SECURITY NATIONAL FINANCIAL CORP
Form 10-K
March 31, 2010

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

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009, or

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

Commission file number 0-9341

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

UTAH	87-0345941
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 [X]

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No___

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 X 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 [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business date of the registrant's most recently completed second fiscal quarter. $16,175,000

As of March 26, 2010, there were outstanding 8,735,383 shares of Class A Common Stock, $2.00 par value per share, and 9,213,182 shares of Class C Common Stock, $.20 par value per share.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the registrant's 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Item 1. Business

Security National Financial Corporation (the “Company”) operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment of the Company consists of five cemeteries in the state of Utah and one cemetery in the state of California, and seven mortuaries in the state of Utah and three mortuaries 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 residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 32 wholesale and retail offices in eleven 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. The Company funded relatively few subprime mortgage loans during 2007 and no longer funds such loans. Thus, while each business segment is a profit center on a stand-alone basis, this horizontal integration of each segment is planned to lead to improved profitability of the Company. The Company also pursues growth through acquisitions. The Company’s acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing 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. In 1994, Security National Life acquired Capital Investors Life Insurance Company. In 1995, Security National Life acquired Civil Service Employees Life Insurance Company. In 1998, Security National Life acquired Southern Security Life Insurance Company, a Florida domiciled insurance company (“Southern Security Life”), in a stock purchase transaction involving the purchase of 57.4% of the outstanding common shares of Southern Security Life.

In 2002, Security National Life acquired a block of business from Acadian Life Insurance Company and, in 2004, it acquired Paramount Security Life Insurance Company, now Security National Life Insurance Company of Louisiana. In 2005, Security National Life completed a merger transaction involving the purchase of the remaining outstanding shares of Southern Security Life, which resulted in Southern Security Life becoming a wholly-owned subsidiary of Security National Life. Security National Life additionally acquired Memorial Insurance Company of America in 2005 and C & J Financial in 2007. In 2007, Security National Life acquired Capital Reserve Life Insurance Company and, in 2008, it acquired Southern Security Life Insurance Company, a Mississippi domiciled insurance company (“Southern Security of Mississippi”).

Also in 2007, Southern Security Life (formerly a Florida domiciled insurance company) was liquidated and all the remaining insurance business and operations of Southern Security Life was transferred to Security National Life. In 2009, Security National Life Insurance Company of Louisiana was liquidated and all of the insurance business and operations of Security National Life Insurance Company of Louisiana was transferred to Security National Life. Also in 2009, Capital Reserve Life Insurance Company was liquidated and all of the insurance business and operations of Capital Reserve Life Insurance Company, except for its corporate charter and the required capital and surplus to preserve its corporate existence in Missouri, was transferred to Security National Life.

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 1994, the Company acquired Sunset Funeral Home. In 1995, the Company acquired Greer-Wilson Funeral Home, Inc. and, in 1997, it acquired Crystal Rose Funeral Home. In 1993, the Company formed SecurityNational Mortgage Company ("SecurityNational Mortgage") to originate and refinance mortgage loans. Since the beginning of business in 1993, SecurityNational Mortgage has now grown to 32 branches in eleven states. See Notes to Consolidated Financial Statements for additional disclosure and discussion regarding segments of the business.

Life Insurance

Products

The Company, through Security National Life and its insurance subsidiaries, Security National Life of Louisiana, Memorial Insurance Company of America, Capital Reserve Life Insurance Company and Southern Security Life Insurance Company, issues and distributes selected lines of life insurance and annuities. The Company's life insurance business includes funeral plans, 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 and traditional whole life products sold in association with the costs of higher education.

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

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

Markets and Distribution

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

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

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

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

The Company sells its life insurance products through direct agents, brokers and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 10% to 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, 2009:

	2009	2008	2007	2006	2005
Life Insurance					
Policy/Cert. Count as of December 31	407,673	415,656 (3)	405,224 (2)	401,441	413,753 (1)
Insurance in force as of December 31 (omitted 000)	$ 2,617,946	$ 2,454,409 (3)	$ 2,434,733 (2)	$ 2,620,694	$ 3,216,946 (1)
Premiums Collected (omitted 000)	$ 38,399 (3)	$ 36,063 (2)	$ 32,173	$ 31,619 (1)	$ 27,275

(1) Includes the purchase of Memorial Insurance Company of America on December 29, 2005.
(2) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(3) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

Underwriting

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

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

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

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

Annuities

Products

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

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

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

Markets and Distribution

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

The following table summarizes the annuity business for the five years ended December 31, 2009:

	2009	2008	2007	2006	2005
Annuities Policy/Cert.					
Count as of December 31	12,366	11,411 (3)	11,175 (2)	8,475	8,904 (1)
Deposits Collected (omitted 000)	$ 6,737	$ 8,959 (2)(3)	$ 4,080	$ 3,977 (1)	$ 2,416

(1) Includes the purchase of Memorial Insurance Company of America on December 29, 2005.
(2) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(3) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

Accident and Health

Products

Prior to the acquisition of Capital Investors in 1994, the Company did not actively market accident and health products. With the acquisition of Capital Investors, the Company acquired a block of accident and health policies that pay limited benefits to policyholders. The Company is currently offering 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.

6

The following table summarizes the accident and health insurance business for the five years ended December 31, 2009:

	2009	2008	2007	2006	2005
Accident and Health Policy/Cert.					
Count as of December 31	13,436	14,060	14,845	15,340	14,934
Premiums Collected (omitted 000)	$ 219	$ 232	$ 257	$ 274	$ 285

Reinsurance

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

The Company's policy is to retain no more than $75,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2009, reinsured by other companies, aggregated $102,830,000, representing approximately 4.0% of the Company's life insurance in force on that date.

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

On December 31, 2008, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with Continental American Insurance Company ("Continental American"), a South Carolina domiciled insurance company. This agreement was effective November 30, 2008. Under the terms of the agreement, the Company ceded to Continental American 100% of a block of deferred annuities in the amount of $4,828,487 as of December 31, 2008 and retained the assets and recorded a funds held under coinsurance liability for the same amount. Continental American agreed to pay the Company an initial ceding commission of $60,000 and a quarterly management fee of $16,500 per quarter to administer the policies. The Company will also receive a 90% experience refund for any profits from the business. The Company has the right to recapture the business on each January 1 subsequent to December 31, 2008, or any other date if mutually agreed and with at least 90 days' prior written notice to Continental American. The Company and Continental American have agreed to terminate this agreement on March 31, 2010.

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

Markets and Distribution

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

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

The sales representatives of the Company's cemetery and mortuary operations are split into two groups. The pre planning consultants are commissioned and receive no salary. The sales commissions range from 4% to 25% for cemetery products and services and 10% to 100% of first year premiums for funeral plan insurance. Potential customers are located via telephone sales prospecting, responses to letters mailed by the pre planning consultants, newspaper inserts, referrals, and door-to-door canvassing. If a customer comes to one of the Company's cemeteries, the cemetery directors are compensated on a base wage plus volume bonus ranging from 3% to 6%. 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 both the residential as well as commercial real estate markets. The Company has current approvals through HUD, Fannie Mae, Freddie Mac and other substantial secondary market investors, which enable it to originate a variety of residential mortgage loan products that are subsequently sold to investors. The Company uses internal and external funding sources with unaffiliated financial institutions. The Company also originates residential construction loans.

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

Markets and Distribution

The Company's residential mortgage lending services are marketed primarily to mortgage originators. SecurityNational Mortgage maintains a retail origination presence in the Utah, California and Texas markets in addition to 19 wholesale branch offices located in Arizona, California, Florida, Hawaii, Indiana, Kansas, Oklahoma, Oregon, Texas, Utah and Washington, with sales representatives in these and other states. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding mortgage loans.

Recent Acquisitions and Other Business Activities

Transaction to Liquidate Security National Life Insurance Company of Louisiana

On December 31, 2009, Security National Life Insurance Company of Louisiana ("Security National Life of Louisiana") entered into an Assumption Reinsurance Agreement with Security National Life Insurance Company

("Security National Life") to reinsure the remaining in force business of Security National Life of Louisiana with Security National Life to the extent permitted by the Louisiana Department of Insurance. The Louisiana Department of Insurance approved the Assumption Reinsurance Agreement on December 2, 2009.

As a result of the Assumption Reinsurance Agreement, all of the insurance business and operations of Security National Life of Louisiana, including assets and liabilities, were transferred to Security National Life, as reinsurer, as of December 31, 2009. Thus, $3,189,000 in statutory assets and liabilities were transferred from Security National Life of Louisiana to Security National Life pursuant to the Assumption Reinsurance Agreement. In addition, Security National Life of Louisiana entered into an Assignment dated December 31, 2009 with Security National Life to assign and transfer to Security National Life all of the assets and liabilities that remained following the transfer of assets and liabilities pursuant to the Assumption Reinsurance Agreement.

The liquidation of Security National Life of Louisiana was completed as of December 31, 2009 in accordance with the terms and conditions of the Agreement and Plan of Complete Liquidation to liquidate Security National Life of Louisiana into Security National Life. The Board of Directors of both Security National Life of Louisiana and Security National Life approved a plan of liquidation as of September 18, 2009. Under the terms of the Agreement and Plan of Complete Liquidation, Security National Life of Louisiana was liquidated into Security National Life in essentially the same manner as the liquidation described in Private Letter Ruling 9847027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue Code of 1986, as amended, and other applicable provisions described in such Letter Ruling. During 2010, Security National Life plans to take appropriate legal action to dissolve Security National Life of Louisiana in accordance with Louisiana law.

Transaction to Liquidate Capital Reserve Life Insurance Company

Effective as of December 31, 2009, Security National Life exercised its right of recapture pursuant to the Reinsurance Agreement effective as of November 30, 2008, between Capital Reserve Life Insurance Company ("Capital Reserve") and Security National Life in which Security National Life recaptured all of the previously reinsured liabilities under the Reinsurance Agreement. As a result of the recapture, Security National Life is primarily liable for the liabilities on the insurance contracts and annuities originally issued by Capital Reserve to its policyholders. The assets transferred by Capital Reserve to Security National Life pursuant to such recapture have a fair market value of $4,895,000, which was equal to the assumed liabilities.

In addition, Capital Reserve entered into an Assignment dated December 31, 2009 with Security National Life to assign and transfer to Security National Life all of the assets and liabilities that remained following the recapture, except for Capital Reserve's corporate charter, insurance licenses, and $1,681,000 in statutory capital and surplus, which will allow Capital Reserve to preserve its corporate existence in Missouri. During January 2010, Security National Life entered into a letter of intent to sell its 100% ownership in Capital Reserve to American Life and Security Corporation (“American Life”), a Nebraska domiciled insurance company. The consideration to be paid to Security National Life will be $105,000 and the capital and surplus of Capital Reserve. This sale is contingent upon American Life obtaining approvals from the Nebraska and Missouri insurance departments before December 2010. If the sale is not completed by December 2010, Capital Reserve will be dissolved in accordance with Missouri law.

The purpose of Security National Life exercising its right of recapture pursuant to the 2008 Reinsurance Agreement was so that the $4,895,000 in statutory assets and liabilities of Capital Reserve could be transferred to Security National Life by December 31, 2009 in accordance with the terms of the plan of liquidation between Capital Reserve and Security National Life. On December 4, 2009, Capital Reserve and Security National Life entered into an Agreement and Plan of Complete Liquidation to liquidate Capital Reserve into Security National Life 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.

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

On December 18, 2008, Security National Financial Corporation, through its wholly owned subsidiary, Security National Life, completed a stock purchase transaction with Southern Security Life Insurance Company, a Mississippi domiciled insurance company ("Southern Security"), and its shareholders to purchase all of the outstanding shares of common stock of Southern Security from its shareholders. Under the terms of the transaction as set forth in the Stock Purchase Agreement among Security National Life, Southern Security and the shareholders of Southern Security, Security National Life paid to the shareholders of Southern Security purchase consideration equal to $1,352,134, representing the capital and surplus, interest maintenance reserve, and asset valuation reserve of Southern Security as of September 1, 2008, the date that Security National Life assumed administrative control over Southern Security, plus $1,500,000, representing the ceding commission that had been paid on August 29, 2008, plus $75,888, representing an allowance for the actual losses experienced by Southern Security in the second quarter ended June 30, 2008, less certain adjustments. Thus, the total purchase price before adjustments was $2,928,022.

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

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

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

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

Regulation

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

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

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

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

Income Taxes

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

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

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

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

Competition

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

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

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

Employees

As of December 31, 2009, the Company had –659 full-time and 200 part-time employees.

Item 2. Properties

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

Location	Function	Owned Leased	Approximate Square Footage
5300 South 360 West Salt Lake City, Utah	Corporate Headquarters	Owned (1)	27,200
755 Rinehart Road Lake Mary, Florida	Mortgage Sales	Owned (2)	5,000
3935 I-55 South, Frontage Road Jackson, Mississippi	Insurance Operations	Owned (3)	12,000
175 Jester Parkway Rainbow City, Alabama	Fast Funding Operations	Leased (4)	5,000
NEC Glendale Avenue & 91st Avenue, Suite 110 Glendale, Arizona	Mortgage Sales	Leased (5)	2,050
4634 Town Center Blvd., Suite 314 Eldorado Hills, California	Mortgage Sales	Leased (6)	600
12150 Tributary Point Dr., Suite 140 Gold River, California	Mortgage Sales	Leased (7)	2,400
16835 West Bernardo Drive, Suite 150 San Diego, California	Mortgage Sales	Leased (8)	2,500
27433 Tourney Road, Suites 130, 220 Santa Clarita, California	Mortgage Sales	Leased (9)	3,600
550 West Cienega, Suite H San Dimas, California	Mortgage Sales	Leased (10)	2,600
8950 Dr. MLK St. N., Suite 103 St. Petersburg, Florida	Mortgage Sales	Leased (11)	3,500
970 No. Kalaheo Ave, Suite A-214 Kailua, Hawaii	Mortgage Sales	Leased (12)	700

45 South Park Blvd., Suite 45 Greenwood, Indiana	Mortgage Sales	Leased (13)	4,800
6900 College Blvd., Suite 950 Overland Park, Kansas	Mortgage Sales	Leased (14)	2,800
4045 NW 64th Street, Suite 500 Oklahoma City, Oklahoma	Mortgage Sales	Leased (15)	3,500
999 Southwest Disk Drive, Suite 104 Bend, Oregon	Mortgage Sales	Leased (16)	1,600

Item 2. Properties (Continued)

Location	Function	Owned Leased	Approximate Square Footage
4800 SW Griffith Drive, Suite 250 Beaverton, Oregon	Mortgage Sales	Leased (17)	2,600
5000 Plaza on the Lake Drive, Suite 250 Austin, Texas	Mortgage Sales	Leased (18)	9,500
6805 Capitol of Texas Highway, Suite 315 Austin, Texas 78731	Mortgage Sales	Leased (19)	2,300
12201 Merit Drive, Suite 400 Dallas, Texas	Mortgage Sales	Leased (20)	4,600
5353 W. Sam Houston Parkway N., Suite 170 Houston, Texas	Mortgage Sales	Leased (21)	5,400
613 Northwest Loop 410, Suite 685 San Antonio, Texas	Mortgage Sales	Leased (22)	2,300
6955 and 6975 South Union Park, Suites 100 and 150 Midvale, Utah	Mortgage Sales	Leased (23)	7,000
5247 Greenpine Drive Murray, Utah	Insurance Operations	Owned (24)	13,400
5251 Green Street, Suite 350 Salt Lake City, Utah	Mortgage Sales	Owned (25)	5,800
6740 South 1300 East, Suite 100 Salt Lake City, Utah	Mortgage Sales	Leased (26)	3,200