1,667,805	4,534,231
Charge-offs	(5,228,955)	(10,298,103)
Balance, at December 31	\$2,337,875	\$5,899,025

The Company believes the loan loss reserve represents probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims asserted by third party investors. Actual loan loss experience could change, in the near-term, from the established reserve based upon claims asserted by third party investors. If SecurityNational Mortgage is unable to negotiate acceptable terms with the third party investors, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

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3) Receivables

Receivables consist of the following:

	December 31,	
	2011	2010
Trade contracts	\$8,409,206	\$5,447,268
Receivables from sales agents	1,623,025	1,766,823
Held in Escrow – Capital Reserve Life/Southern Security	616,383	616,383
Other	1,564,430	1,991,987
Total receivables	12,213,044	9,822,461
Allowance for doubtful accounts	(2,278,969)	(1,995,347)
Net receivables	\$9,934,075	\$7,827,114

4) Value of Business Acquired

Information with regard to value of business acquired is as follows:

	December 31,		
	2011	2010	2009
Balance at beginning of year	\$9,017,696	\$10,252,670	\$11,377,276
Value of business acquired	3,145,116	(515,147)	246,838
Imputed interest at 7%	701,349	674,463	757,048
Amortization	(1,843,327)	(1,394,290)	(2,128,492)
Net amortization charged to income	(1,141,978)	(719,827)	(1,371,444)
Balance at end of year	\$11,020,834	\$9,017,696	\$10,252,670

Presuming no additional acquisitions, net amortization charged to income is expected to approximate \$1,328,000, \$1,137,000, \$1,016,000, \$796,000, and \$707,000 for the years 2012 through 2016. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2011, value of business acquired is being amortized over a weighted average life of 7.9 years.

5) Property and Equipment

The cost of property and equipment is summarized below:

	December 31,	
	2011	2010
Land and buildings	\$12,503,230	\$14,344,140
Furniture and equipment	12,900,261	13,002,174
	25,403,491	27,346,314
Less accumulated depreciation	(16,103,306)	(16,235,255)
Total	\$9,300,185	\$11,111,059

Depreciation expense for the years ended December 31, 2011, 2010 and 2009 was \$1,499,038, \$1,811,931 and \$1,956,215 respectively.

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Years Ended December 31, 2011, 2010, and 2009

6) Bank and Other Loans Payable

Bank loans payable are summarized as follows:

	December 31,	
	2011	2010
6% note payable in monthly installments of \$5,693 including principal and interest paid off in May 2011.	\$-	\$412,860
6.34% note payable in monthly installments of \$13,556 including principal and interest, collateralized by real property with a book value of approximately \$498,000, due November 2017.	877,707	997,546
Bank prime rate less .28% (2.97% at December 31, 2010) collateralized by shares of Security National Life Insurance Company Stock, paid off in June 2011.	-	357,336
5.75% note payable in monthly installments of \$28,271 including principal and interest, collateralized by real property with a book value of approximately \$6,183,000 due December 2014.	3,769,012	3,887,818
Bank prime rate less .75% (2.50% at December 31, 2011) collateralized by shares of Security National Life Insurance Company Stock, due June 2012.	525,000	825,000
Mark to market of interest rate swaps (discussed below) adjustment	117,812	116,533
3.85% note payable in monthly installments of \$79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company Stock, due June 2015.	3,105,965	-
Revolving line-of-credit, interest payable at the variable overnight Libor rate plus 2% (2.187% as of December 31, 2011), secured by bond investments of the Company, matures June 2012.	15,000,000	-
Revolving line-of-credit, interest payable at the prime rate minus .75% (2.5% as of December 31, 2011) secured by shares of Security National Life Insurance Company Stock, matures June 2012.	1,400,000	-
Other collateralized bank loans payable	222,662	269,345
Other notes payable	961	199,537
Total bank and other loans	25,019,119	7,065,975
Less current installments	18,018,145	1,777,967
Bank and other loans, excluding current installments	\$7,000,974	\$5,288,008

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Notes to Consolidated Financial Statements
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6) Bank and Other Loans Payable (Continued)

During 2001, the Company entered into a \$2,000,000 note payable to a bank with interest due at a variable interest rate of the Libor rate plus 1.65%. During 2001, the Company also entered into an interest rate swap instrument that effectively fixed the interest rate on the note payable at 6.34% per annum. Management considers the interest rate swap instrument an effective cash flow hedge against the variable interest rate on the bank note 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.

In the event the swap is terminated, any resulting gain or loss would be deferred and amortized to interest expense over the remaining life of the bank loan it hedged. In the event of early extinguishment of the hedged bank loan, any realized or unrealized gain or loss from the hedging swap would be recognized in income coincident with the extinguishment.

At December 31, 2011, the fair value of the interest rate swap was an unrealized loss of \$117,812 and was computed based on the underlying variable Libor rate plus 1.65%, or 2.65% per annum. The unrealized loss resulted in a derivative liability of \$117,812 and has been reflected in accumulated other comprehensive income. The change in accumulated other comprehensive income from the interest rate swap in 2011 was \$1,279. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

At December 31, 2010, the fair value of the interest rate swap was an unrealized loss of \$116,533 and was computed based on the underlying variable Libor rate plus 1.65%, or 2.65% per annum. The unrealized loss resulted in a derivative liability of \$116,533 and has been reflected in accumulated other comprehensive income. The change in accumulated other comprehensive income from the interest rate swap in 2010 was \$15,281. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

The Company has a \$2,500,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2011), secured by the capital stock of Security National Life and maturing June 30, 2012, renewable annually. As of December 31, 2011, there was \$1,400,000 outstanding under the revolving line-of-credit. As of December 31, 2011, \$135,886 was available and \$439,114 was reserved for two outstanding letters of credit. \$1,500,000 was carved out for a loan in September 2008 that as of December 31, 2011 has a balance of \$525,000. As the principal payments on the loan are made the line of credit amount increases in availability.

The Company has a \$15,000,000 revolving line-of-credit with a bank with interest payable at the variable overnight Libor rate plus 2% (2.1875% at December 31, 2011), secured by bond investments of the Company and maturing June 30, 2012. As of December 31, 2011 there was \$15,000,000 outstanding under the revolving line-of-credit.

The Company has a \$2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate plus 1.25% (4.5% at December 31, 2011), secured by the capital stock of Security National Life and maturing June 30, 2012. As of December 31, 2011 \$1,250,000 was reserved for an outstanding letter of credit. As of December 31, 2011 there were no amounts outstanding under the revolving line-of-credit.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
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6) Bank and Other Loans Payable (Continued)

The following tabulation shows the combined maturities of bank loans payable, lines of credit and notes and contracts payable:

2012	\$ 18,018,145
2013	1,449,007
2014	4,592,717
2015	638,969
2016	173,190
Thereafter	147,091
Total	\$ 25,019,119

Interest paid approximated interest expense in 2011, 2010 and 2009 which was \$1,961,249, \$2,778,920 and \$3,326,161 respectively.

7) Cemetery and Mortuary Endowment Care and Pre-need Merchandise Funds

The Company is required by state law to pay into perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. The related cemetery perpetual care trusts are defined as variable interest entities pursuant to generally accepted accounting principles. Also, management has determined that the Company is the primary beneficiary of these trusts, as it absorbs both a majority of the losses and returns associated with the trusts. The Company has consolidated cemetery perpetual care trust investments with a corresponding amount recorded as Cemetery Perpetual Care Obligation in the accompanying consolidated balance sheets.

The components of the cemetery perpetual care obligation are as follows:

	December 31,	
	2011	2010
Trust investments, at market value	\$ 1,810,185	\$ 1,454,694
Note receivables from Cottonwood Mortuary		
Singing Hills Cemetery and Memorial Estates - Pinehill eliminated in consolidation	1,971,750	2,013,174
Total trust assets	3,781,935	3,467,868
Cemetery perpetual care obligation	(2,983,077)	(2,853,727)
Fair value of trust assets in excess of trust obligations	\$ 798,858	\$ 614,141

The Company has established and maintains certain restricted trust investments to provide for future merchandise and service obligations incurred in connection with its pre-need sales. Such amounts are reported as restricted assets of cemeteries and mortuaries in the accompanying consolidated balance sheets.

Assets in the restricted asset account are summarized as follows:

	December 31,	
	2011	2010
Cash and cash equivalents	\$ 1,765,415	\$ 1,522,295
Mutual funds	470,049	467,413

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Fixed maturity securities	8,775	8,775
Equity securities	78,712	78,020
Participating in Mortgage loans with Security National Life	1,069,546	989,876
Total	\$3,392,497	\$3,066,379

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7) Cemetery and Mortuary Endowment Care and Pre-need Merchandise Funds (Continued)

A surplus note receivable and interest, at December 31, 2010 and December 31, 2011 in the amount of \$4,000,000 from Security National Life was eliminated in consolidation.

8) Income Taxes

The Company's income tax liability (benefit) at December 31 is summarized as follows:

	December 31,	
	2011	2010
Current	\$(977,420)	\$21,224
Deferred	15,987,699	15,334,961
Total	\$15,010,279	\$15,356,185

Significant components of the Company's deferred tax (assets) and liabilities at December 31 are approximately as follows:

	December 31,	
	2011	2010
Assets		
Future policy benefits	\$(4,597,137)	\$(6,195,069)
Loan loss reserve	(1,210,791)	(2,005,669)
Unearned premium	(1,861,264)	(1,929,161)
Available for sale securities	(116,501)	--
Other	(2,605,315)	(1,064,441)
Less: Valuation allowance	3,640,327	6,105,175
Total deferred tax assets	(6,750,681)	(5,089,165)
Liabilities		
Deferred policy acquisition costs	9,526,785	9,503,086
Basis difference in property and equipment	3,917,124	2,873,142
Value of business acquired	4,077,709	3,336,548
Installment sales	1,996,967	2,172,164
Trusts	2,385,770	2,014,812
Available for sale securities	--	24,632
Tax on unrealized appreciation	834,025	499,742
Total deferred tax liabilities	22,738,380	20,424,126
Net deferred tax liability	\$15,987,699	\$15,334,961

Insurance companies with total assets less than \$500 million receive a special deduction that lowers their effective tax rate. The Company's valuation allowance relates to differences created by the small life insurance company deduction. If the Company exceeds \$500 million in consolidated tax assets, for tax purposes, this valuation allowance would diminish.

The decrease in the valuation allowance was \$2,464,848 and \$622,085 during 2011 and 2010, respectively.

The Company paid \$174,811, \$108,522, and \$750,844 in income taxes for 2011, 2010 and 2009, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
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8) Income Taxes (Continued)

The Company's income tax expense (benefit) is summarized as follows for the years ended December 31:

	2011	2010	2009
Current	\$ 130,526	\$ 171,133	\$ 1,002,789
Deferred	(192,731)	(829,929)	1,366,336
Other	-	-	204,653
Total	\$(62,205)	\$(658,796)	\$2,573,778

The reconciliation of income tax expense at the U.S. federal statutory rates is as follows:

	2011	2010	2009
Computed expense at statutory rate	\$410,225	\$(370,403)	\$2,158,204
Special deductions allowed small life insurance companies	(503,672)	(351,847)	(50,983)
Other, net	31,242	63,454	466,557
Tax expense (benefit)	\$(62,205)	\$(658,796)	\$2,573,778

At December 31, 2011, the Company had \$534,403 of unrecognized tax benefits principally relating to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. At December 31, 2011, the Company had \$37,426 in interest and penalties related to unrecognized tax benefits. The Company accounts for interest expense and penalties for unrecognized tax benefits as part of its income tax provision. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. As of December 31, 2011, the Company does not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months. Federal and state income tax returns for 2008 through 2011 are open tax years.

9) Reinsurance, Commitments and Contingencies

Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranged from \$25,000 to \$100,000 during the years 2011 and 2010. The Company is liable for these amounts in the event such reinsurers are unable to pay their portion of the claims. The Company has also assumed insurance from other companies having insurance in force amounting to approximately \$1,732,120,000 (unaudited) at December 31, 2011 and approximately \$1,801,414,000 (unaudited) at December 31, 2010.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company ("North America Life"), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life's contractual liabilities under the coinsured policies by means of

indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,525,875. In addition, North America Life transferred \$15,703,641 in assets and \$19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,641 in assets included \$12,990,444 in cash, \$8,997 in policy loans, and \$2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

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9) Reinsurance, Commitments and Contingencies (Continued)

On September 1, 2011 Security National Life with the approval of the Texas Department of Insurance assumed all of the policies which were issued by North America Life previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

On August 31, 2011 the Company entered into a stock purchase agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company (“Trans-Western”), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. Under the terms of the transaction as set forth in a Stock Purchase Agreement among the Company, and North America Life, the Company will pay to North America Life purchase consideration equal to the capital and surplus of Trans-Western as of the date of closing. As of September 30, 2011 the capital and surplus of Trans-Western was \$544,000. The Stock Purchase Agreement was approved by the Texas Insurance Department on March 20, 2012. The application to acquire Trans-Western was filed by the Company with the Texas Insurance Department on December 22, 2011. All of Trans-Western’s insurance business has been ceded to North America Life of which approximately 47% of the insurance in force has been assumed by the Company under the Coinsurance Agreement explained above.

Reinsurance with American Life and Security Corporation

On May 24, 2010, the Company completed a stock purchase transaction with American Life and Security Corporation (“American Life”) a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the Stock Purchase Agreement among the Company, American Life, and the shareholders of the Company, American Life paid the Company at closing purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of \$1,692,576, plus additional consideration in the amount of \$105,000 for a total of \$1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate Capital Reserve into the Company in 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. American Life obtained approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, the Company entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Under the terms of the agreement, the Company ceded to American Life a block of deferred annuities in the amount of \$2,678,931 and a block of whole life policies in the amount of \$1,048,134, together with net due and deferred premiums in the amount of \$12,305, advance premiums in the amount of \$353, claims liability in the amount of \$14,486, and net policy loans in the amount of \$128,487. The total initial consideration of \$3,601,112 in cash was transferred to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of a custodial agreement. American Life agreed to pay the Company an initial ceding commission of \$375,000 and a management fee of \$3,500 per quarter to administer the policies. American Life agreed to indemnify the Company for these contracts and risks. The initial term on this agreement will be for a period of one year. After the initial one year term, this agreement will be automatically renewed unless American Life notifies the Company in writing of its intention not to renew, no less than 180 days prior to the expiration of the then current agreement. Each automatic renewal period of this agreement will be for a term of one year. The accounting

and settlement of this agreement will be on a quarterly basis and calculated pursuant to the terms thereof.

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9) Reinsurance, Commitments and Contingencies (Continued)

Reinsurance with Continental American Insurance Company

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. This agreement was effective November 30, 2008. Under the terms of the agreement, the Company ceded to Continental American 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 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 following December 31, 2008, or any other date if mutually agreed and with at least 90 days’ prior written notice to Continental American. The Company and Continental American terminated this agreement on March 31, 2010.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company’s reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2011 and 2010 were \$1,668,000 and \$4,534,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2011 and 2010, the balances were \$2,338,000 and \$5,899,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. (“Wells Fargo”). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party’s claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. From April 8, 2011 to December 31, 2011, Wells Fargo deducted a total of \$530,329, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period. SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells Fargo. From April 8, 2011 to December 31, 2011, SecurityNational Mortgage paid Wells Fargo a total of \$50,393, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period. Finally, SecurityNational Mortgage is required under the settlement agreement to set

aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 28 real estate properties with a total book value of \$5,597,900 as of December 31, 2011.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009.

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9) Reinsurance, Commitments and Contingencies (Continued)

SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of December 31, 2011, the Company reserved and accrued \$2,338,000 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers.

Mortgage Loan Loss Demand

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of December 31, 2011, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than \$20,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2011. The Company has reserved and accrued \$2,338,000 as of December 31, 2011 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$17,351,000 on December 31, 2011, and its reserve for mortgage loan loss, which was \$2,338,000 on December 31, 2011. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Termination of Business Relationship with Third Party Investor

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to

accept the settlement proposal because it regarded the language in the settlement documents as unreasonable, the investor notified SecurityNational Mortgage by letter dated October 20, 2010 of its decision to terminate its business relationship with SecurityNational Mortgage.

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting \$5,971,000 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage.

SecurityNational Mortgage believes the investor wrongfully applied the \$5,971,000 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. The investor has asserted potential claims and notices of potential claims concerning the alleged defective loans that SecurityNational Mortgage sold to such investor. SecurityNational Mortgage disagrees with these potential claims and notices and believes it has significant defenses to such claims and notices, as well as a claim against the investor for the return of the \$5,971,000 that the investor had wrongfully taken from the over/under account.

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9) Reinsurance, Commitments and Contingencies (Continued)

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification relating to mortgage loans that EMC Mortgage, LLC (“EMC Mortgage”) allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase & Co. (“JP Morgan Chase”) in behalf of EMC Mortgage. According to the notice, the alleged indemnification claims relate to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claims from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery. A copy of the complaint and the amended complaint has been provided by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage’s assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter from JP Morgan Chase accompanying a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example, neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

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9) Reinsurance, Commitments and Contingencies (Continued)

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of \$125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2009, 2010 and 2011, the Company recognized alleged losses of \$1,032,000, \$1,289,000 and \$0, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2011, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments

made was not justified under the “sunset” provision.

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9) Reinsurance, Commitments and Contingencies (Continued)

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings' subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

Non-Cancelable Leases

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, 2011, are approximately as follows:

Years Ending December 31	
2012	\$ 1,315,512
2013	695,391
2014	502,560
2015	122,580
2016	37,155
Total	\$ 2,673,198

Total rent expense related to non-cancelable operating leases for the years ended December 31, 2011, 2010, and 2009 was approximately \$2,595,000, \$2,086,000, and \$2,134,000, respectively.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of December 31, 2011, the Company's commitments were \$11,445,856 for these loans of which \$7,863,487 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and

the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of December 31, 2011). Maturities range between six and twelve months.

At December 31, 2011, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency relating to claims filed in states where SecurityNational Mortgage is licensed. SecurityNational Mortgage does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2011, the Company was contingently liable under a standby letter of credit aggregating \$383,114, 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.

SECURITY NATIONAL FINANCIAL CORPORATION
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9) Reinsurance, Commitments and Contingencies (Continued)

The Company is self insured for certain casualty insurance, worker 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 coverage. 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 by 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 for incidents incurred but not reported as of the balance sheet date. At December 31, 2011, \$623,135 of reserves was established related to such insurance programs versus \$655,996 at December 31, 2010.

The Company is a defendant in various other legal actions arising from the normal conduct of business. Management believes that none of the actions will have a material effect on the Company's financial position or results of operations. Based on management's assessment and legal counsel's representations concerning the likelihood of unfavorable outcomes, no amounts have been accrued for the above claims in the consolidated financial statements.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

SECURITY NATIONAL FINANCIAL CORPORATION
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10) Retirement Plans

The Company and its subsidiaries have a noncontributory Employee Stock Ownership Plan (ESOP) for all eligible employees. Eligible employees are primarily those with more than one year of service, who work in excess of 1,000 hours per year. Contributions, which may be in cash or stock of the Company, are determined annually by the Board of Directors.

The Company's contributions are allocated to eligible employees based on the ratio of each eligible employee's compensation to total compensation for all eligible employees during each year. The Company did not make any contributions for 2011, 2010 and 2009. At December 31, 2011 the ESOP held 652,357 shares of Class A and 2,185,285 shares of Class C common stock of the Company. All shares held by the ESOP have been allocated to the participating employees and all shares held by the ESOP are considered outstanding for purposes of computing earnings per share.

The Company has three 401(k) savings plans covering all eligible employees, as defined above, which includes employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plans allow participants to make pretax contributions up to a maximum of \$16,500, \$16,500 and \$15,500 for the years 2011, 2010 and 2009, respectively or the statutory limits.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company matched 100% of up to 3% of an employee's total annual compensation and matched 50% of 4% to 5% of an employee's annual compensation. The match was in Company Stock. The Company's contribution for 2011, 2010 and 2009 was \$208,206, \$344,772 and \$341,360, respectively under the "Safe Harbor" plan.

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The Board has appointed a Committee of the Company to be the Plan Administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company did not make any contributions for 2011, 2010 and 2009.

The Company has deferred compensation agreements with its Chief Executive Officer and its past Senior Vice President. The deferred compensation is payable on the retirement or death of these individuals either in annual installments over 10 years or in a lump sum settlement, if approved by the Board of Directors. The amount payable is \$75,184 per year with cost of living adjustments each anniversary. The compensation agreements also provide that any remaining balance will be payable to their heirs in the event of their death. In addition, the agreements provide that the Company will pay the Group Health coverage for these individuals and/or their spouses. In 2011, the Company decreased its liability for these future obligations by \$57,125 and in 2010 decreased its liability by \$37,352. The current balance as of December 31, 2011 is \$599,775.

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, its President and Chief Operating Officer. The agreement is effective as of December 4, 2003 and has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Quist performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Quist is to

devote his full time to the Company serving as its President, and Chief Operating Officer at not less than his current salary and benefits. The Company also agrees to maintain a group term life insurance policy of not less than \$1,000,000 on Mr. Quist's life and a whole life insurance policy in the amount of \$500,000 on Mr. Quist's life. In the event of disability, Mr. Quist's salary would be continued for up to five years at 75% of its current level.

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10) Retirement Plans (Continued)

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$145,036 and \$144,935 in fiscal 2011 and 2010, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is \$1,121,162 and \$976,126 as of December 31, 2011 and 2010, respectively.

On December 4, 2003, the Company, through its subsidiary SecurityNational Mortgage Company, entered into an employment agreement with J. Lynn Beckstead, Jr., Vice President of Mortgage Operations and President of SecurityNational Mortgage Company. The agreement has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Beckstead performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Beckstead is to devote his full time to the Company serving as President of SecurityNational Mortgage Company at not less than his current salary and benefits, and to include \$350,000 of life insurance protection. In the event of disability, Mr. Beckstead's salary would be continued for up to five years at 50% of its current level.

In the event of a sale or merger of the Company and Mr. Beckstead is not retained in his current position, the Company would be obligated to continue Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$58,964 and \$58,923 in fiscal 2011 and 2010, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is \$533,483 and \$474,519, as of December 31, 2011 and 2010, respectively.

11) Capital Stock

The Company has two classes of common stock with shares outstanding, Class A and Class C. Class C shares vote share for share with the Class A shares on all matters except election of one third of the directors who are elected solely by the Class A shares, but generally are entitled to a lower dividend participation rate. Class C shares are convertible into Class A shares at any time on a ten to one ratio.

Stockholders of both classes of common stock have received 5% stock dividends in the years 1990 through 2011, as authorized by the Company's Board of Directors.

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11) Capital Stock (Continued)

The Company has Class B Common Stock of \$1.00 par value, 5,000,000 shares authorized, of which none are issued. Class B shares are non-voting stock except to any proposed amendment to the Articles of Incorporation which would affect Class B Common Stock.

The following table summarizes the activity in shares of capital stock for the three-year period ended December 31, 2011:

	Class A	Class C
Balance at December 31, 2008	8,284,109	8,912,315
Exercise of stock options	16,481	-
Stock dividends	415,868	438,776
Conversion of Class C to Class A	13,689	(136,880)
Reinstatement	80	-
Balance at December 31, 2009	8,730,227	9,214,211
Exercise of stock options	10,174	-
Stock dividends	437,138	460,005
Conversion of Class C to Class A	1,406	(14,064)
Reinstatement	-	-
Balance at December 31, 2010	9,178,945	9,660,152
Exercise of stock options	-	-
Stock dividends	459,168	482,675
Conversion of Class C to Class A	685	(6,851)
Reinstatement	-	-
Balance at December 31, 2011	9,638,798	10,135,976

Earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. In accordance with accounting principles generally accepted in the United States of America, the basic and diluted earnings per share amounts were calculated as follows:

	2011	2010	2009
Numerator:			
Net earnings (loss)	\$1,298,758	\$(430,624)	\$3,773,880
Denominator:			
Denominator for basic earnings per share-weighted-average shares	9,375,045	9,169,150	9,149,451
Effect of dilutive securities			
Employee stock options	102,807	-	2,486

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Dilutive potential common shares	102,807	-	2,486
Denominator for diluted earnings (loss)per share-adjusted weighted-average shares and assumed conversions	9,477,852	9,169,150	9,151,937
Basic earnings (loss) per share	\$0.14	\$(0.05)	\$0.41
Diluted earnings (loss) per share	\$0.14	\$(0.05)	\$0.41

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SECURITY NATIONAL FINANCIAL CORPORATION
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12) Stock Compensation Plans

The Company has four fixed option plans (the “1993 Plan,” the “2000 Plan”, the “2003 Plan” and the “2006 Plan”) Compensation expense for options issued of \$253,934 and \$520,457 has been recognized under these plans for 2011 and 2010, respectively, and \$485,986 has been recognized for 2009. Deferred tax credits have been recognized related to compensation expense of \$83,798, \$176,955 and \$165,235 for years 2011, 2010 and 2009, respectively.

The weighted-average fair value of each option granted during 2011 under the 2003 Plan and the 2006 Plan, is estimated at \$0.52 and \$0.71 for the December 2, 2011 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 59%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted during 2010 under the 2003 Plan and the 2006 Plan, is estimated at \$0.77 and \$0.71 for the December 3, 2010 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 65%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted in 2009 under the 2003 Plan and the 2006 Plan, is estimated at \$1.55 and \$1.70 for the December 4, 2009 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 72%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The Company generally estimates the expected life of the options based upon the contractual term of the options. Future volatility is estimated based upon the historical volatility of the Company’s Class A common stock over a period equal to the estimated life of the options. Common stock issued upon exercise of stock options are generally new share issuances rather than from treasury shares. Future compensation relating to non-vested stock options at December 31, 2011 is not material.

Description and activity for each Plan is summarized as follows:

1993 Stock Incentive Plan

On June 21, 1993, the Company adopted the Security National Financial Corporation 1993 Stock Incentive Plan (the “1993 Plan”), which reserved 300,000 shares of Class A Common Stock for issuance there under. The 1993 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress.

The 1993 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options,” as defined under Section 422A of the Internal Revenue Code of 1986 (the “Code”), and “non-qualified options” may be granted pursuant to the 1993 Plan. Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the Code, including a requirement that the option exercise price be not less than the fair market value of the option shares on the date of grant. The 1993 Plan provides that the exercise price for non-qualified options will be not less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the

Company's Board of Directors.

The options were granted to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these officers and key employees by providing them with an additional incentive to contribute to the success of the Company.

The 1993 Plan is administered by the Board of Directors or by a committee designated by the Board. The options shall be either fully exercisable on the grant date or shall become exercisable thereafter in such installments as the Board or the committee may specify. The 1993 Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend. No options may be exercised for a term of more than ten years from the date of grant.

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12) Stock Compensation Plans (Continued)

On November 7, 1996, the Company amended the Plan as follows: (i) to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 300,000 Class A shares to 600,000 Class A shares; and (ii) to provide that the stock subject to options, awards and purchases may include Class C Common Stock.

On October 14, 1999, the Company amended the 1993 Plan to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 600,000 Class A shares to 1,046,126 Class A shares. The Plan had a term of ten years and was terminated in 2003 and options granted there under are non-transferable.

The aggregated intrinsic value of the options outstanding is zero because the strike price is greater than the market price.

Activity of the 1993 Plan is summarized as follows:

	Number of Class A Shares	Option Price
Outstanding at December 31, 2008	282,767	\$1.62 - \$4.40
Adjustment for the effect of stock dividends	13,902	
Exercised	-	
Cancelled	(4,719)	
Outstanding at December 31, 2009	291,950	\$1.54 - \$4.19
Adjustment for the effect of stock dividends	14,598	
Exercised	-	
Cancelled	-	
Outstanding at December 31, 2010	306,548	\$1.47 - \$3.99
Adjustment for the effect of stock dividends	14,228	
Exercised	-	
Cancelled	(21,990)	
Outstanding at December 31, 2011	298,786	\$2.62 - \$3.80
Exercisable at end of year	298,786	\$2.62 - \$3.80
Available options for future grant 1993 Stock Incentive Plan	-0-	
Weighted average contractual term of options		

outstanding at December 31, 2011	1.2 years
Aggregated intrinsic value of options outstanding at December 31, 2011	\$-0-

2000 Director Stock Option Plan

On October 16, 2000, the Company adopted the Security National Financial Corporation 2000 Director Stock Option Plan (the “2000 Plan”), which reserved 50,000 shares of Class A Common Stock for issuance there under. Effective November 1, 2000, and on each anniversary date thereof during the term of the 2000 Plan, each outside Director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside Director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the 2000 Plan. The options granted to outside Directors shall vest in their entirety on the first anniversary date of the grant.

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12) Stock Compensation Plans (Continued)

The primary purposes of the 2000 Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

The 2000 Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivisions, combination or stock dividend.

The 2000 Plan terminated in 2006 and options granted are non-transferable. Options granted and outstanding under the 2000 Plan include Stock Appreciation Rights which permit the holder of the option to elect to receive cash, amounting to the difference between the option price and the fair market value of the stock at the time of the exercise, or a lesser amount of stock without payment, upon exercise of the option.

The aggregated intrinsic value of the options outstanding is zero because the strike price is greater than the market price.

Activity of the 2000 Plan is summarized as follows:

	Number of Class A Shares	Option Price
Outstanding at December 31, 2008	9,970	\$2.58 - \$3.02
Adjustment for the effect of stock dividends	244	
Granted	-	
Cancelled	(5,110)	
Outstanding at December 31, 2009	5,104	\$2.45
Adjustment for the effect of stock dividends	-	
Granted	-	
Cancelled	(5,104)	
Outstanding at December 31, 2010	-	
Exercisable at end of year	-	
Available options for future grant 2000 Director Plan	-0-	
Weighted average contractual term of options outstanding at December 31, 2011	0	
Aggregated intrinsic value of options outstanding at December 31, 2011		\$-0-

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12) Stock Compensation Plans (Continued)

2003 Stock Option Plan

On July 11, 2003, the Company adopted the Security National Financial Corporation 2003 Stock Option Plan (the “2003 Plan”), which reserved 500,000 shares of Class A Common Stock and 1,000,000 shares of Class C Common Stock for issuance there under. On July 13, 2007, the Company amended the 2003 Plan to authorize an additional 400,000 shares of Class A Common Stock and an additional 1,000,000 shares of Class C common stock to be made available for issuance under the Plan. On July 10, 2009 the Company amended the 2003 Plan to authorize an additional 500,000 shares of Class A common stock and an additional 1,000,000 share of Class C common stock to be made available for issuance under the Plan. On July 9, 2010 the Company amended the 2003 Plan authorizing an additional 500,000 shares of Class A common stock and an additional 1,000,000 shares of Class C common stock to be made available for issuance under the Plan. The 2003 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress.

The 2003 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options”, as defined under Section 422A of the Internal Revenue Code of 1986 (the “Code”) and “non-qualified options” may be granted under the 2003 Plan.

The 2003 Plan is to be administered by the Board of Directors or by a committee designated by the Board. The terms of options granted or stock awards or sales affected under the 2003 Plan are to be determined by the Board of Directors or its committee. No options may be exercised for a term of more than ten years from the date of the grant. Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the Internal Revenue Code, including a requirement that the option exercise price be no less than the fair market value of the option shares on the date of grant. The 2003 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company’s Board of Directors.

The 2003 Plan has a term of ten years. The Board of Directors may amend or terminate the 2003 Plan at any time, from time to time, subject to approval of certain modifications to the 2003 Plan by the shareholders of the Company as may be required by law or the 2003 Plan.

The aggregated intrinsic value of the options outstanding is zero because the strike price is greater than the market price.

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12) Stock Compensation Plans (Continued)

Activity of the 2003 Plan is summarized as follows:

	Number of Class A Shares	Number of Class C Shares(1)	Option Price(1)
Outstanding at December 31, 2008	881,005	1,166,308	\$1.43 - \$4.03
Adjustment for the effect of stock dividends	48,094	108,316	
Granted	206,500	1,000,000	
Exercised	(63,814)	-	
Cancelled	(63,814)	-	
Outstanding at December 31, 2009	1,007,971	2,274,624	\$1.36 - \$3.84
Adjustment for the effect of stock dividends	56,598	163,731	
Granted	221,600	1,000,000	
Exercised	(97,609)	-	
Cancelled	-	-	
Outstanding at December 31, 2010	1,188,560	3,438,355	\$1.30 - \$3.66
Adjustment for the effect of stock dividends	74,596	171,920	
Granted	322,500	-	
Exercised	-	-	
Cancelled	(19,135)	-	
Outstanding at December 31, 2011	1,566,521	3,610,275	\$1.23 - \$3.48
Exercisable at end of year	1,312,553	3,610,275	\$1.23 - \$3.48
Available options for future grant			
2003 Stock Incentive Plan	539,820	5	
Weighted average contractual term of options			
outstanding at December 31, 2011	4.7 years		
Aggregated intrinsic value of options			
outstanding at December 31, 2011	\$ -0-		

(1) Class "C" shares are converted to Class "A" shares on a 10 to 1 ratio. The Option Price is based on Class A Common shares.

2006 Director Stock Option Plan

On December 7, 2006, the Company adopted the 2006 Director Stock Option Plan (the "Director Plan") effective December 7, 2006. The Director Plan provides for the grant by the Company of options to purchase up to an aggregate

of 100,000 shares of Class A Common Stock for issuance there under and adjusted for stock dividends if any. The Director Plan provides that each member of the Company's Board of Directors who is not an employee or paid consultant of the Company automatically is eligible to receive options to purchase the Company's Class A Common Stock under the Director Plan.

Effective as of December 7, 2006, and on each anniversary date thereof during the term of the Director Plan, each outside director shall automatically receive an option to purchase 1,000 shares of Class A Common Stock. In addition, each new outside director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the Director Plan. The options granted to outside directors shall vest in four equal quarterly installments over a one year period from the date of grant, until such shares are fully vested. The primary purposes of the Director Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

SECURITY NATIONAL FINANCIAL CORPORATION
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12) Stock Compensation Plans (Continued)

In the event of a merger of the Company with or into another company, or a consolidation, acquisition of stock or assets or other change in control transaction involving the Company, each option becomes exercisable in full, unless such option is assumed by the successor corporation. In the event the transaction is not approved by a majority of the “Continuing Directors” (as defined in the Director Plan), each option becomes fully vested and exercisable in full immediately prior to the consummation of such transaction, whether or not assumed by the successor corporation.

The aggregated intrinsic value of the options outstanding is zero because the strike price is greater than the market price.

Activity of the 2006 Plan is summarized as follows:

	Number of Class A Shares	Option Price
Outstanding at December 31, 2008	44,741	\$1.34 - \$4.59
Granted	24,000	
Adjustment for the effect of stock dividends	3,437	
Outstanding at December 31, 2009	72,178	\$1.28 - \$4.37
Granted	24,000	
Adjustment for the effect of stock dividends	4,809	
Outstanding at December 31, 2010	100,987	\$1.22 - \$4.16
Granted	24,000	
Adjustment for the effect of stock dividends	6,249	
Outstanding at December 31, 2011	131,236	\$1.16 - \$3.96
Exercisable at end of year	112,336	
Available options for future grant 2006 Stock Incentive Plan	2,774	
Weighted average contractual term of options outstanding at December 31, 2011	7.9 years	
Aggregated intrinsic value of options outstanding at December 31, 2011	\$ -0-	

13) Statutory Surplus from Statutory Reserves

Generally, the net assets of the life insurance subsidiaries available for transfer to the Company are limited to the amounts of the life insurance subsidiaries net assets, as determined in accordance with statutory accounting practices, which were \$26,923,108 at December 31, 2011, exceed minimum statutory capital requirements; however, payments of such amounts as dividends are subject to approval by regulatory authorities.

The Utah, Arkansas and Mississippi Insurance Departments impose minimum risk-based capital requirements that were developed by the National Association of Insurance Commissioners, (“NAIC”) on insurance enterprises. The formulas for determining the risk-based capital (“RBC”) specify various factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio (the “Ratio”) of the enterprise’s regulatory total adjusted capital, as defined by the NAIC, to its authorized control level, as defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The life insurance subsidiaries have a combined weighted Ratio that is greater than the first level of regulatory action.

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14) Business Segment Information

Description of Products and Services by Segment

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company's life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company's independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company's cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company's mortgage loan segment consists of loan originations fee income and expenses from the originations of residential and commercial mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that offer different products and are managed separately due to the different products and the need to report to the various regulatory jurisdictions.

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14) Business Segment Information (Continued)

	2011				
	Life	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
	Insurance				
Revenues:					
From external sources:					
Revenue from customers	\$48,479,519	\$10,761,469	\$77,605,105	\$-	\$136,846,093
Net investment income	17,295,982	159,186	2,555,536	-	20,010,704
Realized gains (losses) on investments and other assets	1,596,127	868,226	-	-	2,464,353
Other than temporary impairments	(840,735)	-	-	-	(840,735)
Other revenues	712,400	147,830	248,739	-	1,108,969
Intersegment revenues:					
Net investment income	5,832,691	1,691,197	258,062	(7,781,950)	-
Total revenues	73,075,984	13,627,908	80,667,442	(7,781,950)	159,589,384
Expenses:					
Death and other policy benefits	23,945,720	-	-	-	23,945,720
Increase in future policy benefits	20,540,375	-	-	-	20,540,375
Amortization of deferred policy and preneed acquisition costs and value of business acquired	7,135,996	373,332	-	-	7,509,328
Depreciation	479,634	520,015	499,389	-	1,499,038
General, administrative and other costs:					
Intersegment	24,000	103,494	130,011	(257,505)	-
Provision for loan losses	-	-	2,070,399	-	2,070,399
Costs related to funding mortgage loans	-	-	4,240,377	-	4,240,377
Other	17,472,713	9,827,197	69,286,435	-	96,586,345
Interest expense:					
Intersegment	668,047	1,905,559	4,950,839	(7,524,445)	-
Other	111,221	437,736	1,412,292	-	1,961,249
Total benefits and expenses	70,377,706	13,167,333	82,589,742	(7,781,950)	158,352,831
Earnings (losses) before income taxes	\$2,698,278	\$460,575	\$(1,922,300)	\$-	\$1,236,553
Income tax (expense) benefit	(734,626)	-	796,831	-	62,205
Net earnings (losses)	\$1,963,652	\$460,575	\$(1,125,469)	\$-	\$1,298,758
Identifiable assets	\$502,833,224	\$116,453,434	\$27,913,480	\$(126,061,216)	\$521,138,922
Goodwill	\$391,848	\$285,191	\$-	\$-	\$677,039

Expenditures for long-lived assets	\$ 136,742	\$ 255,116	\$ 373,775	\$-	\$ 765,633
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14) Business Segment Information (Continued)

	2010				
	Life	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
	Insurance				
Revenues:					
From external sources:					
Revenue from customers	\$38,528,437	\$11,520,369	\$97,342,215	\$-	\$147,391,021
Net investment income	14,738,200	63,574	3,814,210	-	18,615,984
Realized gains (losses) on investments and other assets	1,642,174	(26,756)	-	-	1,615,418
Other than temporary impairments	(673,981)	-	-	-	(673,981)
Other revenues	1,039,016	256,862	285,237	-	1,581,115
Intersegment revenues:					
Net investment income	6,817,008	1,678,096	244,578	(8,739,682)	-
Total revenues	62,090,854	13,492,145	101,686,240	(8,739,682)	168,529,557
Expenses:					
Death and other policy benefits	20,925,988	-	-	-	20,925,988
Increase in future policy benefits	15,525,542	-	-	-	15,525,542
Amortization of deferred policy and preneed acquisition costs and value of business acquired	5,572,297	372,562	-	-	5,944,859
Depreciation	559,999	631,281	620,652	-	1,811,932
General, administrative and other costs:					
Intersegment	24,000	109,128	185,147	(318,275)	-
Provision for loan losses	-	-	5,404,645	-	5,404,645
Costs related to funding mortgage loans	-	-	6,044,020	-	6,044,020
Other	16,756,255	11,097,302	83,329,514	-	111,183,071
Interest expense:					
Intersegment	686,384	1,792,479	5,942,544	(8,421,407)	-
Other	179,891	475,372	2,123,657	-	2,778,920
Total benefits and expenses	60,230,356	14,478,124	103,650,179	(8,739,682)	169,618,977
Earnings (losses) before income taxes	\$1,860,498	\$(985,979)	\$(1,963,939)	\$-	\$(1,089,420)
Income tax (expense) benefit	(97,410)	-	756,206	-	658,796
Net earnings (losses)	\$1,763,088	\$(985,979)	\$(1,207,733)	\$-	\$(430,624)
Identifiable assets	\$440,374,068	\$111,798,118	\$30,323,496	\$(116,860,777)	\$465,634,905
Goodwill	\$391,848	\$683,191	\$-	\$-	\$1,075,039

Expenditures for long-lived assets	\$220,417	\$275,904	\$363,667	\$-	\$859,988
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SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
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14) Business Segment Information (Continued)

	2009				
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	\$38,413,329	\$11,973,676	\$144,274,227	\$-	\$194,661,232
Net investment income	15,869,380	72,833	3,972,859	-	19,915,072
Realized gains on investments and other assets	1,223,312	-	-	-	1,223,312
Other than temporary impairments	(326,000)	-	-	-	(326,000)
Other revenues	778,107	174,357	462,216	-	1,414,680
Intersegment revenues:					
Net investment income	5,040,934	1,092,056	216,110	(6,349,100)	-
Total revenues	60,999,062	13,312,922	148,925,412	(6,349,100)	216,888,296
Expenses:					
Death and other policy benefits	20,681,268	-	-	-	20,681,268
Increase in future policy benefits	15,238,380	-	-	-	15,238,380
Amortization of deferred policy and preneed acquisition costs and value of business acquired	6,756,531	403,957	-	-	7,160,488
Depreciation	628,783	780,253	547,179	-	1,956,215
General, administrative and other costs:					
Intersegment	24,000	65,064	236,487	(325,551)	-
Provision for loan losses	-	-	19,547,162	-	19,547,162
Costs related to funding mortgage loans	-	-	10,041,731	-	10,041,731
Other	16,939,350	10,923,612	104,726,271	-	132,589,233
Interest expense:					
Intersegment	764,554	1,019,828	4,239,167	(6,023,549)	-
Other	400,299	247,954	2,677,908	-	3,326,161
Total benefits and expenses	61,433,165	13,440,668	142,015,905	(6,349,100)	210,540,638
Earnings (losses) before income taxes	\$(434,103)	\$(127,746)	\$6,909,507	\$-	\$6,347,658
Income tax (expense) benefit	125,408	-	(2,699,186)	-	(2,573,778)
Net earnings (losses)	\$(308,695)	\$(127,746)	\$4,210,321	\$-	\$3,773,880
Identifiable assets	\$435,412,810	\$101,357,826	\$39,480,787	\$(105,674,525)	\$470,576,898
Goodwill	\$391,848	\$683,191	\$-	\$-	\$1,075,039

Expenditures for long-lived assets	\$ 134,948	\$ 139,259	\$ 462,003	\$-	\$ 736,210
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15) Related Party Transactions

On November 19, 2007, Security National Life and Scott M. Quist entered into a Use and Buy Sale Agreement to jointly purchase a condominium located in St. George, Utah. Mr. Quist is the Company's President and Chief Operating Officer. The condominium is to be used for the entertainment of Security National Life's executive officers and employees, outside vendors and prospective customers. The purchase price of the condominium, including improvements and furnishings, was \$538,962. Mr. Quist paid \$286,207 of that amount and Security National Life paid \$252,755.

Under the terms of the agreement, Security National Life and Mr. Quist have the right to use the condominium in proportion to their respective contributions towards the purchase price, including furnishings and fixtures. Mr. Quist is responsible for the care and maintenance of the condominium. The payment of taxes, insurance, utilities and homeowners' fees is to be divided between Security National Life and Mr. Quist according to their respective ownership percentages.

Upon the death, disability or retirement of Mr. Quist or his separation from employment with the Company, Mr. Quist or his estate, as the case may be, shall have the right to purchase Security National Life's interest in the condominium at the original purchase price or fair market value, whichever is less. Security National Life's contribution to the purchase price of the condominium was equal to an amount of accrued but unpaid bonuses owed to Mr. Quist, which he agreed to continue to defer for the option that would allow him or his estate to purchase Security National Life's interest in the condominium upon his death, disability or retirement at the lesser of the original purchase price or fair market value.

16) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

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.

The Company utilizes a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

The items shown under Level 1 and Level 2 are valued as follows:

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 2.

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16) Fair Value of Financial Instruments (Continued)

Restricted Assets of the Cemeteries and Mortuaries: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Cemetery Perpetual Care Trust Investments: A portion of these assets include equity securities that have quoted market prices. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Call Options: The fair values along with methods used to estimate such values are disclosed in Note 2.

The items shown under Level 3 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%. The fair values for the Company's liabilities under investment-type insurance contracts (disclosed as policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

The fair values for the Company's insurance contracts other than investment-type contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

Interest Rate Lock Commitments: The Company's mortgage banking activities enters into interest rate lock commitments with potential borrowers and forward commitments to sell loans to third-party investors. The Company also implements 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 defined to be derivatives under generally accepted accounting principles 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 instruments to be 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 swaps are a derivative financial instruments carried at its fair value. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

Mortgage Loans on Real Estate: The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Other Real Estate Owned Held for Investment and Held for Sale: The Company believes that in an orderly market fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected

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16) Fair Value of Financial Instruments (Continued)

the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

In addition to this analysis performed by the Company, the Company depreciates Other Real Estate Owned Held for Investment. This depreciation reduces the book value of these properties and lessens the exposure to the Company from further deterioration in real estate values.

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2011.

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			
Non-redeemable preferred stock	\$18,438	\$18,438	\$ -
Common stock	6,280,954	6,280,954	-
Total securities available for sale	6,299,392	6,299,392	-
Restricted assets of cemeteries and mortuaries	548,761	548,761	
Cemetery perpetual care trust investments	617,107	617,107	-
Derivatives - interest rate lock commitments	1,904,901	-	1,904,901
Total assets accounted for at fair value on a recurring basis	\$9,370,161	\$7,465,260	\$ -
Liabilities accounted for at fair value on a recurring basis			
Policyholder account balances	\$(50,926,020)	\$ -	\$(50,926,020)
Future policy benefits - annuities	(65,281,586)	-	(65,281,586)
Derivatives - bank loan interest rate swaps	(117,812)	-	(117,812)
- call options	(80,102)	(80,102)	-
- interest rate lock commitments	(210,360)	-	(210,360)
Total liabilities accounted for at fair value on a recurring basis	\$(116,615,880)	\$(80,102)	\$ -

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2010	\$(52,340,807)	\$(65,936,445)	\$ 873,059	\$(116,533)
Total Losses (Gains):				
Included in earnings	1,414,787	654,859	-	-
Included in other comprehensive income (loss)	-	-	821,482	(1,279)
Balance - December 31, 2011	\$(50,926,020)	\$(65,281,586)	\$ 1,694,541	\$(117,812)

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16) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2011.

	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 nonrecurring basis				
Investment in securities held-to-maturity	\$-	\$-	\$ -	\$ -
Mortgage loans on real estate	5,354,600	-	-	5,354,600
Other real estate owned held for investment	5,419,103	-	-	5,419,103
Other real estate owned held for sale	514,000	-	-	514,000
Total assets accounted for at fair value on a nonrecurring basis	\$11,287,703	\$-	\$ -	\$ 11,287,703

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2010.

	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				
Non-redeemable preferred stock	\$16,058	\$16,058	\$ -	\$-
Common stock	6,768,585	6,768,585	-	-
Total securities available for sale	6,784,643	6,784,643	-	-
Restricted assets of cemeteries and mortuaries	545,433	545,433		
Cemetery perpetual care trust investments	1,454,694	1,454,694	-	-
Derivative-interest rate lock commitments	1,024,587	-	-	1,024,587
Total assets accounted for at fair value on a				

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recurring basis	\$9,809,357	\$8,784,770	\$ -	\$1,024,587
Liabilities accounted for at fair value				
on a recurring basis				
Policyholder account balances	\$(52,340,807)	\$-	\$ -	\$(52,340,807)
Future policy benefits - annuities	(65,936,445)	-	-	(65,936,445)
Derivative - bank loan interest rate swaps	(116,533)	-	-	(116,533)
- call options	(157,319)	(157,319)	-	-
- interest rate lock commitments	(151,528)	-	-	(151,528)
Total liabilities accounted for at fair value				
on a recurring basis	\$(118,702,632)	\$(157,319)	\$ -	\$(118,545,313)

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16) Fair Value of Financial Instruments (Continued)

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2009	\$(54,356,491)	\$(61,407,257)	\$ 1,554,711	\$(101,206)
Total Losses (Gains):				
Included in earnings	2,015,684	(4,529,188)	-	-
Included in other comprehensive income (loss)	-	-	(681,652)	(15,327)
Balance - December 31, 2010	\$(52,340,807)	\$(65,936,445)	\$ 873,059	\$(116,533)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2010.

	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 nonrecurring basis				
Investment in securities held-to-maturity	\$346,219	\$-	\$ 346,219	\$ -
Mortgage loans on real estate	523,971	-	-	523,971
Other real estate owned held for investment	2,158,110	-	-	2,158,110
Other real estate owned held for sale	1,444,000	-	-	1,444,000
Total assets accounted for at fair value on a nonrecurring basis	\$4,472,300	\$-	\$ 346,219	\$ 4,126,081

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17) Accumulated Other Comprehensive Income

The following summarizes the changes in accumulated other comprehensive income:

	December 31,	
	2011	2010
Unrealized gains (losses) on available for-sale securities	\$(1,698,175)	\$(538,229)
Reclassification adjustment for net realized gains in net income	472,038	625,258
Net unrealized gains (losses) before taxes	(1,226,137)	87,029
Tax (expense) benefit	150,999	(32,132)
Net	(1,075,138)	54,897
Potential unrealized gains (losses) for derivative bank loans (interest rate swaps) before taxes	(1,279)	(15,281)
Tax (expense) benefit	435	5,195
Net	(844)	(10,086)
Potential unrealized gains (losses) for derivative mortgage loans before taxes	821,483	(681,652)
Tax (expense) benefit	(279,304)	231,762
Net	542,179	(449,890)
Other comprehensive income changes	\$(533,803)	\$(405,079)

The following is the accumulated balances of other comprehensive income as of December 31, 2011:

	Beginning Balance December 31, 2010	Change for the period	Ending Balance December 31, 2011
Unrealized net gains on available-for-sale securities and trust investments	\$688,940	\$(1,075,138)	\$(386,198)
Unrealized gains on derivative mortgage loans	576,218	542,179	1,118,397
Unrealized gains (losses) on derivative bank loan interest rate swaps	(76,912)	(844)	(77,756)
Other comprehensive income	\$1,188,246	\$(533,803)	\$654,443

The following is the accumulated balances of other comprehensive income as of December 31, 2010:

	Beginning Balance December 31, 2009	Change for the period	Ending Balance December 31, 2010
Unrealized net gains on available-for-sale securities and trust investments	\$634,029	\$54,911	\$688,940

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Unrealized gains on derivative			
mortgage loans	1,026,109	(449,891)	576,218
Unrealized gains (losses)			
on derivative bank loan interest rate swaps	(66,811)	(10,101)	(76,912)
Other comprehensive income	\$1,593,327	\$(405,081)	\$1,188,246

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18) Derivative Commitments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of mortgage loan commitments from the time a derivative loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of derivative loan commitments that will be exercised (i.e., the number of loan commitments that will be funded) fluctuates. The probability that a loan will not be funded within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the inception of the interest rate lock. However, many borrowers continue to exercise derivative loan commitments even when interest rates have fallen.

In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will not be funded within the terms of the mortgage loan commitment also is influenced by the source of the applications (retail, broker or correspondent channels), proximity to rate lock expiration, purpose for the loan (purchase or refinance) product type and the application approval status. The Company has developed fallout estimates using historical data that take into account all of the variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. These fallout estimates are used to estimate the number of loans that the Company expects to be funded within the terms of the mortgage loan commitments and are updated periodically to reflect the most current data.

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

The Company utilizes forward loan sales commitments to economically hedge the price risk associated with its outstanding mortgage loan commitments. A forward loan sales commitment protects the Company from losses on sales of the loans arising from exercise of the loan commitments by securing the ultimate sales price and delivery date of the loans. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the derivative loan commitments, thereby reducing earnings volatility related to the recognition in earnings of changes in the values of the commitments.

The Company has adopted a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the market value of the option. The liability for call options is adjusted to market value at each reporting date. The market value of outstanding call options as of December 31, 2011 and December 31, 2010 was \$80,102 and \$157,319, respectively. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option and retains the underlying equity security.

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18) Derivative Commitments (Continued)

The following table shows the fair value of derivatives as of December 31, 2011 and December 31, 2010.

Fair Value of Derivative Instruments								
Asset Derivatives					Liability Derivatives			
December 31, 2011		December 31, 2010			December 31, 2011		December 31, 2010	
Balance Sheet		Balance Sheet			Balance Sheet		Balance Sheet	
Location	Fair Value	Location	Fair Value	Location	Fair Value	Location	Fair Value	
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments								
other assets	\$1,904,901	other assets	\$ 1,024,587	Other liabilities	\$ 210,360	Other liabilities	\$ 151,528	
Call Options								
	-		-	Other liabilities	80,102	Other liabilities	157,319	
Interest rate swaps								
	-		-	Bank loans payable	117,812	Bank loans payable	116,532	
Total		\$1,904,901	\$ 1,024,587	Total		\$ 408,274	\$ 425,379	

The following table shows the gain (loss) on derivatives for the periods presented. There were no gains or losses reclassified from accumulated other comprehensive income (OCI) into income or gains or losses recognized in income on derivatives ineffective portion or any amounts excluded from effective testing.

	Gross Amount Gain (Loss) Recognized in OCI	
	Years ended December 31,	
	2011	2010
Derivative - Cash Flow Hedging Relationships:		
Interest Rate Lock Commitments	\$821,482	\$(681,652)
Interest Rate Swaps	(1,279)	(15,281)
Call Options	-	42,999
Total	\$820,203	\$(653,934)

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19) Quarterly Financial Data (Unaudited)

	2011			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	\$34,172,180	\$36,466,418	\$41,324,687	\$47,626,099
Benefits and expenses	35,494,762	36,325,240	40,490,197	46,042,632
Earnings (loss) before income taxes	(1,322,582)	141,178	834,490	1,583,467
Income tax benefit (expense)	804,109	63,689	(64,168)	(741,425)
Net earnings (loss)	(518,473)	204,867	770,322	842,042
Net earnings (loss) per common share	\$(0.06)	\$0.02	\$0.09	\$0.09
Net earnings (loss) per common share assuming dilution	\$(0.06)	\$0.02	\$0.09	\$0.09

	2010			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	\$37,967,127	\$43,048,988	\$45,974,697	\$41,538,745
Benefits and expenses	39,640,041	42,964,207	45,161,511	41,853,218
Earnings (loss) before income taxes	(1,672,914)	84,781	813,186	(314,473)
Income tax benefit (expense)	721,681	334,638	(309,757)	(87,766)
Net earnings (loss)	(951,233)	419,419	503,429	(402,239)
Net earnings (loss) per common share	\$(0.11)	\$0.05	\$0.06	\$(0.05)
Net earnings (loss) per common share assuming dilution	\$(0.11)	\$0.05	\$0.06	\$(0.05)

	2009			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	\$59,283,642	\$57,618,727	\$48,246,597	\$51,739,330
Benefits and expenses	54,343,739	53,134,358	48,180,111	54,882,430
Earnings (loss) before income taxes	4,939,903	4,484,369	66,486	(3,143,100)
Income tax benefit (expense)	(1,706,893)	(1,393,980)	(3,437)	530,532
Net earnings (loss)	3,233,010	3,090,389	63,049	(2,612,568)
Net earnings (loss) per common share	\$0.40	\$0.38	\$0.01	\$(0.33)
Net earnings (loss) per common share assuming dilution	\$0.40	\$0.38	\$0.01	\$(0.33)

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(a) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors of the Company, and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2011. Based on that assessment the Company believes that, at December 31, 2011, its internal control over financial reporting was effective.

This annual report on internal control over financial reporting does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities Exchange Commission that permit the Company to provide only management's report in this annual report.

(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred in the fourth quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers

The Company's Board of Directors consists of seven persons, four of whom are not employees of the Company. There are no family relationships between or among any of the directors and executive officers, except that Scott M. Quist is the son, and Christie Q. Overbaugh is the daughter, of George R. Quist. The following table sets forth certain information with respect to the directors and executive officers of the Company.

Name	Age	Position with the Company
George R. Quist	91	Chairman of the Board and Chief Executive Officer
Scott M. Quist	58	President, Chief Operation Officer and Director
Stephen M. Sill	66	Vice President, Treasurer and Chief Financial Officer
J. Lynn Beckstead, Jr.	58	Vice President Mortgage Operations and Director
Christie Q. Overbaugh	63	Senior Vice President of Internal Operations
Jeffrey R. Stephens	58	General Counsel and Corporate Secretary
Charles L. Crittenden	91	Director
Robert G. Hunter	52	Director
H. Craig Moody	60	Director
Norman G. Wilbur	73	Director

Directors

The following is a description of the business experience of each of the Company's directors.

George R. Quist has been Chairman of the Board and Chief Executive Officer of the Company since 1979. Mr. Quist served as President of the Company from 1979 until 2002. From 1960 to 1964, Mr. Quist was Executive Vice President and Treasurer of Pacific Guardian Life Insurance Company. From 1946 to 1960, he was an agent, District Manager and Associate General Agent for various insurance companies. Mr. Quist also served from 1981 to 1982 as the President of The National Association of Life Companies, a trade association of 642 life insurance companies, and from 1982 to 1983 as its Chairman of the Board. Mr. Quist attended the University of Utah. Mr. Quist's status as one of the Company's founders, his deep expertise and experience in all aspects of the insurance industry, his management expertise, his ability to provide valuable insight to the Board of Directors, and his significant business and leadership experience led the Board of Directors to conclude that he should serve as Chairman of the Board and Chief Executive Officer of the Company.

Scott M. Quist has been President of the Company since 2002, its Chief Operating Officer since 2001, and a director since 1986. Mr. Quist served as First Vice President of the Company from 1986 to 2002. From 1980 to 1982, Mr. Quist was a tax specialist with Peat, Marwick, Mitchell, & Co., in Dallas, Texas. From 1986 to 1991, he was

Treasurer and a director of The National Association of Life Companies, a trade association of 642 insurance companies until its merger with the American Council of Life Companies. Mr. Quist has been a member of the Board of Governors of the Forum 500 Section (representing small insurance companies) of the American Council of Life Insurance. He has also served as a regional director of Key Bank of Utah since November 1993. Mr. Quist is currently a director and a past president of the National Alliance of Life Companies, a trade association of over 200 life companies. Mr. Quist holds a B.S. in Accounting from Brigham Young University and received his law degree also from Brigham Young University. Mr. Quist's significant expertise and deep understanding of the technical, organizational and strategic business aspects of the insurance industry, his management expertise, his eight year tenure as President of the Company and twenty-four year tenure as a director, and his years of business and leadership experience led the Board of Directors to conclude that he should serve as President and a director of the Company.

J. Lynn Beckstead, Jr. has been Vice President of Mortgage Operations and a director of the Company since 2002. In addition, Mr. Beckstead is President of SecurityNational Mortgage Company, a wholly owned subsidiary of the Company, having served in this position since 1993. From 1990 to 1993, Mr. Beckstead was Vice President and a director of Republic Mortgage Corporation. From 1983 to 1990, Mr. Beckstead was Vice President and a director of Richards Woodbury Mortgage Corporation. From 1980 to 1983, he was a principal broker for Boardwalk Properties. From 1978 to 1980, Mr. Beckstead was a residential loan officer for Medallion Mortgage Company. From 1977 to 1978, he was a residential construction loan manager of Citizens Bank. Mr. Beckstead's expertise in real estate, his seventeen year tenure serving as President of SecurityNational Mortgage Company, and his business and leadership experience led the Board of Directors to conclude that he should serve as a director.

Charles L. Crittenden has been a director of the Company since 1979. Mr. Crittenden has been sole stockholder of Crittenden Paint & Glass Company since 1958. He is also an owner of Crittenden Enterprises, a real estate development company, and Chairman of the Board of Linco, Inc. Mr. Crittenden's status as one of the Company's founders, his thirty-one year long tenure on the Company's Board of Directors, and his years of business experience led the Board of Directors to conclude that he should serve as a director.

Robert G. Hunter, M.D. has been a director of the Company since 1998. Dr. Hunter is currently a practicing physician in private practice. Dr. Hunter created the statewide E.N.T. Organization (Rocky Mountain E.N.T., Inc.) where he is currently a member of the Executive Committee. Dr. Hunter is Department Head of Otolaryngology, Head and Neck Surgery at Intermountain Medical Center and a past President of the medical staff of the Intermountain Medical Center. He is also a delegate to the Utah Medical Association and has served as a delegate representing the State of Utah to the American Medical Association, and a member of several medical advisory boards. Dr. Hunter holds a B.S. in Microbiology from the University of Utah and received his medical degree from the University of Utah College of Medicine. Dr. Hunter's medical expertise and experience, and his administrative and leadership experience from serving in a number of administrative positions in the medical profession led the Board of Directors to conclude that he should serve as a director.

H. Craig Moody has been a director of the Company since 1995. Mr. Moody is owner of Moody & Associates, a political consulting and real estate company. He is a former Speaker and House Majority Leader of the House of Representatives of the State of Utah. Mr. Moody holds a B.S. in Political Science from the University of Utah. Mr. Moody's real estate and governmental affairs expertise and years of business and leadership experience led the Board of Directors to conclude he should serve as a director.

Norman G. Wilbur has been a director of the Company since 1998. Mr. Wilbur worked for J.C. Penny's regional offices in budget and analysis. His final position was Manager of Planning and Reporting for J.C. Penny's stores. After 36 years with J.C. Penny's, Mr. Wilbur opted for early retirement in 1997. Mr. Wilbur holds a B.S. in Accounting from the University of Utah. Mr. Wilbur is a past board member of Habitat for Humanity in Plano, Texas. Mr. Wilbur's financial expertise and business experience from a successful career at JC Penny's led the Board of Directors to conclude he should serve as a director. In addition, the Board of Directors' determination that Mr. Wilbur is the Audit Committee "financial expert" lends further support to his financial acumen and qualification for serving as a director.

The Board of Directors, Board Committees and Meetings

The Company's Bylaws provide that the Board of Directors shall consist of not less than three or more than eleven members. The term of office of each director is for a period of one year or until the election and qualification of his successor. A director is not required to be a resident of the State of Utah but must be a stockholder of the Company. The Board of Directors held a total of five meetings during the fiscal year ended December 31, 2011. No directors attended fewer than 75% of all meetings of the Board of Directors during the 2011 fiscal year.

The size of the Board of Directors of the Company for the coming year is seven members. A majority of the Board of Directors must qualify as "independent" as that term is defined in Rule 4200 of the listing standards of the Nasdaq Stock Market. The Board of Directors has affirmatively determined that four of the seven members of the Board of Directors, Messrs. Charles L. Crittenden, Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur, are independent under the listing standards of the Nasdaq Stock Market.

There are four committees of the Board of Directors, which meet periodically during the year: the Audit Committee, the Compensation Committee, the Executive Committee, and the Nominating and Corporate Governance Committee.

The Audit Committee directs the auditing activities of the Company's internal auditors and outside public accounting firm and approves the services of the outside public accounting firm. The Audit Committee consists of Messrs. Charles L. Crittenden, H. Craig Moody and Norman G. Wilbur (Chairman of the committee). During 2011, the Audit Committee met on three occasions.

The Compensation Committee is responsible for recommending to the Board of Directors for approval the annual compensation of each executive officer of the Company and the executive officers of the Company's subsidiaries, developing policy in the areas of compensation and fringe benefits, contributions under the Employee Stock Ownership Plan, contributions under the 401(k) Retirement Savings Plans, Deferred Compensation Plan, granting of options under the stock option plans, and creating other employee compensation plans. The Compensation Committee consists of Messrs. Charles L. Crittenden (Chairman of the committee), Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur. During 2011, the Compensation Committee met on one occasion.

The Executive Committee reviews Company policy, major investment activities and other pertinent transactions of the Company. The Executive Committee consists of Messrs. George R. Quist, Scott M. Quist, J. Lynn Beckstead, Jr., and H. Craig Moody. During 2011, the Executive Committee met on one occasion.

The Nominating and Corporate Governance Committee identifies individuals qualified to become board members consistent with criteria approved by the board, recommends to the board the persons to be nominated by the board for election as directors at a meeting of stockholders, and develops and recommends to the board a set of corporate governance principles. The Nominating and Corporate Governance Committee consists of Messrs. Charles L. Crittenden, Robert G. Hunter, M.D., H. Craig Moody (Chairman of the committee), and Norman G. Wilbur. The Nominating and Corporate Governance Committee is composed solely of independent directors, as defined in the listing standards of the Nasdaq Stock Market. During 2011, the Nominating and Corporate Governance Committee met on one occasion.

Director Nominating Process

The process for identifying and evaluating nominees for directors include the following steps: (1) the Nominating and Corporate Governance Committee, Chairman of the Board or other board members identify a need to fill vacancies or add newly created directorships; (2) the Chairman of the Nominating and Corporate Governance Committee initiates a search and seeks input from board members and senior management and, if necessary, obtains advice from legal or other advisors (but does not hire an outside search firm); (3) director candidates, including any candidates properly proposed by stockholders in accordance with the Company's Bylaws, are identified and presented to the Nominating and Corporate Governance Committee; (4) initial interviews with candidates are conducted by the Chairman of the Nominating and Corporate Governance Committee; (5) the Nominating and Corporate Governance Committee meets to consider and approve final candidate(s) and conduct further interviews as necessary; and (6) the Nominating and Corporate Governance Committee makes recommendations to the board for inclusion in the slate of directors at the annual meeting. The evaluation process will be the same whether the nominee is recommended by a stockholder or by a member of the Board of Directors.

Meetings of Non-Management Directors

The Company's independent directors meet regularly in executive session without management. The Board of Directors has designated a lead director to preside at executive sessions of independent directors. Mr. H. Craig Moody is currently the lead director.

Executive Officers

Stephen M. Sill has been Vice President, Treasurer and Chief Financial Officer of the Company since 2002. From 1997 to 2002, Mr. Sill was Vice President and Controller of the Company. From 1994 to 1997, Mr. Sill was Vice President and Controller of Security National Life Insurance Company. From 1989 to 1993, he was Controller of Flying J. Inc. From 1978 to 1989, Mr. Sill was Senior Vice President and Controller of Surety Life Insurance Company. From 1975 to 1978, he was Vice President and Controller of Sambo's Restaurant, Inc. From 1974 to 1975, Mr. Sill was Director of Reporting for Northwest Pipeline Corporation. From 1970 to 1974, he was an auditor with Arthur Andersen & Co. Mr. Sill is a past president and a former director of the Insurance Accounting and Systems Association, a national association of over 1,300 insurance companies and associate members. Mr. Sill holds a B.S. in Accounting from Weber State University. In addition, he is a certified public accountant and a member of the Utah Association of CPA's and the American Institute of CPA's.

Christie Q. Overbaugh has been Senior Vice President of Internal Operations of the Company since June 2006, and a Vice President of the Company from 1998 to June 2006. Ms. Overbaugh has also served as Vice President of Underwriting for Security National Life Insurance Company since 1998. From 1986 to 1991, she was Chief Underwriter for Investors Equity Life Insurance Company of Hawaii and Security National Life Insurance Company. From 1990 to 1991, Ms. Overbaugh was President of the Utah Home Office Underwriters Association. Ms. Overbaugh is currently a member of the Utah Home Office Underwriters Association and an Associate Member of LOMA (Life Office Management Association).

Jeffrey R. Stephens was appointed General Counsel and Corporate Secretary of the Company in December 2008. Mr. Stephens had served as General Counsel for the Company from November 2006 to December 2008. He was in private practice from 1981 to 2006 in the states of Washington and Utah. Mr. Stephens holds a B.S. in Geography from the University of Utah and received his law degree from Brigham Young University. He is a member of the Utah State Bar and the Washington State Bar Association.

The Board of Directors of the Company has a written procedure, which requires disclosure to the board of any material interest or any affiliation on the part of any of its officers, directors or employees that is in conflict or may be in conflict with the Company's interests.

No director, officer or 5% stockholder of the Company or its subsidiaries or any affiliate thereof has had any transactions with the Company or its subsidiaries during 2011 or 2010.

All directors of the Company hold office until the next Annual Meeting of Stockholders and until their successors have been elected and qualified.

Corporate Governance

Corporate Governance Guidelines. The Board of Directors has adopted the Security National Financial Corporation Corporate Governance Guidelines. These guidelines outline the functions of the board, director qualifications and responsibilities, and various processes and procedures designed to insure effective and responsive governance. The guidelines are reviewed from time to time in response to regulatory requirements and best practices and are revised accordingly. The full text of the guidelines is published on the Company's website at www.securitynational.com. A copy of the Corporate Governance Guidelines may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

Code of Business Conduct. All of the Company's officers, employees and directors are required to comply with the Company's Code of Business Conduct and Ethics to help insure that the Company's business is conducted in accordance with appropriate standards of ethical behavior. The Company's Code of Business Conduct and Ethics covers all areas of professional conduct, including customer relationships, conflicts of interest, insider trading, financial disclosures, intellectual property and confidential information, as well as requiring adherence to all laws and regulations applicable to the Company's business. Employees are required to report any violations or suspected violations of the Code. The Code includes an anti-retaliation statement. The full text of the Code of Business Conduct and Ethics is published on the Company's website at www.securitynational.com. A copy of the Code of Business Conduct and Ethics may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

Item 11. Executive Officer Compensation

The following table sets forth, for each of the last three fiscal years, the compensation received by the named executive officers comprised of all individuals who served as the Company's Chief Executive Officer or Chief Financial Officer at any time during 2011, and the Company's three other most highly compensated executive officers who were serving as executive officers at the end of 2011 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Options Award (\$)	Plan Compensation (\$)	Change in Pension Value Non-qualified Non-Equity Deferred Incentive Compensation (\$)	Earnings Compensation (\$)	All Other Compensation (\$)	Total (\$)
George R. Quist(1) Chairman of the Board and Chief Executive Officer	2011	\$ 285,513	\$ 53,230	--	--	\$ -	\$ 11,308	\$ 350,051	
	2010	269,013	52,405	--	--	-	11,307	332,725	
	2009	252,513	51,580	--	--	-	11,252	315,345	
		-							
Scott M. Quist(1) President and Chief Operating Officer	2011	\$ 384,400	\$ 95,000	--	--	\$ -	\$ 34,340	\$ 513,740	
	2010	383,317	93,950	--	--	-	33,860	511,127	
	2009	357,317	92,650	--	--	-	32,846	482,813	
Stephen M. Sill Vice President, Treasurer and Chief Financial Officer	2011	\$ 149,760	\$ 13,500	--	--	\$ -	\$ 17,298	\$ 180,558	
	2010	144,000	13,213	--	--	-	17,064	174,277	
	2009	138,000	11,413	--	--	-	17,074	166,487	
J. Lynn Beckstead, Jr. Vice President of Mortgage Operations	2011	\$ 247,583	\$ 26,381	--	--	\$ -	\$ 22,969	\$ 296,933	
	2010	237,583	21,900	--	--	-	22,699	282,182	
	2009	227,583	137,221	--	--	-	21,667	386,471	
Jeffrey R. Stephens General Counsel and Corporate Secretary	2011	\$ 152,792	\$ 30,100	--	--	\$ -	\$ 12,038	\$ 194,930	
	2010	147,708	8,000	--	--	-	11,117	166,825	
	2009	140,708	8,000	--	--	-	11,235	159,943	

(1) George R. Quist is the father of Scott M. Quist.

(2) The amounts indicated under "Change in Pension Value and Non-qualified Deferred Compensation Earnings" consist of amounts contributed by the Company into a trust for the benefit of the Named Executive Officers under the Company's Deferred Compensation Plan.

(3) The amounts indicated under "All Other Compensation" consist of the following amounts paid by the Company for the benefit of the named executive officers:

a)

payments related to the operation of automobiles were for George R. Quist (\$2,400 for each of the years 2011, 2010 and 2009); Scott M. Quist (\$7,200 for each of the years 2011, 2010 and 2009); Stephen M. Sill (\$5,700 for 2011, 2010 and 2009); and Jeffrey R. Stephens (\$-0- for each of the years 2011, 2010 and 2009). However, such payments do not include the furnishing of an automobile by the Company to George R. Quist, Scott M. Quist and J. Lynn Beckstead Jr., nor the payment of insurance and property taxes with respect to the automobiles operated by the such executive officers;

- b) group life insurance premiums paid by the Company to a group life insurance plan for George R. Quist (\$9, \$9, and \$125 for 2011, 2010 and 2009, respectively); Scott M. Quist, Stephen M. Sill, and J. Lynn Beckstead Jr. (\$223, \$223 and \$211 each for 2011, 2010 and 2009, respectively); and Jeffrey R. Stephens (\$223, \$115 and \$109 for 2011, 2010 and 2009, respectively);
- c) life insurance premiums paid by the Company for the benefit of George R. Quist (\$4,644 for each of the years 2011, 2010 and 2009); Scott M. Quist (\$15,016 for 2011, \$15,016 for 2010 and \$14,056 for 2009); Stephen M. Sill (\$2,976 for each of the years 2011, 2010 and 2009); J. Lynn Beckstead Jr. (\$4,200 for each of the years 2011, 2010 and 2009); and Jeffrey R. Stephens (\$-0- for each of the years 2011, 2010 and 2009);
- d) medical insurance premiums paid by the Company to a medical insurance plan; George R. Quist (\$3,991 for 2011, \$3,990 for 2010, and \$3,795 for 2009); Scott M. Quist and J. Lynn Beckstead Jr. (\$11,637 each for 2011, \$11,157 each for 2010, and \$11,091 each for 2009); Stephen M. Sill (\$8,135 for 2011, \$7,901 for 2010 and \$7,860 for 2009); and Jeffrey R. Stephens (\$11,550 for 2011, \$10,738 for 2010, and \$11,838 for 2009);
- e) long term disability insurance paid by the Company to a provider of such insurance; George R. Quist, Scott M. Quist, Stephen M, Sill, J. Lynn Beckstead Jr., and Jeffrey R. Stephens (\$264 for 2011, \$264 for 2010 and \$288 for 2009);
- f) membership dues paid by the Company to Alpine Country Club for the benefit of J. Lynn Beckstead Jr. (\$6,645 for 2011, \$6,855 for 2010, and \$5,877 for 2009);

SUPPLEMENTAL ALL OTHER COMPENSATION TABLE

The following table sets forth all other compensation provided the Named Executive Officers for fiscal years 2011, 2010 and 2009.

Name of Executive Officer	Year	Perks and Other	Tax	Discounted Securities Purchases	Accruals Termin- ation	Registrant Contrib- utions to Defined Contribu- tion	Insurance	Dividends or Earnings on Stock or Option	Awards	Other(1)
		Personal Benefits	Reimburse- ments			Plans	Plans	Premiums		
George R. Quist	2011	\$ 2,400	--	--	--	--	\$ 8,908	--	--	--
	2010	2,400	--	--	--	--	8,907	--	--	--
	2009	2,400	--	--	--	--	8,852	--	--	--
Scott M. Quist	2011	\$ 7,200	--	--	--	--	\$ 27,140	--	--	--
	2010	7,200	--	--	--	--	26,660	--	--	--
	2009	7,200	--	--	--	--	25,646	--	--	--
Stephen M. Sill	2011	\$ 5,700	--	--	--	--	\$ 11,598	--	--	--
	2010	5,700	--	--	--	--	11,364	--	--	--
	2009	5,700	--	--	--	--	11,335	--	--	--
J. Lynn Beckstead Jr.	2011	\$ 6,645	--	--	--	--	\$ 16,324	--	--	--
	2010	6,855	--	--	--	--	15,844	--	--	--
	2009	5,877	--	--	--	--	15,790	--	--	--
Jeffrey R. Stephens	2011	\$ -	--	--	--	--	\$ 12,038	--	--	--
	2010	-	--	--	--	--	11,117	--	--	--
	2009	-	--	--	--	--	11,235	--	--	--

GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information regarding options granted to the named Executive Officers during the fiscal year ended December 31, 2011.

Name of Executive Officer	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)				
George R. Quist	12/3/11	--	--	--	105,000 (1)	\$1.434	\$1.304	\$54,600
Scott M. Quist	12/3/11	--	--	--	105,000 (1)	1.434	1.304	54,600
Stephen M. Sill	12/3/11	--	--	--	7,875 (1)	1.304	1.304	5,591
J. Lynn Beckstead, Jr.	12/3/11	--	--	--	18,900 (1)	1.304	1.304	13,419
Jeffrey R. Stephens	12/3/11	--	--	--	5,250 (1)	1.304	1.304	3,728

(1) The stock options have been adjusted for the 5% annual stock dividend declared December 2, 2011.

OUTSTANDING EQUITY AWARDS AT FISCAL 2010 YEAR END

The following table sets forth information concerning outstanding equity awards held by Named Executive Officers at December 31, 2011.

Name of Executive Officer	Option Awards						Stock Awards			
	Option Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)		Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date	Stock Award Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards of Unearned Shares or Units of Stock That Have Not Vested (#)
George R. Quist	03/31/08	60,775	(5)	--	\$ 3.66	03/31/13	--	--	--	--
	12/05/08	121,551	(6)	--	1.43	12/05/13	--	--	--	--
	12/04/09	115,763	(7)	--	3.51	12/04/14	--	--	--	--
	12/03/10	110,250	(8)	--	1.92	12/03/15	--	--	--	--
	12/02/11	--		105,000	(9)	1.43	12/02/16	--	--	--
Scott M. Quist	03/21/03	103,422	(2)	--	\$ 3.99	03/21/13	--	--	--	--
	03/25/05	98,497	(4)	--	2.62	03/25/15	--	--	--	--
	03/31/08	60,775	(10)	--	3.66	03/31/13	--	--	--	--
			(6)	--						
	12/05/08	121,551	(11)	--	1.43	12/05/13	--	--	--	--
			(7)	--						
	12/04/09	115,763	(12)	--	3.51	12/04/14	--	--	--	--
		(8)	--							
	12/03/10	110,250	(13)	--	1.92	12/03/15	--	--	--	--
	12/02/11	--		105,000	(9)	1.43	12/02/16	--	--	--
Stephen M. Sill	03/31/08	9,116	(5)	--	\$ 3.33	03/31/18	--	--	--	--
	12/04/09	8,682	(7)	--	3.19	12/04/19	--	--	--	--
	12/03/10	8,269	(8)	--	1.74	12/03/20	--	--	--	--
	12/02/11	--		7,875	(9)	1.30	12/02/21	--	--	--
J. Lynn Beckstead Jr.	03/21/03	23,270	(2)	--	\$ 3.99	03/21/13	--	--	--	--
	12/10/04	7,387	(3)	--	2.30	12/10/14	--	--	--	--
	03/25/05	49,249	(4)	--	2.62	03/25/15	--	--	--	--
	03/31/08	9,724	(5)	--	3.33	03/31/18	--	--	--	--
	12/05/08	24,310	(6)	--	1.30	12/05/18	--	--	--	--

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	12/04/09	23,153	(7)	--	3.19	12/04/19	--	--	--	--
	12/03/10	22,050	(8)	--	1.74	12/03/20	--	--	--	--
	12/02/11	--		18,900	(9)	1.30	12/02/21	--	--	--
Jeffrey R. Stephens	12/05/08	1,216	(6)	--	\$ 1.30	12/05/18	--	--	--	--
	12/04/09	5,788	(7)	--	3.19	12/04/19	--	--	--	--
	12/03/10	5,513	(8)	--	1.74	12/03/20	--	--	--	--
	12/02/11	--		5,250	(9)	1.30	12/02/21	--	--	--

Except for option granted George R. Quist and options granted to Scott M. Quist after May 31, 2007, which have a five year term, such grants have ten year terms. The vesting of any unvested shares is subject to the recipient's continuous employment. This reflects the equivalent of Class A common shares.

- (1) Except for option granted George R. Quist and options granted to Scott M. Quist after May 31, 2007, which have a five year term, such grants have ten year terms. The vesting of any unvested shares is subject to the recipient's continuous employment. This reflects the equivalent of Class A common shares.
- (2) Stock options vested on the grant date on March 21, 2003.
- (3) Stock options vested on the grant date on December 10, 2004.
- (4) Stock options vested on the grant date on March 25, 2005.
- (5) Stock options vested at the rate of 25% of the total number of shares subject to the options on June 30, 2008 and 25% of the total number of shares on the last day of each three month period thereafter.
- (6) Stock options vested at the rate of 25% of the total number of shares subject to the options on March 5, 2009 and 25% of the total number of shares on the last day of each three month period thereafter.
- (7) Stock options vested at the rate of 25% of the total number of shares subject to the options on March 4, 2010 and 25% of the total number of shares on the last day of each three month period thereafter.
- (8) Stock options vested at the rate of 25% of the total number of shares subject to the options on March 3, 2011 and 25% of the total number of shares on the last day of each three month period thereafter.
- (9) Stock options vest at the rate of 25% of the total number of shares subject to the options on March 2, 2012 and 25% of the total number of shares on the last day of each three month period thereafter.
- (10) On March 31, 2008, Scott M. Quist was granted stock options to purchase 500,000 shares of Class C common stock at an exercise price of \$.424 per share, which is equivalent to options to purchase 50,000 shares of Class A common stock at an exercise price of \$4.24 per share.
- (11) On December 5, 2008, Mr. Quist was granted stock options to purchase 610,770 shares of Class C common stock at an exercise price of \$.165 per share, which is equivalent to options to purchase 61,077 shares of Class A common stock at an exercise price of \$1.65 per share, and to purchase 38,923 shares of Class A common stock at an exercise price of \$1.65 per share.
- (12) On December 4, 2009, Mr. Quist was granted stock options to purchase 1,000,000 shares of Class C common stock at an exercise price of \$.3872 per share, which is equivalent to options to purchase 100,000 shares of Class A common stock at an exercise price of \$3.872 per share.
- (13) On December 3, 2010, Mr. Quist was granted stock options to purchase 1,000,000 shares of Class C common stock at an exercise price of \$.1917 per share, which is equivalent to options to purchase 100,000 shares of Class A common stock at an exercise price of \$1.917 per share.

OPTION AWARDS VESTING SCHEDULE

The following table sets forth the vesting schedule of unexercisable options reported in the "Number of Securities Underlying Unexercised Options – Unexercisable" column of the table above.

Grant Date	Vesting
03/21/03	These options vested on the grant date.
12/10/04	These options vested on the grant date.
03/25/05	These options vested on the grant date.
03/31/08	These options vested 25% per quarter over a one year period after the grant date.
12/05/08	These options vested 25% per quarter over a one year period after the grant date.
12/04/09	These options vested 25% per quarter over a one year period after the grant date.
12/03/10	These options vested 25% per quarter over a one year period after the grant date.
12/02/11	These options vest 25% per quarter over a one year period after the grant date.

OPTION EXERCISES AND STOCK VESTED FOR FISCAL 2011

The following table sets forth all stock options exercised and value received upon exercise, and all stock awards vested and value realized upon vesting, by the Named Executive Officers during the year ended December 31, 2011.

Name of Executive Officer	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
George R. Quist	--	--	--	--
Scott M. Quist	--	--	--	--
Stephen M. Sill	--	--	--	--
J. Lynn Beckstead, Jr.	--	--	--	--
Jeffrey R. Stephens	--	--	--	--

PENSION BENEFITS FOR FISCAL 2011

The following table sets forth the present value as of December 31, 2011 of the benefit of the Named Executive Officers under the defined benefit pension plan.

Name of Executive Officer	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
George R. Quist	None	--	--	--
Scott M. Quist	None	--	--	--
Stephen M. Sill	None	--	--	--
J. Lynn Beckstead, Jr.	None	--	--	--
Jeffrey R. Stephens	None	--	--	--

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2011 with respect to compensation plans (including individual compensation arrangements) under which the Company's equity securities are authorized for issuance, aggregated as follows:

- All compensation plans previously approved by security holders; and
- All compensation plans not previously approved by security holders.

Plan Category	A Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	B Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by stockholders[1]	2,084,702[2]	\$2.38[3]	542,599[4]
Equity compensation plans not approved by stockholders	0	-	0

[1] This reflects the 1993 Stock Option Plan (the "1993 Plan"), the 2000 Director Stock Option Plan (the "2000 Director Plan"), the 2003 Stock Option Plan (the "2003 Plan"), and the 2006 Director Stock Option Plan (the "2006 Director Plan"). The 2003 Plan was approved by stockholders at the annual stockholders

meeting held on July 11, 2003, which reserved 500,000 shares of Class A common stock and 1,000,000 shares of Class C common stock for issuance thereunder. As a result of the stockholder approval of the 2003 Plan, the Company terminated the 1993 Plan. The 2006 Director Plan was approved by stockholders at the annual stockholders meeting held on December 7, 2006, which reserved 100,000 shares of Class A common stock for issuance thereunder. As a result of the stockholder approval of the 2006 Director Plan, the Company terminated the 2000 Director Plan.

[2] Assumes that 4,083,380 shares of Class C common stock issuable upon the exercise of certain outstanding options are converted into 408,338 shares of Class A common stock.

[3] The weighted average exercise prices reflect solely the shares of Class A common stock that will be issued upon exercise of outstanding options.

[4] This number includes 539,820 shares of Class A common stock and 5 shares of Class C common stock available for future issuance under the 2003 Plan, and 2,774 shares of Class A common stock available for future issuance under the 2006 Director Plan.

Retirement Plans

On December 8, 1988, the Company entered into a deferred compensation plan with George R. Quist, the Chairman and Chief Executive Officer of the Company. The plan was later amended on three occasions with the third amendment effective February 1, 2001. Under the terms of the plan as amended, upon the retirement of Mr. Quist, the Company is required to pay him ten annual installments in the amount of \$50,000. Retirement is defined in the plan as the age of 70, or a later retirement age, as specified by the Board of Directors. The \$50,000 annual payments are to be adjusted for inflation in accordance with the United States Consumer Price Index for each year after January 1, 2002. If Mr. Quist's employment is terminated by reason of disability or death before he reaches retirement age, the Company is to make the ten annual payments to Mr. Quist, in the event of disability, or to his designated beneficiary, in the event of death.

The plan also provides that the Board of Directors may, in its discretion, pay the amounts due under the plan in a single, lump-sum payment. In the event that Mr. Quist dies before the ten annual payments are made, the unpaid balance will continue to be paid to his designated beneficiary. The plan further requires the Company to furnish an automobile for Mr. Quist's use and to pay all reasonable expenses incurred in connection with its use for a ten year period, and to provide Mr. Quist with a hospitalization policy with similar benefits to those provided to him the day before his retirement or disability. However, in the event Mr. Quist's employment with the Company is terminated for any reason other than retirement, death, or disability, the entire amount of deferred compensation payments under the plan shall be forfeited by him. The Company accrued \$18,000 and \$31,000 in fiscal 2011 and 2010, respectively, to cover the present value of anticipated retirement benefits under the employment agreement of \$586,117 as of December 31, 2011.

Employment Agreements

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, its President and Chief Operating Officer. The agreement is effective as of December 4, 2003 and has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Quist performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company serving as its President, and Chief Operating Officer at not less than his current salary and benefits. The Company also agrees to maintain a group term life insurance policy of not less than \$1,000,000 on Mr. Quist's life and a whole life insurance policy in the amount of \$500,000 on Mr. Quist's life. In the event of disability, Mr. Quist's salary would be continued for up to five years at 75% of its current level.

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue paying Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$145,036 and \$144,935 in fiscal 2011 and 2010, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is \$1,121,162 and \$976,126 as of December 31, 2011 and 2010, respectively.

On December 4, 2003, the Company, through its subsidiary SecurityNational Mortgage Company, entered into an employment agreement with J. Lynn Beckstead, Jr., Vice President of Mortgage Operations and President of SecurityNational Mortgage Company. The agreement has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Beckstead performs his duties

with usual and customary care and diligence. Under the terms of the agreement, Mr. Beckstead is to devote his full time to the Company serving as President of SecurityNational Mortgage Company at not less than his current salary and benefits, and to include \$350,000 of life insurance protection. In the event of disability, Mr. Beckstead's salary would be continued for up to five years at 50% of its current level.

In the event of a sale or merger of the Company, and Mr. Beckstead was not retained in his current position, the Company would be obligated to continue paying Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$58,964 and \$58,923 in fiscal 2011 and 2010, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is \$533,483 and \$474,519, as of December 31, 2011 and 2010, respectively.

Director Compensation

Directors of the Company (but not including directors who are employees) are currently paid a director's fee of \$16,800 per year by the Company for their services and are reimbursed for their expenses in attending board and committee meetings. An additional fee of \$750 is paid to each audit committee member for each audit committee meeting attended. Each director is provided with an annual grant of stock options to purchase 1,000 shares of Class A Common Stock, which occurred under the 2000 Director Stock Option Plan for years 2000 to 2005 and under the 2006 Director Stock Option Plan for years 2006 to 2011. During 2011 and 2010 each director was granted an additional 5,000 and 5,000, respectively, stock options to purchase Class A Common Stock.

DIRECTOR COMPENSATION

The following table sets forth the compensation of the Company's non-employee directors for fiscal 2011.

Name	Fees Earned or		Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
	Paid In Cash (\$)	Stock Awards (\$)					
Charles L. Crittenden	\$19,050	--	\$4,579	--	--	--	\$23,629
Robert G. Hunter	16,800	--	4,579	--	--	--	21,379
H. Craig Moody	19,050	--	4,579	--	--	--	23,629
Norman G. Wilbur	19,050	--	4,579	--	--	--	23,629

Employee 401(k) Retirement Savings Plan

In 1995, the Company's Board of Directors adopted a 401(k) Retirement Savings Plan. Under the terms of the 401(k) plan, effective as of January 1, 1995, the Company made discretionary employer matching contributions to its employees who choose to participate in the plan. The plan allowed the board to determine the amount of the contribution at the end of each year. During the period from January 1, 1995 to December 31, 2007 the Board had adopted a contribution formula specifying that such discretionary employer matching contributions would equal 50% of the participating employee's contribution to the plan to purchase Company's stock up to a maximum discretionary employee contribution of 1/2 of 1% of participating employees' compensation, as defined by the plan.

All persons who have completed at least one year's service with the Company and satisfy other plan requirements are eligible to participate in the 401(k) plan. All Company matching contributions are invested in the Company's Class A common stock. Also, the Company may contribute at the discretion of the Company's Board of Directors an Employer Profit Sharing Contribution to the 401(k) plan. The Employer Profit Sharing Contribution is to be divided among three different classes of participants in the plan based upon the participant's title in the Company. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee.

Beginning January 1, 2008, the Company elected to be a “Safe Harbor” Plan for its matching 401(k) contributions. The Company will match 100% of up to 3% of an employee’s total annual compensation and 50% of 4% to 5% of an employee’s annual compensation. The match is in shares of the Company’s Class A Common Stock. The Company’s contribution for 2011, 2010 and 2009 was \$208,206, \$344,772 and \$341,360, respectively under the “Safe Harbor” plan.

Employee Stock Ownership Plan

Effective January 1, 1980, the Company adopted an employee stock ownership plan (the “ESOP Plan”) for the benefit of career employees of the Company and its subsidiaries. The following is a description of the ESOP Plan, and is qualified in its entirety by the ESOP Plan, a copy of which is available for inspection at the Company’s offices.

Under the ESOP Plan, the Company has discretionary power to make contributions on behalf of all eligible employees into a trust created under the ESOP Plan. Employees become eligible to participate in the ESOP Plan when they have attained the age of 19 and have completed one year of service (a twelve-month period in which the Employee completes at least 1,040 hours of service). The Company’s contributions under the ESOP Plan are allocated to eligible employees on the same ratio that each eligible employee’s compensation bears to total compensation for all eligible employees during each year. To date, the ESOP Plan has approximately 353 participants and had \$0- contributions payable to the Plan in 2011. Benefits under the ESOP Plan vest as follows: 20% after the third year of eligible service by an employee, an additional 20% in the fourth, fifth, sixth and seventh years of eligible service by an employee.

Benefits under the ESOP Plan will be paid out in one lump sum or in installments in the event the employee becomes disabled, reaches the age of 65, or is terminated by the Company and demonstrates financial hardship. The ESOP Plan Committee, however, retains discretion to determine the final method of payment. Finally, the Company reserves the right to amend or terminate the ESOP Plan at any time. The trustees of the trust fund under the ESOP Plan are George R. Quist, Scott M. Quist and Robert G. Hunter, who each serve as a director of the Company.

Deferred Compensation Plan

In 2001, the Company’s Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Deferred Compensation Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The board has appointed a committee of the Company to be the plan administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company’s Board of Directors. The Company did not make any contributions for 2011, 2010 and 2009.

NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL 2011

The following table sets forth contributions to the deferred compensation account of the Named Executive Officers in fiscal 2011 and the aggregate balance of deferred compensation of the Named Executive Officers at December 31, 2011.

Name	Executive Contributions In Last FY (\$)	Registrant Contributions In Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals Distributions (\$)	Aggregate Balance at Last FYE (\$)
George R. Quist	--	--	--	--	\$96,373
Scott M. Quist	--	--	--	--	106,648
Stephen M. Sill	--	--	--	--	33,723
J. Lynn Beckstead, Jr.	--	--	--	--	53,973
Jeffrey R. Stephens	--	--	--	--	-

2003 Stock Option Plan

On July 11, 2003, the Company adopted the Security National Financial Corporation 2003 Stock Incentive Plan (the “2003 Plan”), which reserved 500,000 shares of Class A common stock and 1,000,000 shares of Class C common stock for issuance there under. The 2003 Plan was approved by the Board of Directors on May 9, 2003, and by the stockholders at the annual meeting of the stockholders held on July 11, 2003. The 2003 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress. On July 13, 2007, the stockholders approved an amendment to the 2003 Plan to increase the number of shares of Class A and Class C common stock reserved for issuance there under to 978,528 shares of Class A common stock and 2,110,775 shares of Class C common stock. On July 10, 2010, the stockholders approved an amendment to the 2003 plan to increase the number of shares of Class A and Class C common stock reserved for issuance there under to 1,478,528 shares of Class A common stock and 3,110,775 shares of Class C common stock.

The 2003 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options”, as defined under Section 422A of the Internal Revenue Code of 1986 (the “Code”) and “non-qualified options” may be granted under the 2003 Plan. The exercise prices for the options granted are equal to or greater than the fair market value of the stock subject to such options as of the date of grant, as determined by the Company’s Board of Directors. The options granted under the 2003 Plan are to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these officers by providing them with an additional incentive to contribute to the success of the Company.

The 2003 Plan is to be administered by the Board of Directors or by a committee designated by the board. The terms of options granted or stock awards or sales affected under the 2003 Plan are to be determined by the Board of Directors or its committee. The options shall be either fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the board of the committee may specify. The Plan provides that if the shares of common stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price to reflect such subdivision, combination or stock dividend. In addition, the number of shares of common stock reserved for purposes of the plan shall be adjusted by the same proportion. No options may be exercised for a term of more than ten years from the date of grant.

Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the code, including a requirement that the option exercise price be no less than then fair market value of the option shares on the date of grant. The 2003 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company’s Board of Directors.

The 2003 Plan has a term of ten years. The Board of Directors may amend or terminate the 2003 Plan at any time, subject to approval of certain modifications to the 2003 Plan by the shareholders of the Company as may be required by law or the 2003 Plan.

2006 Director Stock Option Plan

On December 7, 2006, the Company adopted the 2006 Director Stock Option Plan (the “Director Plan”) effective December 7, 2006. The Director Plan provides for the grant by the Company of options to purchase up to an aggregate of 100,000 shares of Class A common stock for issuance there under. The Director Plan provides that each member of the Company’s Board of Directors who is not an employee or paid consultant of the Company is automatically eligible to receive options to purchase the Company’s Class A common stock under the Director Plan.

Effective as of December 7, 2006, and on each anniversary date thereof during the term of the Director Plan, each outside director shall automatically receive an option to purchase 1,000 shares of Class A common stock. In addition, each new outside director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the Director Plan. The options granted to outside directors shall vest in four equal quarterly installments over a one year period from the date of grant, until such shares are fully vested. The primary purposes of the Director Plan are to enhance the Company’s ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

In the event of a merger of the Company with or into another company, or a consolidation, acquisition of stock or assets or other change in control transaction involving the Company, each option becomes exercisable in full, unless

such option is assumed by the successor corporation. In the event the transaction is not approved by a majority of the “Continuing Directors” (as defined in the Director Plan), each option becomes fully vested and exercisable in full immediately prior to the consummation of such transaction, whether or not assumed by the successor corporation.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and persons who own more than 10% of a registered class of the Company's equity securities to file reports of ownership and periodic changes in ownership of the Company's common stock with the Securities and Exchange Commission. Such persons are also required to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on its review of the copies of stock reports received by it with respect to fiscal 2011, or written representations from certain reporting persons, the Company believes that its directors, executive officers and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them, except each of the Company's executive officers and directors, through an oversight, filed a late Form 4 report reporting the granting of stock options in December 2011.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The following table sets forth security ownership information of the Company's Class A and Class C common stock as of March 29, 2012, (i) for persons who own beneficially more than 5% of the Company's outstanding Class A or Class C common stock, (ii) each director of the Company, and (iii) for all executive officers, and directors of the Company as a group.

Name and Address (1)	Class A Common Stock		Class C Common Stock		Class A and Class C Common Stock	
	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class
Scott M. Quist (3)(5)(6)(7)(9)	686,512	6.9%	5,490,477	36.0%	6,176,988	24.4%
George R. and Shirley C. Quist Family Partnership, Ltd. (2)	687,191	6.9%	4,726,226	31.0%	5,413,418	21.4%
Employee Stock Ownership Plan (ESOP) (4)	652,357	6.5%	2,185,285	14.3%	2,740,978	11.2%
George R. Quist (3)(7)(8)	885,463	8.8%	563,777	3.7%	1,449,239	5.7%
401(k) Retirement Savings Plan (10)	1,144,870	11.4%	-	-	1,144,870	4.5%
Associated Investors (11) Non-Qualified Deferred Compensation Plan	99,624	1.0%	922,512	6.0%	1,022,136	4.0%
J. Lynn Beckstead, Jr., (6)(13)	553,987	5.5%	-	-	553,987	2.2%
Christie Q. Overbaugh (14)	367,303	3.7%	-	-	367,303	1.5%
Stephen M. Sill (6)(15)	206,279	2.1%	158,848	1.0%	365,127	1.4%
Jeffrey R. Stephens (12)	119,352	1.2%	-	-	119,352	*
Robert G. Hunter, M.D., (4)(16)	51,776	*	-	-	51,776	*
Charles L. Crittenden (17)	35,127	*	-	-	35,127	*
Norman G. Wilbur (18)	34,865	*	-	-	34,865	*
H. Craig Moody (19)	32,340	*	-	-	32,340	*
All directors and executive officers (10 persons) (3)(5)(6)(7)	31,952	*	-	-	31,952	*
	3,138,160	31.3%	10,939,327	71.6%	14,077,488	55.7%

* Less than 1%

- (1) Unless otherwise indicated, the address of each listed stockholder is c/o Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.
- (2) This stock is owned by the George R. and Shirley C. Quist Family Partnership, Ltd., of which Scott M. Quist is the managing general partner.
- (3) Does not include 652,357 shares of Class A common stock and 2,185,285 shares of Class C common stock owned by the Company's Employee Stock Ownership Plan (ESOP), of which George R Quist, Scott M. Quist and Robert G. Hunter are the trustees and accordingly, exercise shared voting and investment powers with respect to such shares.
- (4) The trustees of the Employee Stock Ownership Plan (ESOP) are George R. Quist, Scott M. Quist, and Robert G. Hunter who exercise shared voting and investment powers.
- (5) Does not include 99,624 shares of Class A common stock and 922,512 shares of Class C common stock owned by Associated Investors, a Utah general partnership, of which Scott M. Quist is the managing partner and, accordingly, exercises sole voting and investment powers with respect to such shares.
- (6) Does not include 1,144,870 shares of Class A common stock owned by the Company's 401(k) Retirement Savings Plan, of which Scott M. Quist, J. Lynn Beckstead, and Stephen M. Sill are members of the Investment Committee and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (7) Does not include 553,987 shares of Class A common stock owned by the Company's Deferred Compensation Plan, of which George R. Quist and Scott M. Quist are members of the Investment Committee and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (8) Includes options to purchase 434,589 shares of Class A common stock granted to George R. Quist that are currently exercisable or will become exercisable within 60 days of March 31, 2012.

- (9) Includes options to purchase 280,651 shares of Class A common stock and 3,610,275 shares of Class C common stock granted to Scott M. Quist that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (10) The investment committee of the Company's 401(k) retirement savings plan is Scott M. Quist, J. Lynn Beckstead Jr., and Stephen M. Sill and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (11) The managing partner of Associated Investors is George R. Quist, who exercises sole voting and investment powers.
- (12) Includes options to purchase 13,830 shares of Class A common stock granted to Jeffrey R. Stephens that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (13) Includes options to purchase 163,868 shares of Class A common stock granted to Mr. Beckstead that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (14) Includes options to purchase 88,759 shares of Class A common stock granted to Ms. Overbaugh that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (15) Includes options to purchase 28,036 shares of Class A common stock grant to Mr. Sill that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (16) Includes options to purchase 28,804 shares of Class A common stock granted to Mr. Hunter that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (17) Includes options to purchase 28,804 shares of Class A common stock granted to Mr. Crittenden that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (18) Includes options to purchase 28,804 shares of Class A common stock granted to Mr. Wilbur that are currently exercisable or will become exercisable within 60 days of March 31, 2012.
- (19) Includes options to purchase 28,804 shares of Class A common stock granted to Mr. Moody that are currently exercisable or will become exercisable within 60 days of March 31, 2012.

The Company's executive officers and directors, as a group, own beneficially approximately 55.7% of the outstanding shares of the Company's Class A and Class C common stock.

Item 13. Certain Relationships and Related Transactions

On November 19, 2007, Security National Life and Scott M. Quist entered into a Use and Buy Sale Agreement to jointly purchase a condominium located in St. George, Utah. Mr. Quist is the Company's President and Chief Operating Officer. The condominium is to be used for the entertainment of Security National Life's executive officers and employees, outside vendors and prospective customers. The purchase price of the condominium, including improvements and furnishings, was \$538,962. Mr. Quist paid \$286,207 of that amount and Security National Life paid \$252,755.

Under the terms of the agreement, Security National Life and Mr. Quist have the right to use the condominium in proportion to their respective contributions towards the purchase price, including furnishings and fixtures. Mr. Quist is responsible for the care and maintenance of the condominium. The payment of taxes, insurance, utilities and homeowners' fees is to be divided between Security National Life and Mr. Quist according to their respective ownership percentages.

Upon the death, disability or retirement of Mr. Quist or his separation from employment with the Company, Mr. Quist or his estate, as the case may be, shall have the right to purchase Security National Life's interest in the condominium at the original purchase price or fair market value, whichever is less. Security National Life's contribution to the purchase price of the condominium was equal to an amount of accrued but unpaid bonuses owed to Mr. Quist, which he agreed to continue to defer for the option that would allow him or his estate to purchase Security National Life's interest in the condominium upon his death, disability or retirement at the lesser of the original purchase price or fair market value.

The Company's Board of Directors has a written procedure, which requires disclosure to the Board of any material interest or any affiliation on the part of any of its officers, directors or employees that is in conflict or may be in conflict with the interests of the Company.

Item 14. Principal Accounting Fees and Services

The following table summarizes the fees of the Company's current independent auditors, billed to the Company for each of the last two fiscal years and for audit and other services. All of these fees were reviewed and approved by the Audit Committee of the Board of Directors:

Fee Category	2011	2010
Audit Fees (1)	\$387,700	\$418,000
Audit-Related Fees (2)	32,000	14,300
Tax Fees (3)	85,400	70,800
All Other Fees (4)	15,700	16,100
	\$520,800	\$519,200

(1) Audit fees consist of aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent auditor in connection with statutory and regulatory filings for the years ended December 31, 2011 and 2010.

(2) Audit related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees". These fees include review of registration statements, and audits of the Company's ESOP and 401(k) Plans.

(3) Tax fees consist of aggregate fees billed for professional services for tax compliance, tax advice, and tax planning.

(4) All other fees consist of aggregate fees billed for products and services by the independent auditor, other than those disclosed above.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements

See "Index to Consolidated Financial Statements" under Item 8 above.

(a)(2) Financial Statement Schedules

II. Condensed Balance Sheets as of December 31, 2010 and 2009 and Condensed Statement of Earnings and Cash Flows for the years ended 2010, 2009 and 2008

IV. Reinsurance

V. Valuation and Qualifying Accounts

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.

(a)(3) Exhibits

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

- 3.1 Articles of Restatement of Articles of Incorporation (4)
- 3.2 Amended Bylaws (6)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- 10.2 2003 Stock Option Plan (5)
- 10.3 2006 Director Stock Option Plan (12)
- 10.4 Deferred Compensation Agreement with George R. Quist (2)
- 10.5 Deferred Compensation Plan (3)

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10.6	Employment agreement with J. Lynn Beckstead, Jr. (7)
10.7	Employment agreement with Scott M. Quist (8)
10.8	Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (9)
10.9	Agreement and Plan of Complete Liquidation of Security National Life Insurance Company of Louisiana into Security National Life Insurance Company (10)
10.10	Assumption Reinsurance Agreement between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (10)
10.11	Assignment between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (10)
10.12	Agreement and Plan of Complete Liquidation of Capital Reserve Life Insurance Company into Security National Life Insurance Company (10)
10.13	Assignment between Capital Reserve Life Insurance Company and Security National Life Insurance Company (10)
21	Subsidiaries of the Registrant
31.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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101.ins	XBRL Instance Document
101.xsd	XBRL Extension Schema Document
101.cal	XBRL Extension Calculation Linkbase Document
101.def	XBRL Extension Definition Linkbase Document
101.lab	XBRL Extension Label Linkbase Document
101.pre	XBRL Extension Presentation Linkbase Document

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- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
 - (2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989
 - (3) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
 - (4) Incorporated by reference from Report on Form 8-K/A as filed on January 8, 2003
 - (5) Incorporated by reference from Schedule 14A Definitive Proxy Statement, Filed on September 5, 2003, relating to the Company's Annual Meeting of Shareholders
 - (6) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
 - (7) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
 - (8) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
 - (9) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009

(10) Incorporated by reference from Report on Form 8-K, as filed on January 12,
2010

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SECURITY NATIONAL FINANCIAL CORPORATION

Dated: March 30, 2012

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ George R. Quist George R. Quist	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 30, 2012
/s/ Scott M. Quist Scott M. Quist	President, Chief Operating Officer and Director	March 30, 2012
/s/ Stephen M. Sill Stephen M. Sill	Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2012
/s/ J. Lynn Beckstead, Jr. J. Lynn Beckstead, Jr.	Vice President and Director	March 30, 2012
/s/ Charles L. Crittenden Charles L. Crittenden	Director	March 30, 2012
/s/ H. Craig Moody H. Craig Moody	Director	March 30, 2012

/s/ Norman G. Wilbur
Norman G. Wilbur

Director

March 30, 2012

/s/ Robert G. Hunter
Robert G. Hunter

Director

March 30, 2012

Schedule II

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Balance Sheets

	December 31,	
	2011	2010
Assets		
Cash	\$655,714	\$1,305,956
Investment in subsidiaries (equity method)	73,911,675	72,846,102
Receivables:		
Mortgage loans sold to investors	2,986,110	-
Receivable from affiliates	7,282,861	5,298,158
Other	177,509	349,056
Allowance for doubtful accounts	--	--
Total receivables	10,446,480	5,647,214
Property and equipment, at cost, net of accumulated depreciation of \$1,803,535 for 2011 and \$1,705,899 for 2010.	13,570	111,206
Other assets	89,539	42,239
Total assets	\$85,116,978	\$79,952,717

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Balance Sheets (Continued)

	December 31,	
	2011	2010
Liabilities and Stockholders' Equity Liabilities		
Bank loans payable:		
Current installments	\$2,546,778	\$1,182,336
Long-term	2,484,187	--
Notes and contracts payable:		
Current installments	961	961
Long-term	--	--
Advances from affiliated companies	9,012,547	8,989,597
Other liabilities and accrued expenses	1,358,992	1,490,269
Income taxes	8,482,926	8,361,086
Total liabilities	23,886,391	20,024,249
Stockholders' Equity		
Class A common stock \$2.00 par value; 20,000,000 shares authorized; issued 9,638,798 shares in 2011 9,178,945 shares in 2010	19,277,596	18,357,890
Class B non-voting common stock-\$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	--	--
Class C convertible common stock, \$0.20 par value; 15,000,000 shares authorized; issued 10,135,976 shares in 2011 and 9,660,152 shares in 2010	2,027,195	1,932,031
Additional paid-in capital	19,487,565	19,689,993
Accumulated other comprehensive income	654,443	1,188,246
Retained Earnings	22,546,623	21,907,579
Treasury stock at cost - (1,198,167 Class A shares and -0- Class C shares in 2011; 1,322,074 Class A shares and -0- Class C shares in 2010, held by affiliated companies)	(2,762,835)	(3,147,271)
Total stockholders' equity	61,230,587	59,928,468
Total Liabilities and Stockholders' Equity	\$85,116,978	\$79,952,717

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)

Condensed Financial Information

Condensed Statements of Earnings

	Year Ended December 31,		
	2011	2010	2009
Revenue			
Net investment income	\$ 13,319	\$ 11,969	\$ 89,466
Fees from affiliates	890,462	835,172	867,859
Other Income	870	-	81,912
Net realized gains and losses	-	-	5,615
Total revenue	904,651	847,141	1,044,852
Benefits and Expenses:			
General and administrative expenses	621,978	943,723	946,476
Interest expense	99,645	54,260	105,144
Expenses to affiliates	-	-	-
Total benefits and expenses	721,623	997,983	1,051,620
Earnings (loss) before income taxes, and earnings of subsidiaries	183,028	(150,842)	(6,768)
Income tax benefit (expense)	(483,651)	86,699	(253,667)
Equity in earnings (loss) of subsidiaries	1,599,381	(366,481)	4,034,315
Net earnings (loss)	\$ 1,298,758	\$ (430,624)	\$ 3,773,880

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Statements of Cash Flow

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net earnings (loss)	\$1,298,758	\$(430,624)	\$3,773,880
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	97,636	134,243	150,009
Undistributed earnings of affiliates	1,599,381	(366,481)	(4,034,315)
Provision for income taxes	121,840	(86,699)	253,667
Provision for losses on loans & real estate	(21,646)	--	--
Receivables for mortgage loans held for sale	(2,986,110)	--	--
Stock based compensation expense	253,934	520,457	485,986
Benefit plans funded with treasury stock	283,230	438,274	457,070
Change in assets and liabilities:			
Accrued Investment Income from affiliates	--	--	(655)
Accounts receivable	184,793	--	--
Other assets	(46,204)	5,883	5,699
Other liabilities	(131,277)	(123,207)	(340,600)
Net cash provided by operating activities	654,335	91,846	750,741
	-	-	
Cash flows from investing activities:			
Purchase of real estate	--	--	(186,271)
Sale of real estate	--	--	463,695
Purchase of equipment	--	--	(9,554)
Mortgage, policy loans made	--	(89,375)	(2,506,913)
Payments, mortgage loans	8,400	9,218	2,501,994
Dividend received from subsidiary	--	--	1,125,000
Investment in subsidiaries	(3,198,757)	732,956	(1,167,333)
	(3,190,357)	652,799	220,618
Cash flows from financing activities:			
Advances from (to) affiliates	(1,962,849)	233,812	1,177,977
Payments of notes and contracts payable	(1,077,246)	(1,385,484)	(1,204,983)
Proceeds from borrowings on notes and contracts payable	3,525,875	--	--
Change in line of credit borrowings	1,400,000		
Net cash used in financing activities	1,885,780	(1,151,672)	(27,006)
Net change in cash	(650,242)	(407,027)	944,353

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Cash at beginning of year	1,305,956	1,712,983	768,630
Cash at end of year	\$655,714	\$1,305,956	\$1,712,983

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Notes to Condensed Financial Statements

1) Bank Loans Payable

	December 31,	
	2011	2010
Bank prime rate less .28% (2.97% at December 31, 2011), collateralized by shares of Security National Life Insurance Company stock, due June 2011	\$-	\$357,336
Bank prime rate less .75% (2.50% at December 31, 2011) collateralized by shares of Security National Life Insurance Company stock, due June 2012	525,000	825,000
3.85% note payable in monthly installments of \$79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company Stock, due June 2015.	3,105,965	--
Revolving line-of-credit, interest payable at the prime minus .75% secured by by shares of Security National Life Insurance Company Stock, matures June 2012.	1,400,000	--
Total bank loans	5,030,965	1,182,336
Less current installments	2,546,778	1,182,336
Bank loans, excluding current installments	\$2,484,187	\$-

2) Notes and Contracts Payable

Notes and contracts are summarized as follows:

	December 31,	
	2011	2010
Other notes and contracts payable	961	961
Total notes and contracts	961	961
Less current installments	961	961
Notes and contracts, excluding current installments	-	-

The Company has a \$2,500,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2011), secured by the capital stock of Security National Life and maturing June 30, 2012, renewable annually. As of December 31, 2011, there was \$1,400,000 outstanding under the revolving line-of-credit. As of December 31, 2011, \$135,886 was available and \$439,114 was reserved for two outstanding letters of credit. \$1,500,000 was carved out for a loan in September 2008 that as of December 31, 2011 has a balance of \$525,000 (refer to note 7). As the principal payments on the loan are made the line of credit amount increases in availability.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Notes to Condensed Financial Statements

The following tabulation shows the combined maturities of bank loans payable and notes and contracts payable:

2012	2,546,778
2013	1,105,757
2014	915,758
2015	462,672
2016	
Thereafter	-
Total	\$5,030,965

3) Advances from Affiliated Companies

	December 31,	
	2011	2010
Non-interest bearing advances from affiliates:		
Cemetery and Mortuary subsidiary	\$1,459,841	\$1,459,841
Life insurance subsidiaries	7,552,706	7,529,756
Mortgage subsidiary	-	-
	\$9,012,547	\$8,989,597

4) Dividends and Capital Contributions

In 2011, 2010 and 2009, SecurityNational Mortgage Company, a wholly owned subsidiary of the Registrant, paid to the registrant cash dividends of \$-0-, \$-0-, and \$1,125,000, respectively.

In 2011, 2010 and 2009 the Registrant made a capital contribution to Security National Life Insurance Company, a wholly owned subsidiary of the Registrant, in the amount of \$3,525,875, \$-0-, and \$1,125,000, respectively.

Schedule IV

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Reinsurance

	Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net	
2011						
Life Insurance in force (\$000)	\$1,237,528	\$87,441	\$1,732,120	\$2,882,207	60.1	%
Premiums:						
Life Insurance	\$41,439,145	\$1,910,152	\$8,696,242	\$48,225,235	18.0	%
Accident and Health Insurance	172,940	-	37	172,977	0.0	%
Total premiums	\$41,612,085	\$1,910,152	\$8,696,279	\$48,398,212	18.0	%
2010						
Life Insurance in force (\$000)	\$1,202,208	\$76,042	\$1,801,414	\$2,927,580	61.5	%
Premiums:						
Life Insurance	\$36,554,612	\$601,049	\$2,384,637	\$38,338,200	6.2	%
Accident and Health Insurance	190,237	-	-	190,237	0.0	%
Total premiums	\$36,744,849	\$601,049	\$2,384,637	\$38,528,437	6.2	%
2009						
Life Insurance in force (\$000)	\$1,271,014	\$93,603	\$1,346,932	\$2,524,343	53.4	%
Premiums:						
Life Insurance	\$37,410,889	\$646,318	\$1,418,707	\$38,183,278	3.7	%
Accident and Health Insurance	231,386	1,335	-	230,051	0.0	%
Total premiums	\$37,642,275	\$647,653	\$1,418,707	\$38,413,329	3.7	%

Schedule V

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions Disposals and Write-offs	Balance at End of Year
For the Year Ended December 31, 2011				
Accumulated depreciation on real estate	\$4,940,227	\$1,315,547	\$(255,895)	\$5,999,879
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	7,070,442	1,235,720	(3,424,989)	4,881,173
Accumulated depreciation on property and equipment	16,235,255	1,499,038	(1,630,988)	16,103,305
Allowance for doubtful accounts on receivables	1,995,347	747,304	(463,682)	2,278,969
Allowance for doubtful accounts on collateral loans	380,506	171,838	(125,208)	427,136
For the Year Ended December 31, 2010				
Accumulated depreciation on real estate	\$3,939,272	\$1,105,580	\$(104,625)	\$4,940,227
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	6,808,803	630,133	(368,494)	7,070,442
Accumulated depreciation on property and equipment	19,133,583	1,811,931	(4,710,259)	16,235,255
Allowance for doubtful accounts on receivables	2,183,056	918,256	(1,105,965)	1,995,347
Allowance for doubtful accounts on collateral loans	652,498	120,000	(391,992)	380,506
For the Year Ended December 31, 2009				
Accumulated depreciation on real estate	\$5,009,571	\$842,641	\$(1,912,940)	\$3,939,272
Allowance for losses on mortgage loans on real estate and construction loans				

held for investment.	4,780,467	3,166,043	(1,137,707)	6,808,803
Accumulated depreciation on property and equipment	17,688,418	1,722,446	(277,281)	19,133,583
Allowance for doubtful accounts on receivables	1,983,293	1,229,668	(1,029,905)	2,183,056
Allowance for doubtful accounts on collateral loans	555,146	128,778	(31,426)	652,498

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Year Ended December 31, 2010

SECURITY NATIONAL FINANCIAL CORPORATION

Commission File No. 0-9341

E X H I B I T S

Exhibit Index

Exhibit No. Document Name

21	Subsidiaries of the Registrant
31.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.xml	Instance Document
101.xsd	Taxonomy Extension Schema Document
101.cal	Taxonomy Extension Calculation Linkbase Document
101.def	Taxonomy Extension Definition Linkbase Document
101.lab	Taxonomy Extension Label Linkbase Document
101.pre	Taxonomy Extension Presentation Linkbase Document

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