SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
November 14, 2011

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended September 30, 2011, or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to ________

Commission file number: 000-09341

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

UTAH (State or other jurisdiction of incorporation or organization)	87-0345941 (I.R.S. Employer Identification No.)
5300 South 360 West, Suite 250 Salt Lake City, Utah (Address of principal executive office)	84123 (Zip Code)

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

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

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

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

Class A Common Stock, $2.00 par value	9,179,739
Title of Class	Number of Shares Outstanding as of

November 14, 2011

Class C Common Stock, $.20 par value	9,653,311
Title of Class	Number of Shares Outstanding as of November 14, 2011

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

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [ ]   Smaller reporting company [X]
(Do not check if a smaller reporting company)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2011

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

Assets	September 30, 2011	December 31, 2010
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$ 134,985,093	$ 98,048,016
Equity securities, available for sale, at estimated fair value	5,907,916	6,784,643
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of $6,606,457 and $7,070,442 for 2011 and 2010	112,172,464	96,154,107
Real estate held for investment, net of accumulated depreciation of $4,104,577 and $3,849,695 for 2011 and 2010	3,871,845	3,996,777
Other real estate owned held for investment, net of accumulateddepreciation of $1,567,703 and $1,090,532 for 2011 and 2010	46,226,585	44,422,829
Other real estate owned held for sale	5,793,900	5,086,400
Policy and other loans, net of allowances for doubtful accountsof $420,539 and $380,506 for 2011 and 2010	16,718,099	17,044,897
Short-term investments	4,040,671	2,618,349
Accrued investment income	2,526,028	1,726,854
Total investments	332,242,601	275,882,872
Cash and cash equivalents	23,002,677	39,556,503
Mortgage loans sold to investors	58,952,210	63,226,686
Receivables, net	9,566,157	7,827,114
Restricted assets of cemeteries and mortuaries	3,247,717	3,066,379
Cemetery perpetual care trust investments	1,679,442	1,454,694
Receivable from reinsurers	6,226,915	4,476,237
Cemetery land and improvements	11,045,625	11,096,129
Deferred policy and pre-need contract acquisition costs	36,020,407	35,767,101
Property and equipment, net	9,365,186	11,111,059
Value of business acquired	9,984,343	9,017,696
Goodwill	677,039	1,075,039
Other	4,073,050	2,077,396
Total Assets	$ 506,083,369	$ 465,634,905

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2011	December 31, 2010
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	$ 375,707,318	$ 344,972,099
Unearned premium reserve	5,078,751	5,213,948
Bank loans payable	17,002,480	6,866,438
Notes and contracts payable	961	199,537
Deferred pre-need cemetery and mortuary contract revenues	12,986,739	13,192,499
Cemetery perpetual care obligation	2,926,190	2,853,727
Accounts payable	2,518,196	2,472,996
Other liabilities and accrued expenses	14,758,395	14,579,008
Income taxes	14,606,204	15,356,185
Total liabilities	445,585,234	405,706,437
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 9,179,739 shares in 2011 and 9,178,945 shares in 2010	18,359,478	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 9,653,311 shares in 2011 and 9,660,152 in 2010	1,930,662	1,932,031
Additional paid-in capital	19,837,694	19,689,993
Accumulated other comprehensive income, net of taxes	898,250	1,188,246
Retained earnings	22,364,104	21,907,579
Treasury stock at cost - 1,198,057 Class A shares in 2011 and 1,322,074 Class A shares in 2010	(2,892,053)	(3,147,271)
Total stockholders' equity	60,498,135	59,928,468
Total Liabilities and Stockholders' Equity	$ 506,083,369	$ 465,634,905

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Insurance premiums and other considerations	$ 11,823,557	$ 9,249,421	$ 36,409,158	$ 28,902,805
Net investment income	5,107,590	4,389,710	14,095,396	13,684,196
Net mortuary and cemetery sales	2,442,221	2,973,291	8,146,824	8,996,452
Realized gains on investments and other assets	226,480	748,446	1,829,136	1,432,363
Other than temporary impairments on investments	(30,000)	(30,000)	(95,129)	(60,000)
Mortgage fee income	21,517,970	28,457,343	50,615,851	72,734,208
Other	236,869	186,487	962,049	1,300,789
Total revenues	41,324,687	45,974,698	111,963,285	126,990,813
Benefits and expenses:				
Death benefits	5,303,622	4,587,639	16,588,193	14,451,976
Surrenders and other policy benefits	398,556	461,203	1,425,175	1,103,834
Increase in future policy benefits	5,153,073	3,664,300	14,680,267	11,753,649
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,863,959	1,623,542	5,819,497	4,339,167
Selling, general and administrative expenses:				
Commissions	13,268,027	16,917,406	30,417,508	44,929,148
Salaries	5,690,438	6,435,647	17,593,130	19,882,778
Provision for loan losses and loss reserve	466,025	1,640,840	1,573,360	3,741,354
Costs related to funding mortgage loans	1,219,729	1,627,146	3,065,563	4,674,409
Other	6,191,082	6,763,353	18,491,242	19,037,156
Interest expense	497,714	842,549	1,191,356	2,152,755
Cost of goods and services sold-mortuaries and cemeteries	437,972	597,886	1,464,908	1,699,533
Total benefits and expenses	40,490,197	45,161,511	112,310,199	127,765,759
Earnings (loss) before income taxes	834,490	813,187	(346,914)	(774,946)
Income tax (provision) benefit	(64,168)	(309,757)	803,630	746,562
Net earnings (loss)	$ 770,322	$ 503,430	$ 456,716	$ (28,384)
Net earnings (loss) per Class A Equivalent common share (1)	$ 0.09	$ 0.06	$ 0.05	$ (0.00)
Net earnings (loss) per Class A Equivalent common share-assuming dilution (1)	$ 0.09	$ 0.06	$ 0.05	$ (0.00)

Weighted-average Class A equivalent common share outstanding (1)	8,938,593	8,733,298	8,806,716	8,687,546
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	8,955,951	8,821,121	8,832,259	8,687,546

(1) Earnings (loss) per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings (loss) per common share represent net earnings (loss) per equivalent Class A common share. Net earnings (loss) per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$ 18,747,200	$ (46,765,822)
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(46,815,511)	(7,637,611)
Calls and maturities - fixed maturity securities	10,003,703	24,507,847
Securities available for sale:		
Purchase - equity securities	(4,531,858)	(4,358,860)
Sales - equity securities	3,961,997	3,509,569
Purchase of short-term investments	(47,770,901)	(6,220,779)
Sales of short-term investments	46,348,579	12,308,413
Purchase of restricted assets	(214,064)	(382,899)
Changes in assets for perpetual care trusts	(198,090)	(217,757)
Amount received for perpetual care trusts	72,463	93,362
Mortgage, policy, and other loans made	(98,585,760)	(78,542,784)
Payments received for mortgage, policy and other loans	78,249,928	74,413,760
Purchase of property and equipment	(474,301)	(664,417)
Disposal of property and equipment	2,295,329	-
Purchase of real estate	(416,580)	(1,362,865)
Sale of real estate	4,255,993	4,640,479
Reinsurance with North America Life	12,990,444	-
Net cash provided by (used in) investing activities	(40,828,629)	20,085,458
Cash flows from financing activities:		
Annuity contract receipts	6,096,392	6,445,453
Annuity contract withdrawals	(10,603,426)	(10,725,043)
Repayment of bank loans on notes and contracts	(1,580,448)	(1,247,182)
Proceeds from borrowing on bank loans	3,615,085	-
Change in line of credit borrowings	8,000,000	19,275,000
Net cash provided by financing activities	5,527,603	13,748,228
Net change in cash and cash equivalents	(16,553,826)	(12,932,136)
Cash and cash equivalents at beginning of period	39,556,503	39,463,803
Cash and cash equivalents at end of period	$ 23,002,677	$ 26,531,667
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	$ 7,680,063	$ 12,146,777

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2010, included in the Company’s Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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

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

Certain 2010 amounts have been reclassified to bring them into conformity with the 2011 presentation.

2) Recent Accounting Pronouncements

Goodwill Impairment Test - In September 2011, the FASB issued 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.

Comprehensive Income – In June 2011, the Financial Accounting Standards Board (FASB) issued 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 International Financial Reporting Standards (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 new 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

2) Recent Accounting Pronouncements (Continued)

A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring – In April 2011, the FASB issued 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.

Reconsideration of Effective Control for Repurchase Agreements – In April 2011, the FASB issued 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.

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) Investments

The Company’s investments in fixed maturity securities held-to-maturity and equity securities available-for-sale as of September 30, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$2,824,482	$555,167	$-	$3,379,649
Obligations of states and political subdivisions	3,177,033	311,964	(19,720)	3,469,277
Corporate securities including public utilities	120,813,476	11,054,450	(2,228,137)	129,639,789
Mortgage-backed securities	6,668,049	369,057	(307,914)	6,729,192
Redeemable preferred stock	1,502,053	57,136	(122,638)	1,436,551
Total fixed maturity securities held to maturity	$134,985,093	$12,347,774	$(2,678,409)	$144,654,458

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$20,281	$-	$(2,801)	$17,480
Common stock:				
Industrial, miscellaneous and all other	7,456,982	215,517	(1,782,063)	5,890,436
Total equity securities available for sale at estimated fair value	$7,477,263	$215,517	$(1,784,864)	$5,907,916
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$57,244,340			
Residential construction	19,980,238			
Commercial	41,554,343			
Less: Allowance for loan losses	(6,606,457)			
Total mortgage loans on real estate and construction loans held for investment	$112,172,464			
Real estate held for investment - net of depreciation	$3,871,845			
Other real estate owned held for investment - net of depreciation	46,226,585			
Other real estate owned held for sale	5,793,900			
Total real estate	$55,892,330			
Policy and other loans at amortized cost - net of allowance for doubtful accounts	$16,718,099			
Short-term investments at amortized cost	$4,040,671			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) 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 AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) Investments (Continued)

December 31, 2010:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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
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 and other loans at amortized cost - net of allowance for doubtful accounts	$17,044,897			
Short-term investments at amortized cost	$2,618,349			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed-maturity securities, which are carried at amortized cost, at September 30, 2011 and December 31, 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 September 30, 2011					
Obligations of states and political subdivisions	$-	0	$19,720	3	$19,720
Corporate securities including public utilities	1,613,641	46	614,496	12	2,228,137
Mortgage-backed securities	197,721	3	110,193	1	307,914
Redeemable preferred stock	1,000	1	121,638	1	122,638
Total unrealized losses	$1,812,362	50	$866,047	17	$2,678,409
Fair Value	$26,496,891		$4,141,109		$30,638,000
At December 31, 2010					
Obligations of states and political subdivisions	$-	0	$18,574	3	$18,574
Corporate securities including public utilities	70,934	10	645,073	25	716,007
Mortgage-backed securities	8,971	2	645,988	3	654,959
Redeemable preferred stock	4,022	4	28,149	1	32,171
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 September 30, 2011 and December 31, 2010, the average fair value of the related fixed maturities was 92.0% and 91.1%, respectively, of amortized cost. During the nine months ended September 30, 2011 and for the year ended December 31, 2010, an other-than-temporary decline in fair value resulted in the recognition of an impairment loss on fixed maturity securities of $95,129 and $150,059, 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 maturity securities as of September 30, 2011 and December 31, 2010.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) 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 September 30, 2011 and December 31, 2010. The unrealized losses were primarily the result of decreases in fair 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 September 30, 2011					
Non-redeemable preferred stock	$-	0	$ 2,801	2	$2,801
Industrial, miscellaneous and all other	1,345,141	101	436,922	14	1,782,063
Total unrealized losses	$1,345,141	101	$ 439,723	16	$1,784,864
Fair Value	$3,560,006		$ 480,630		$4,040,636
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 September 30, 2011 and December 31, 2010, the average fair value of the equity securities available-for-sale was 69.4% and 87.0%, respectively, of the original investment. 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 the nine months ended September 30, 2011 and for the year ended December 31, 2010, an other-than-temporary decline in fair value resulted in the recognition of an impairment loss on equity securities of $0 and $23,922, 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 September 30, 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.

The amortized cost and estimated fair value of fixed maturity securities at September 30, 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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September 30, 2011 (Unaudited)

3) Investments (Continued)

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2011	$1,050,281	$ 1,057,109
Due in 2012 through 2015	16,263,077	17,604,087
Due in 2016 through 2020	48,758,651	52,611,810
Due after 2020	60,742,982	65,215,709
Mortgage-backed securities	6,668,049	6,729,192
Redeemable preferred stock	1,502,053	1,436,551
Total held to maturity	$134,985,093	$ 144,654,458

The amortized cost and estimated fair value of available-for-sale securities at September 30, 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 2011	$-	$ -
Due in 2012 through 2015	-	-
Due in 2016 through 2020	-	-
Due after 2020	-	-
Non-redeemable preferred stock	20,281	17,480
Common stock	7,456,982	5,890,436
Total available for sale	$7,477,263	$ 5,907,916

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fixed maturity securities held to maturity:				
Gross realized gains	$ 80,069	$ 862,457	$ 400,026	$ 1,158,469
Gross realized losses	(11,086)	(259,445)	(142,907)	(482,369)
Other than temporary impairments	(30,000)	(30,000)	(95,129)	(60,000)
Securities available for sale:				
Gross realized gains	48,680	64,337	503,804	512,329
Gross realized losses	(30)	(12,323)	(34,834)	(55,396)
Other than temporary impairments	-	-	-	-

Other assets:				
Gross realized gains	146,253	122,796	1,182,905	394,539
Gross realized losses	(37,406)	(29,376)	(79,858)	(95,209)
Other than temporary impairments	-	-	-	-
Total	$ 196,480	$ 718,446	$ 1,734,007	$ 1,372,363

Generally gains and losses from held-to-maturity securities are a result of early calls and related amortization of premiums or discounts. However, credit losses of $30,000 and $30,000 were recognized during the three months ended September 30, 2011 and 2010, respectively from other-than-temporary declines in fair value of held-to-maturity securities. The Company currently holds a collateralized mortgage obligation for which the value carries a significant degree of uncertainty. In order to exercise conservatism related to the carrying value of this collateralized mortgage obligation, the Company is currently recognizing an impairment of $10,000 per month.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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3) Investments (Continued)

The net carrying amount of held-to-maturity securities sold was $4,715,412 and $16,220,943 for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. The net realized gain related to these sales was $68,370 and $346,225 for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. Certain circumstances lead to these decisions to sell. 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. The expired loan purchase agreement was renewed in December 2010 for a one year term. 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 offset the loss incurred by selling some high risk residential mortgage backed securities.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available-for-sale securities) at September 30, 2011, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fixed maturity securities	$ 2,033,778	$ 1,718,143	$ 5,773,035	$ 5,258,146
Equity securities	70,494	61,274	197,480	174,017
Mortgage loans on real estate	1,894,780	1,350,728	4,881,213	4,349,326
Real estate	484,289	453,281	1,496,912	1,221,181
Policy and other loans	195,940	227,785	619,972	673,205
Short-term investments, principally gains on sale of mortgage loans and other	1,577,446	2,121,763	4,423,576	5,768,879
Gross investment income	6,256,727	5,932,974	17,392,188	17,444,754
Investment expenses	(1,149,137)	(1,543,264)	(3,296,792)	(3,760,558)
Net investment income	$ 5,107,590	$ 4,389,710	$ 14,095,396	$ 13,684,196

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of $240,240 and $249,339 for nine months ended September 30, 2011 and 2010, 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 $9,347,984 at September 30, 2011 and $9,302,578 at December 31, 2010. The restricted securities are included in various assets under investments on the accompanying condensed 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% per annum, 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 live or do business. At September 30, 2011, the Company had 34%, 13% and 10% of its mortgage loans from borrowers located in the states of Utah, California and Florida, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of $6,606,457 and $7,070,442 at September 30, 2011 and December 31, 2010, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) 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

	Commercial	Residential	Residential Construction	Total
September 30, 2011				
Allowance for credit losses:				
Beginning balance - January 1, 2011	$-	$6,212,072	$858,370	$7,070,442
Charge-offs	-	(399,444)	(321,879)	(721,323)
Provision	-	257,338	-	257,338
Ending balance - September 30, 2011	$-	$6,069,966	$536,491	$6,606,457
Ending balance: individually evaluated for impairment	$-	$5,234,099	$418,121	$5,652,220
Ending balance: collectively evaluated for impairment	$-	$835,867	$118,370	$954,237
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-
Mortgage loans:				
Ending balance	$41,554,343	$57,244,340	$19,980,238	$118,778,921
Ending balance: individually evaluated for impairment	$-	$8,625,864	$7,975,046	$16,600,910
Ending balance: collectively evaluated for impairment	$41,554,343	$48,618,476	$12,005,192	$102,178,011
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-
December 31, 2010				
Allowance for credit losses:				
Beginning balance - January 1, 2010	$-	$5,917,792	$891,011	$6,808,803
Charge-offs	-	(335,853)	(32,641)	(368,494)
Provision	-	630,133	-	630,133
Ending balance - December 31, 2010	$-	$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	$-	$7,236,095	$2,085,467	$9,321,562
Ending balance: collectively evaluated for impairment	$24,502,781	$53,049,178	$16,351,028	$93,902,987
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) Investments (Continued)

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

Age Analysis of Past Due Mortgage Loans

	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 Mortg Loans
ember 30, 2011									
mercial	$-	$-	$1,053,500	$2,758,580	$3,812,080	$37,742,263	$41,554,343	$-	$41,554,3
dential	2,847,427	1,065,211	4,250,800	8,625,864	16,789,302	40,455,038	57,244,340	(6,069,966)	51,174,3
dential nstruction	-	-	1,006,890	7,975,046	8,981,936	10,998,302	19,980,238	(536,491)	19,443,7
l	$2,847,427	$1,065,211	$6,311,190	$19,359,490	$29,583,318	$89,195,603	$118,778,921	$(6,606,457)	$112,172,
ember 31, 2010									
mercial	$-	$734,756	$-	$439,794	$1,174,550	$23,328,231	$24,502,781	$-	$24,502,7
dential	767,970	782,174	3,537,616	7,236,095	12,323,855	47,961,418	60,285,273	(6,212,072)	54,073,2
dential nstruction	849,375	1,543,593	994,046	2,085,467	5,472,481	12,964,014	18,436,495	(858,370)	17,578,1
l	$1,617,345	$3,060,523	$4,531,662	$9,761,356	$18,970,886	$84,253,663	$103,224,549	$(7,070,442)	$96,154,1

terest income is not recognized on loans past due greater than 90 days or in foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

3) Investments (Continued)

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:

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2011					
With no related allowance recorded:					
Commercial	$3,812,080	$3,812,080	$-	$3,812,080	$ -
Residential	4,250,800	4,250,800	-	4,250,800	-
Residential construction	1,006,890	1,006,890	-	1,006,890	-
With an allowance recorded:					
Commercial	$-	$-	$-	$-	$ -
Residential	8,625,864	8,625,864	5,234,099	8,625,864	-
Residential construction	7,975,046	7,975,046	418,121	7,975,046	-
Total:					
Commercial	$3,812,080	$3,812,080	$-	$3,812,080	$ -
Residential	12,876,664	12,876,664	5,234,099	12,876,664	-
Residential construction	8,981,936	8,981,936	418,121	8,981,936	-
December 31, 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	-

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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3) Investments (Continued)

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 past due 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

	Commercial		Residential		Residential Construction		Total	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Performing	$37,742,263	$24,062,987	$44,367,676	$49,511,562	$10,998,302	$15,356,982	$93,108,241	$88,931,531
Nonperforming	3,812,080	439,794	12,876,664	10,773,711	8,981,936	3,079,513	25,670,680	14,293,018
Total	$41,554,343	$24,502,781	$57,244,340	$60,285,273	$19,980,238	$18,436,495	$118,778,921	$103,224,549

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the Company's policy 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 $2,308,000 and $1,852,000 as of September 30, 2011 and December 31, 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 September 30, 2011	As of December 31, 2010
Commercial	$ 3,812,080	$ 439,794
Residential	12,876,664	10,773,711
Residential construction	8,981,936	3,079,513
Total	$ 25,670,680	$ 14,293,018

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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3) Investments (Continued)

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.

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

	As of September 30, 2011	As of December 31, 2010
Balance, beginning of period	$ 5,899,025	$ 11,662,897
Provisions for losses	1,220,210	4,534,231
Charge-offs	(3,992,781)	(10,298,103)
Balance	$ 3,126,454	$ 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. 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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4) Comprehensive Income

For the three months ended September 30, 2011 and 2010, total comprehensive income amounted to $387,891 and $1,196,042, respectively.

For the nine months Ended September 30, 2011 and 2010, total comprehensive income amounted to $166,720 and $30,273 respectively.

5) Stock-Based Compensation

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 $64,344 and $135,569 has been recognized for these plans for the quarters ended September 30, 2011 and 2010, respectively, and $193,032 and $405,258 for the nine months ended September 30, 2011 and 2010, respectively. A deferred tax credit has been recognized related to the compensation expense of $21,877 and $46,093 for the quarters ended September 30, 2011 and 2010, respectively, and $65,631 and $137,788 for the nine months ended September 30, 2011 and 2010, respectively.

Options to purchase 330,500 shares of the Company’s common stock were granted December 4, 2009. The fair value relating to stock-based compensation is $542,275 and was expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 31, 2010.

Options to purchase 345,600 shares of the Company’s common stock were granted December 3, 2010. The fair value relating to stock-based compensation is $257,376 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 31, 2011.

The weighted-average fair value of each option granted in 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.

6) Capital Stock

The Company has two classes of common stock with shares outstanding: Class A and Class C. Class C shares are convertible into Class A shares at any time on a ten to one ratio. The year to date decrease in outstanding Class C shares and the corresponding increase in Class A shares was due to conversion of Class C to Class A common stock. The decrease in treasury stock was the result of treasury stock being used to fund the Company’s 401-K and Deferred

Compensation Plans.

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7) Earnings (Loss) Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Net earnings (loss)	$770,322	$503,430	$456,716	$(28,384)
Denominator:				
Basic weighted-average shares outstanding	8,938,593	8,733,298	8,806,716	8,687,546
Effect of dilutive securities:				
Employee stock options	17,358	87,823	25,543	-
Dilutive potential common shares	17,358	87,823	25,543	-
Diluted weighted-average shares outstanding	8,955,951	8,821,121	8,832,259	8,687,546
Basic earnings loss per share	$0.09	$0.06	$0.05	$(0.00)
Diluted earnings loss per share	$0.09	$0.06	$0.05	$(0.00)

Earnings (loss) per share amounts have been adjusted for the effect of annual stock dividends. For the three months ended September 30, 2011 and 2010, there were 1,805,067 and 1,137,074 of anti-dilutive employee stock option shares, respectively and for the nine months ended September 30, 2011 and 2010, the anti-dilutive employee stock options were 1,939,930 and 1,506,958, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive.

8) Business Segments

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 of the form 10K for the year ended December 31, 2010. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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8) Business Segments (Continued)

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.

	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
For the Three Months Ended September 30, 2011					
Revenues from external customers	$ 16,680,600	$ 2,446,424	$ 22,197,663	$ -	$ 41,324,687
Intersegment revenues	1,716,135	425,273	66,597	(2,208,005)	-
Segment profit (loss) before income taxes	773,361	(318,408)	379,537	-	834,490
For the Three Months Ended September 30, 2010					
Revenues from external customers	$ 13,545,990	$ 3,031,627	$ 29,397,081	$ -	$ 45,974,698
Intersegment revenues	2,058,203	459,026	61,085	(2,578,314)	-
Segment profit (loss) before income taxes	500,145	(343,430)	656,471	-	813,186
For the Nine Months Ended September 30, 2011					
Revenues from external customers	$ 50,427,591	$ 9,203,043	$ 52,332,651	$ -	$ 111,963,285
Intersegment revenues	5,415,233	1,373,879	187,683	(6,976,795)	-
Segment profit (loss) before income taxes	2,190,884	495,960	(3,033,758)	-	(346,914)
Identifiable Assets	484,974,971	114,386,085	28,157,555	(121,435,242)	506,083,369
Goodwill	391,848	285,191	-	-	677,039
For the Nine Months Ended September 30, 2010					
Revenues from external customers	$ 42,350,030	$ 9,292,088	$ 75,348,695	$ -	$ 126,990,813
Intersegment revenues	6,023,605	1,284,815	179,128	(7,487,548)	-
Segment profit					

before income taxes	1,996,940	(306,871)	(2,435,015)	-	(744,946)
Identifiable Assets	456,803,186	109,390,078	37,302,040	(112,088,760)	491,406,544
Goodwill	391,848	683,191	-	-	1,075,039

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9) 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 3.

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 3.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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9) Fair Value of Financial Instruments (Continued)

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: On a quarterly and annual basis the Company does an analysis on property classified as Other Real Estate Owned. This analysis compares national home selling indexes at the time of original appraisal to the comparable index at time of foreclosure. The percentage change in the index is applied to the original appraised value and compared to the current book value of the property. For any significant decrease in property values, the Company normally obtains a new appraisal. Any impairment identified by the comparison analysis is recorded during the quarter of identification.

In addition to the index comparison 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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9) 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 recurring basis by their classification in the condensed consolidated balance sheet at September 30, 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	$17,480	$ 17,480	$ -	$ -
Common stock	5,890,436	5,890,436	-	-
Total securities available for sale	5,907,916	5,907,916	-	-
Restricted assets of cemeteries and mortuaries	528,227	528,227	-	-
Cemetery perpetual care trust investments	554,330	554,330	-	-
Derivatives - interest rate lock commitments	3,089,025	-	-	3,089,025
Total assets accounted for at fair value on a recurring basis	$10,079,498	$ 6,990,473	$ -	$3,089,025
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$(51,186,650)	$ -	$ -	$(51,186,650)
Future policy benefits - annuities	(65,388,341)	-	-	(65,388,341)
Derivatives - bank loan interest rate swaps	(125,193)	-	-	(125,193)
- call options	(46,592)	(46,592)	-	-
- interest rate lock commitments	(182,797)	-	-	(182,797)
Total liabilities accounted for at fair value on a recurring basis	$(116,929,573)	$ (46,592)	$ -	$(116,882,981)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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September 30, 2011 (Unaudited)

9) 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, 2010	$(52,340,807)	$(65,936,445)	$ 873,059	$ (116,533)
Total gains (losses):				
Included in earnings	1,154,157	548,104	-	-
Included in other comprehensive income (loss)	-	-	2,033,169	(8,660)
Balance - September 30, 2011	$(51,186,650)	$(65,388,341)	$ 2,906,228	$ (125,193)

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 September 30, 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				
Other real estate owned held for investment	$2,260,713	$ -	$ -	$ 2,260,713
Other real estate owned held for sale	514,000	-	-	514,000
Total assets accounted for at fair value on a nonrecurring basis	$2,774,713	$ -	$ -	$ 2,774,713

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 (Unaudited)

9) 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 recurring basis by their classification in the condensed 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	527,672	527,672	-	-
Derivatives - interest rate lock commitments	1,024,587	-	-	1,024,587
Total assets accounted for at fair value on a recurring basis	$8,882,335	$ 7,857,748	$ -	$ 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)
Derivatives - bank loan interest rate swaps	(116,533)	-	-	(116,533)
- call options	(157,319)	(157,319)	-	