# SECURITY NATIONAL FINANCIAL CORP

## FORM 10-Q

(Quarterly Report)

Filed 08/14/13 for the Period Ending 06/30/13

| | |
|---|---|
| Address | PO BOX 57220, SALT LAKE CITY, UT, 84157 |
| Telephone | (727) 384-2323 |
| CIK | 0000318673 |
| Symbol | SNFCA |
| SIC Code | 6199 - Finance Services |
| Fiscal Year | 12/31 |

**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 June 30, 2013, 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** | **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)* |

**(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 Exchang Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) ha been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactiv Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 1 months (or for such shorter period that the registrant was required to submit and post such files).
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 | 11,242,386 |
| Title of Class | Number of Shares Outstanding as of August 13, 2013 |
| Class C Common Stock, $.20 par value | 12,669,983 |
| Title of Class | Number of Shares Outstanding as of August 13, 2013 |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reportir company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchang Act.

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

**SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES**
**FORM 10-Q**

## QUARTER ENDED JUNE 30, 2013

### TABLE OF CONTENTS

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

| **Assets** | June 30 2013 | December 31 2012 |
|---|---|---|
| Investments: | | |
| Fixed maturity securities, held to maturity, at amortized cost | $142,895,203 | $129,449,410 |
| Equity securities, available for sale, at estimated fair value | 5,090,494 | 5,405,112 |
| Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of $4,413,927 and $4,239,861 for 2013 and 2012 | 80,538,081 | 84,462,205 |
| Real estate held for investment, net of accumulated depreciation of $8,407,127 and $7,441,418 for 2013 and 2012 | 88,536,391 | 64,254,030 |
| Policy and other loans, net of allowances for doubtful accounts of $531,337 and $505,030 for 2013 and 2012 | 19,207,592 | 20,188,516 |
| Short-term investments | 17,626,271 | 40,925,390 |
| Accrued investment income | 2,515,195 | 2,393,941 |
| Total investments | 356,409,227 | 347,078,604 |
| Cash and cash equivalents | 49,729,906 | 33,494,284 |
| Mortgage loans sold to investors | 80,367,993 | 94,597,969 |
| Receivables, net | 11,952,172 | 16,559,277 |
| Restricted assets | 16,793,426 | 9,366,958 |
| Cemetery perpetual care trust investments | 2,250,084 | 2,090,111 |
| Receivable from reinsurers | 14,275,149 | 14,529,144 |
| Cemetery land and improvements | 11,055,658 | 11,079,755 |
| Deferred policy and pre-need contract acquisition costs | 42,458,296 | 39,913,465 |
| Mortgage servicing rights, net | 4,038,230 | 2,797,470 |
| Property and equipment, net | 11,848,107 | 11,033,957 |
| Value of business acquired | 9,179,256 | 9,829,082 |
| Goodwill | 677,039 | 677,039 |
| Other | 6,000,905 | 4,169,508 |
| **Total Assets** | $617,035,448 | $597,216,623 |

See accompanying notes to condensed consolidated financial statements.

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

| | June 30 2013 | December 31 2012 |
|---|---|---|
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Future life, annuity, and other benefits | $444,363,712 | $438,003,813 |
| Unearned premium reserve | 5,281,696 | 5,383,800 |
| Bank and other loans payable | 10,886,154 | 11,910,343 |
| Deferred pre-need cemetery and mortuary contract revenues | 13,338,924 | 13,412,339 |
| Cemetery perpetual care obligation | 3,206,176 | 3,153,001 |
| Accounts payable | 2,117,437 | 2,026,433 |
| Other liabilities and accrued expenses | 33,173,072 | 25,591,487 |
| Income taxes | 19,151,705 | 17,923,298 |
| Total liabilities | 531,518,876 | 517,404,514 |
| | | |
| **Stockholders' Equity** | | |
| Common Stock: | | |
| Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 11,018,020 shares in 2013 and 10,843,576 shares in 2012 | 22,036,040 | 21,687,152 |
| 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 12,669,983 shares in 2013 and 10,974,101 in 2012 | 2,533,997 | 2,194,820 |
| Additional paid-in capital | 21,604,343 | 21,262,140 |
| Accumulated other comprehensive income, net of taxes | 2,250,337 | 1,934,359 |
| Retained earnings | 39,947,309 | 35,114,072 |
| Treasury stock at cost - 1,166,347 Class A shares in 2013 and 1,097,416 Class A shares in 2012 | (2,855,454) | (2,380,434) |
| | | |
| Total stockholders' equity | 85,516,572 | 79,812,109 |
| | | |
| **Total Liabilities and Stockholders' Equity** | $617,035,448 | $597,216,623 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Revenues:** | | | | |
| Insurance premiums and other considerations | $ 12,904,843 | $ 12,281,896 | $ 25,326,386 | $ 24,869,684 |
| Net investment income | 5,026,044 | 5,565,372 | 10,027,061 | 11,150,418 |
| Net mortuary and cemetery sales | 3,259,293 | 2,626,690 | 6,136,816 | 5,501,639 |
| Realized gains on investments and other assets | 140,182 | 186,926 | 982,760 | 357,986 |
| Other than temporary impairments on investments | (145,922) | (45,000) | (175,922) | (90,000) |
| Mortgage fee income | 39,500,034 | 35,659,582 | 72,762,915 | 61,619,167 |
| Other | 647,815 | 252,744 | 1,124,507 | 442,539 |
| Total revenues | 61,332,289 | 56,528,210 | 116,184,523 | 103,851,433 |
| **Benefits and expenses:** | | | | |
| Death benefits | 6,564,246 | 4,923,798 | 13,320,665 | 10,110,097 |
| Surrenders and other policy benefits | 678,579 | 274,250 | 1,428,828 | 1,112,990 |
| Increase in future policy benefits | 4,862,670 | 5,901,845 | 9,414,411 | 12,051,992 |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 1,091,619 | 1,346,074 | 2,585,524 | 2,758,303 |
| Selling, general and administrative expenses: | | | | |
| Commissions | 20,877,410 | 20,394,230 | 38,447,995 | 35,280,020 |
| Salaries | 8,734,195 | 6,807,364 | 16,912,893 | 13,320,207 |
| Provision for loan losses and loss reserve | 716,001 | 1,097,873 | 1,268,290 | 1,500,347 |
| Costs related to funding mortgage loans | 2,039,365 | 1,800,348 | 3,646,600 | 3,160,652 |
| Other | 9,918,320 | 7,706,098 | 18,774,920 | 14,704,988 |
| Interest expense | 877,806 | 847,141 | 1,685,082 | 1,615,885 |
| Cost of goods and services sold-mortuaries and cemeteries | 502,558 | 392,812 | 1,002,172 | 870,983 |
| Total benefits and expenses | 56,862,769 | 51,491,833 | 108,487,380 | 96,486,464 |
| **Earnings before income taxes** | 4,469,520 | 5,036,377 | 7,697,143 | 7,364,969 |
| Income tax expense | (1,670,275) | (1,443,345) | (2,864,632) | (2,109,754) |
| **Net earnings** | $ 2,799,245 | $ 3,593,032 | $ 4,832,511 | $ 5,255,215 |
| **Net earnings per Class A Equivalent common share (1)** | $ 0.25 | $ 0.36 | $ 0.44 | $ 0.52 |
| **Net earnings per Class A Equivalent common share-assuming dilution (1)** | $ 0.24 | $ 0.34 | $ 0.41 | $ 0.51 |
| Weighted-average Class A equivalent common share outstanding (1) | 11,046,283 | 10,059,155 | 10,991,303 | 10,036,975 |
| Weighted-average Class A equivalent common shares outstanding-assuming dilution (1) | 11,852,940 | 10,438,757 | 11,837,108 | 10,212,126 |

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

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net earnings | $ 2,799,245 | $ 3,593,032 | $ 4,832,511 | $ 5,255,215 |
| Other comprehensive income: | | | | |
| Net unrealized gains on derivative instruments | 761,683 | 1,273,757 | 183,036 | 1,923,850 |
| Net unrealized gains (losses) on available for sale securities | (70,279) | (313,677) | 132,942 | 16,160 |
| Other comprehensive income | 691,404 | 960,080 | 315,978 | 1,940,010 |
| Comprehensive income | $ 3,490,649 | $ 4,553,112 | $ 5,148,489 | $ 7,195,225 |

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

| | Class A Common Stock | Class C Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2011** | $ 19,277,596 | $ 2,027,195 | $ 19,487,565 | $ 654,443 | $ 22,546,623 | $ (2,762,835) | $ 61,230,587 |
| Net earnings | - | - | - | - | 5,255,215 | - | 5,255,215 |
| Other comprehensive income | - | - | - | 1,940,010 | - | - | 1,940,010 |
| Grant of stock options | - | - | 94,436 | - | - | - | 94,436 |
| Sale of treasury stock | - | - | (98,025) | - | - | 256,956 | 158,931 |
| **Balance at June 30, 2012** | $ 19,277,596 | $ 2,027,195 | $ 19,483,976 | $ 2,594,453 | $ 27,801,838 | $ (2,505,879) | $ 68,679,179 |
| | | | | | | | |
| **Balance at December 31, 2012** | $ 21,687,152 | $ 2,194,820 | $ 21,262,140 | $ 1,934,359 | $ 35,114,072 | $ (2,380,434) | $ 79,812,109 |
| Net earnings | - | - | - | - | 4,832,511 | - | 4,832,511 |
| Other comprehensive income | - | - | - | 315,978 | - | - | 315,978 |
| Grant of stock options | - | - | 62,589 | - | - | - | 62,589 |
| Exercise of stock options | 265,842 | 422,422 | 104,185 | - | - | (543,334) | 249,115 |
| Sale of treasury stock | - | - | 175,956 | - | - | 68,314 | 244,270 |
| Stock Dividends | (200) | | (526) | | 726 | | - |
| Conversion Class C to Class A | 83,246 | (83,245) | (1) | - | - | - | - |
| **Balance at June 30, 2013** | $ 22,036,040 | $ 2,533,997 | $ 21,604,343 | $ 2,250,337 | $ 39,947,309 | $ (2,855,454) | $ 85,516,572 |

See accompanying notes to condensed consolidated financial statements.

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

| | Six Months Ended June 30 | |
|---|---|---|
| | 2013 | 2012 |
| **Cash flows from operating activities:** | | |
| Net cash provided by operating activities | $ 38,831,002 | $ 24,431,101 |
| **Cash flows from investing activities:** | | |
| Securities held to maturity: | | |
| Purchase-fixed maturity securities | (16,912,365) | (7,752,826) |
| Calls and maturities - fixed maturity securities | 3,280,582 | 3,705,012 |
| Securities available for sale: | | |
| Purchase - equity securities | (1,675,032) | (887,917) |
| Sales - equity securities | 2,364,674 | 1,445,020 |
| Purchase of short-term investments | (12,231,659) | (6,579,805) |
| Sales of short-term investments | 35,530,778 | 7,949,783 |
| Purchase of restricted assets | (7,394,335) | 2,120,188 |
| Changes in assets for perpetual care trusts | (127,947) | (139,322) |
| Amount received for perpetual care trusts | 53,175 | 82,529 |
| Mortgage, policy, and other loans made | (64,547,421) | (55,936,935) |
| Payments received for mortgage, policy and other loans | 59,009,716 | 62,940,253 |
| Purchase of property and equipment | (1,570,456) | (1,191,210) |
| Disposal of property and equipment | - | 14,768 |
| Purchase of real estate | (15,590,263) | (55,682) |
| Sale of real estate | 1,119,467 | 366,720 |
| Cash paid for purchase of subsidiaries, net of cash received | - | (180,591) |
| Net cash provided by (used in) investing activities | (18,691,086) | 5,899,985 |
| **Cash flows from financing activities:** | | |
| Annuity contract receipts | 4,686,903 | 4,388,970 |
| Annuity contract withdrawals | (7,837,924) | (6,748,612) |
| Proceeds from stock options exercised | 249,115 | - |
| Repayment of bank loans on notes and contracts | (1,128,159) | (772,358) |
| Proceeds from borrowing on bank loans | 4,733,975 | - |
| Change in line of credit borrowings | (4,608,204) | 3,600,000 |
| Net cash provided by (used in) financing activities | (3,904,294) | 468,000 |
| **Net change in cash and cash equivalents** | 16,235,622 | 30,799,086 |
| Cash and cash equivalents at beginning of period | 33,494,284 | 11,671,773 |
| **Cash and cash equivalents at end of period** | $ 49,729,906 | $ 42,470,859 |
| **Non Cash Investing and Financing Activities** | | |
| Mortgage loans foreclosed into real estate | $ 1,939,002 | $ 11,527,488 |

See accompanying notes to condensed consolidated financial statements.

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, 2012, 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 six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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 2012 amounts have been reclassified to bring them into conformity with the 2013 presentation.

2) Recent Accounting Pronouncements

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

Presentation of Comprehensive Income - On February 5, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which requires an entity to report, either on the face of the statement where net income is presented or in the notes, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance in ASU 2013-02 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this guidance did not have a material impact on the Company’s results of operations or financial position.

3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of June 30, 2013 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| June 30, 2013: | | | | |
| Fixed maturity securities held to maturity carried at amortized cost: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies | $ 2,593,565 | $ 384,329 | $ (730) | $ 2,977,164 |
| Obligations of states and political subdivisions | 2,081,217 | 217,749 | (10,076) | 2,288,890 |
| Corporate securities including public utilities | 132,242,394 | 11,345,205 | (1,232,902) | 142,354,697 |
| Mortgage-backed securities | 5,290,909 | 290,614 | (10,230) | 5,571,293 |
| Redeemable preferred stock | 687,118 | 45,804 | (1,400) | 731,522 |
| Total fixed maturity securities held to maturity | $ 142,895,203 | $ 12,283,701 | $ (1,255,338) | $ 153,923,566 |

3) Investments (Continued)

| June 30, 2013: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Equity securities available for sale at estimated fair value: | | | | |
| Common stock: | | | | |
| Industrial, miscellaneous and all other | $ 5,614,466 | $ 341,538 | $ (865,510) | $ 5,090,494 |
| Total equity securities available for sale at estimated fair value | $ 5,614,466 | $ 341,538 | $ (865,510) | $ 5,090,494 |
| Mortgage loans on real estate and construction loans held for investment at amortized cost: | | | | |
| Residential | $ 48,095,617 | | | |
| Residential construction | 1,546,577 | | | |
| Commercial | 35,309,814 | | | |
| Less: Allowance for loan losses | (4,413,927) | | | |
| Total mortgage loans on real estate and construction loans held for investment | $ 80,538,081 | | | |
| Real estate held for investment - net of depreciation | $ 27,300,608 | | | |
| Other real estate owned held for investment - net of depreciation | 61,235,783 | | | |
| Other real estate owned held for sale | - | | | |
| Total real estate | $ 88,536,391 | | | |
| Policy and other loans at amortized cost - net of allowance for doubtful accounts | $ 19,207,592 | | | |
| Short-term investments at amortized cost | $ 17,626,271 | | | |

During the first quarter 2013, the Company reclassified its Other real estate owned held for sale to Other real estate owned held for investment. The properties are now being depreciated and are held as rental properties and are not listed for sale.

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2012 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| December 31, 2012: | | | | |
| Fixed maturity securities held to maturity carried at amortized cost: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies | $ 2,602,589 | $ 514,572 | $ - | $ 3,117,161 |
| Obligations of states and political subdivisions | 2,040,277 | 285,241 | (3,982) | 2,321,536 |
| Corporate securities including public utilities | 118,285,147 | 16,230,468 | (607,322) | 133,908,293 |
| Mortgage-backed securities | 5,010,519 | 327,871 | (76,056) | 5,262,334 |
| Redeemable preferred stock | 1,510,878 | 98,087 | (1,200) | 1,607,765 |
| Total fixed maturity securities held to maturity | $ 129,449,410 | $ 17,456,239 | $ (688,560) | $ 146,217,089 |

3) Investments (Continued)

| December 31, 2012: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Equity securities available for sale at estimated fair value: | | | | |
| Non-redeemable preferred stock | $ 20,281 | $ - | $ (1,486) | $ 18,795 |
| Common stock: | | | | |
| Industrial, miscellaneous and all other | 6,047,474 | 309,752 | (970,909) | 5,386,317 |
| Total equity securities available for sale at estimated fair value | $ 6,067,755 | $ 309,752 | $ (972,395) | $ 5,405,112 |
| Mortgage loans on real estate and construction loans held for investment at amortized cost: | | | | |
| Residential | $ 50,584,923 | | | |
| Residential construction | 3,161,112 | | | |
| Commercial | 34,956,031 | | | |
| Less: Allowance for loan losses | (4,239,861) | | | |
| Total mortgage loans on real estate and construction loans held for investment | $ 84,462,205 | | | |
| Real estate held for investment - net of depreciation | $ 3,543,751 | | | |
| Other real estate owned held for investment - net of depreciation | 55,027,669 | | | |
| Other real estate owned held for sale | 5,682,610 | | | |
| Total real estate | $ 64,254,030 | | | |
| Policy and other loans at amortized cost - net of allowance for doubtful accounts | $ 20,188,516 | | | |
| Short-term investments at amortized cost | $ 40,925,390 | | | |

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at June 30, 2013 and December 31, 2012. 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 June 30, 2013 | | | | | |
| Obligations of states and political subdivisions | $ 7,729 | 2 | $ 2,347 | 1 | $ 10,076 |
| U.S. Treasury Securities And Obilgations of U.S. Government Agencies | $ 730 | 1 | | | 730 |
| Corporate securities including public utilities | 1,009,999 | 65 | 222,903 | 4 | 1,232,902 |
| Mortgage-backed securities | 26 | 1 | 10,204 | 1 | 10,230 |
| Redeemable preferred stock | 1,400 | 1 | - | 0 | 1,400 |
| Total unrealized losses | $ 1,019,884 | 70 | $ 235,454 | 6 | $ 1,255,338 |
| Fair Value | $ 24,070,395 | | $ 1,335,927 | | $ 25,406,322 |

As of June 30, 2013, the average market value of the related fixed maturities was 95.3% of amortized cost and the average market value was 92.6% of amortized cost as of December 31, 2012. During the six months ended June 30, 2013 and 2012 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $60,000 and $90,000, respectively.

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

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 June 30, 2013 and December 31, 2012. 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 June 30, 2013 | | | | | |
| Industrial, miscellaneous and all other | $ 159,125 | 32 | $ 706,385 | 38 | $ 865,510 |
| Total unrealized losses | $ 159,125 | 32 | $ 706,385 | 38 | $ 865,510 |
| Fair Value | $ 1,295,661 | | $ 1,194,695 | | $ 2,490,356 |
| | | | | | |
| At December 31, 2012 | | | | | |
| Non-redeemable preferred stock | $ 686 | 1 | $ 800 | 1 | $ 1,486 |
| Industrial, miscellaneous and all other | 236,293 | 39 | 734,616 | 44 | 970,909 |
| Total unrealized losses | $ 236,979 | 40 | $ 735,416 | 45 | $ 972,395 |
| Fair Value | $ 1,422,436 | | $ 1,493,538 | | $ 2,915,974 |

As of June 30, 2013, the average market value of the equity securities available for sale was 74.2% of the original investment and the average market value was 75.0% of the original investment as of December 31, 2012. 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 six months ended June 30, 2013 and 2012, there was no other than temporary decline in fair value.

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

The 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 June 30, 2013, 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.

3) Investments (Continued)

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Held to Maturity: | | |
| Due in 2013 | $ 1,452,716 | $ 1,470,386 |
| Due in 2014 through 2017 | 20,953,006 | 22,670,126 |
| Due in 2018 through 2022 | 45,701,322 | 50,130,774 |
| Due after 2022 | 68,810,132 | 73,349,465 |
| Mortgage-backed securities | 5,290,909 | 5,571,293 |
| Redeemable preferred stock | 687,118 | 731,522 |
| Total held to maturity | $ 142,895,203 | $ 153,923,566 |

The amortized cost and estimated fair value of available for sale securities at June 30, 2013, 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 2013 | $ - | $ - |
| Due in 2014 through 2017 | - | - |
| Due in 2018 through 2022 | - | - |
| Due after 2022 | - | - |
| Non-redeemable preferred stock | - | - |
| Common stock | 5,614,466 | 5,090,494 |
| Total available for sale | $ 5,614,466 | $ 5,090,494 |

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Fixed maturity securities held to maturity: | | | | |
| Gross realized gains | $ 2,512 | $ 129,651 | $ 15,404 | $ 137,255 |
| Gross realized losses | (9,693) | - | (15,168) | (334) |
| Other than temporary impairments | (30,000) | (45,000) | (60,000) | (90,000) |
| | | | | |
| Securities available for sale: | | | | |
| Gross realized gains | 105,426 | 15,372 | 239,382 | 152,580 |
| Gross realized losses | (1,942) | - | (2,678) | (5,705) |
| Other than temporary impairments | - | - | | |
| | | | | |
| Other assets: | | | | |
| Gross realized gains | 35,034 | 54,583 | 745,820 | 86,870 |
| Gross realized losses | 8,845 | (12,680) | | (12,680) |
| Other than temporary impairments | (115,922) | - | (115,922) | |
| Total | $ (5,740) | $ 141,926 | $ 806,838 | $ 267,986 |

The net carrying amount of held to maturity securities sold was $505,976 and $2,174,300 for the six months ended June 30, 2013 and the year ended December 31, 2012, respectively.  The net realized gain related to these sales was $1,524 and $271,364 for the six months ended June 30, 2013 and the year ended December 31, 2012, respectively. Certain circumstances lead to these decisions to sell. In 2013 and 2012, the Company sold certain held to maturity bonds in gain positions to reduce its risk in certain industries or companies.

3) Investments (Continued)

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 June 30, 2013, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Fixed maturity securities | $ 2,056,804 | $ 1,943,272 | $ 4,009,843 | $ 3,853,617 |
| Equity securities | 38,729 | 68,146 | 104,489 | 131,723 |
| Mortgage loans on real estate | 1,011,446 | 1,491,924 | 2,051,221 | 3,091,896 |
| Real estate | 1,363,662 | 1,249,142 | 2,441,324 | 2,343,277 |
| Policy and other loans | 196,096 | 189,947 | 399,231 | 418,275 |
| Short-term investments, principally gains on sale of mortgage loans and other | 2,371,299 | 2,006,325 | 4,578,893 | 4,043,731 |
| Gross investment income | 7,038,036 | 6,948,756 | 13,585,001 | 13,882,519 |
| Investment expenses | (2,011,992) | (1,383,384) | (3,557,940) | (2,732,101) |
| Net investment income | $ 5,026,044 | $ 5,565,372 | $ 10,027,061 | $ 11,150,418 |

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of $166,009 and $168,989 for six months ended June 30, 2013 and 2012, 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 $9,186,316 at June 30, 2013 and $9,190,012 at December 31, 2012. 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 June 30, 2013, the Company had 29%, 27%, 12% and 10% of its mortgage loans from borrowers located in the states of Utah, California, Texas 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 $4,413,927 and $4,239,861 at June 30, 2013 and December 31, 2012, respectively.

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

3) Investments (Continued)

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 |
|---|---|---|---|---|
| **June 30, 2013** | | | | |
| Allowance for credit losses: | | | | |
| Beginning balance - January 1, 2013 | $ - | $ 4,193,674 | $ 46,187 | $ 4,239,861 |
| Charge-offs | - | (116,808) | - | (116,808) |
| Provision | 187,129 | (87,811) | 191,556 | 290,874 |
| Ending balance -June 30, 2013 | $ 187,129 | $ 3,989,055 | $ 237,743 | $ 4,413,927 |
| Ending balance: individually evaluated for impairment | $ - | $ 638,689 | $ 137,629 | $ 776,318 |
| Ending balance: collectively evaluated for impairment | $ 187,129 | $ 3,350,366 | $ 100,114 | $ 3,637,609 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - |
| Mortgage loans: | | | | |
| Ending balance | $ 35,309,814 | $ 48,095,617 | $ 1,546,577 | $ 84,952,008 |
| Ending balance: individually evaluated for impairment | $ - | $ 3,224,378 | $ 226,629 | $ 3,451,007 |
| Ending balance: collectively evaluated for impairment | $ 35,309,814 | $ 44,871,239 | $ 1,319,948 | $ 81,501,001 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - |
| **December 31, 2012** | | | | |
| Allowance for credit losses: | | | | |
| Beginning balance - January 1, 2012 | $ - | $ 4,338,805 | $ 542,368 | $ 4,881,173 |
| Charge-offs | - | (560,699) | (514,442) | (1,075,141) |
| Provision | - | 415,568 | 18,261 | 433,829 |
| Ending balance - December 31, 2012 | $ - | $ 4,193,674 | $ 46,187 | $ 4,239,861 |
| Ending balance: individually evaluated for impairment | $ - | $ 692,199 | $ - | $ 692,199 |
| Ending balance: collectively evaluated for impairment | $ - | $ 3,501,475 | $ 46,187 | $ 3,547,662 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - |
| Mortgage loans: | | | | |
| Ending balance | $ 34,956,031 | $ 50,584,923 | $ 3,161,112 | $ 88,702,066 |
| Ending balance: individually evaluated for impairment | $ - | $ 4,692,517 | $ 1,346,126 | $ 6,038,643 |
| Ending balance: collectively evaluated for impairment | $ 34,956,031 | $ 45,892,406 | $ 1,814,986 | $ 82,663,423 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - |

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 Mortgage Loans |
|---|---|---|---|---|---|---|---|---|---|
| **June 30, 2013** | | | | | | | | | |
| Commercial | $ - | $ 327,608 | $ 143,252 | $ - | $ 470,860 | $34,838,954 | $35,309,814 | $ (187,129) | $35,122,685 |
| Residential | 3,758,237 | 255,547 | 7,317,706 | 3,224,378 | 14,555,868 | 33,539,749 | 48,095,617 | (3,989,055) | 44,106,562 |
| Residential Construction | - | - | 64,895 | 226,629 | 291,524 | 1,255,053 | 1,546,577 | (237,743) | 1,308,834 |
| Total | $3,758,237 | $ 583,155 | $7,525,853 | $ 3,451,007 | $15,318,252 | $69,633,756 | $84,952,008 | $(4,413,927) | $80,538,081 |
| **December 31, 2012** | | | | | | | | | |
| Commercial | $ 581,984 | $ - | $ 143,252 | $ - | $ 725,236 | $34,230,795 | $34,956,031 | $ - | $34,956,031 |
| Residential | 2,963,259 | 1,345,247 | 5,208,742 | 4,692,517 | 14,209,765 | 36,375,158 | 50,584,923 | (4,193,674) | 46,391,249 |
| Residential Construction | - | - | 288,468 | 1,346,126 | 1,634,594 | 1,526,518 | 3,161,112 | (46,187) | 3,114,925 |
| Total | $3,545,243 | $1,345,247 | $5,640,462 | $ 6,038,643 | $16,569,595 | $72,132,471 | $88,702,066 | $(4,239,861) | $84,462,205 |

(1) Interest income is not recognized on loans past due greater than 90 days or in foreclosure.

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 |
|---|---|---|---|---|---|
| **June 30, 2013** | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial | $ 143,252 | $ 143,252 | $ - | $ 143,252 | $ - |
| Residential | 7,317,706 | 7,317,706 | - | 7,317,706 | - |
| Residential construction | 64,895 | 64,895 | - | 64,895 | - |
| With an allowance recorded: | | | | | |
| Commercial | $ - | $ - | $ - | $ - | $ - |
| Residential | 3,224,378 | 3,224,378 | 638,689 | 3,224,378 | - |
| Residential construction | 226,629 | 226,629 | 137,629 | 226,629 | - |
| Total: | | | | | |
| Commercial | $ 143,252 | $ 143,252 | $ - | $ 143,252 | $ - |
| Residential | 10,542,084 | 10,542,084 | 638,689 | 10,542,084 | - |
| Residential construction | 291,524 | 291,524 | 137,629 | 291,524 | - |
| **December 31, 2012** | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial | $ 143,252 | $ 143,252 | $ - | $ 143,252 | $ - |
| Residential | 5,208,742 | 5,208,742 | - | 5,208,742 | - |
| Residential construction | 1,634,594 | 1,634,594 | - | 1,634,594 | - |
| With an allowance recorded: | | | | | |
| Commercial | $ - | $ - | $ - | $ - | $ - |
| Residential | 4,692,517 | 4,692,517 | 692,199 | 4,692,517 | - |
| Residential construction | - | - | - | - | - |
| Total: | | | | | |
| Commercial | $ 143,252 | $ 143,252 | $ - | $ 143,252 | $ - |
| Residential | 9,901,259 | 9,901,259 | 692,199 | 9,901,259 | - |
| Residential construction | 1,634,594 | 1,634,594 | - | 1,634,594 | - |

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** | |
|---|---|---|---|---|---|---|---|---|
| | **June 30, 2013** | **December 31, 2012** | **June 30, 2013** | **December 31, 2012** | **June 30, 2013** | **December 31, 2012** | **June 30, 2013** | **December 31, 2012** |
| Performing | $35,166,562 | $34,812,779 | $37,553,533 | $40,683,664 | $1,255,053 | $1,526,518 | $73,975,148 | $77,022,961 |
| Nonperforming | 143,252 | 143,252 | 10,542,084 | 9,901,259 | 291,524 | 1,634,594 | 10,976,860 | 11,679,105 |
| Total | $35,309,814 | $34,956,031 | $48,095,617 | $50,584,923 | $1,546,577 | $3,161,112 | $84,952,008 | $88,702,066 |

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 $1,750,608 and $1,925,000 as of June 30, 2013 and December 31, 2012, respectively.

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

| | **Mortgage Loans on Nonaccrual Status** | |
|---|---|---|
| | As of June 30 2013 | As of December 31 2012 |
| Commercial | $ 143,252 | $ 143,252 |
| Residential | 10,542,084 | 9,901,259 |
| Residential construction | 291,524 | 1,634,594 |
| Total | $ 10,976,860 | $ 11,679,105 |

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 June 30 2013 | As of December 31 2012 |
|---|---|---|
| Balance, beginning of period | $ 6,035,295 | $ 2,337,875 |
| Provisions for losses | 1,180,908 | 4,053,051 |
| Charge-offs | (555,802) | (355,631) |
| Balance, end of period | $ 6,660,401 | $ 6,035,295 |

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

4) 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 $9,620 and $47,218 has been recognized for these plans for the quarters ended June 30, 2013 and 2012, respectively, and $62,589 and $94,436 for the six months ended June 30, 2013 and 2012, respectively.

Options to purchase 5,000 shares of the Company’s common stock were granted December 7, 2012. The fair value relating to stock-based compensation is $15,920 and will be expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 7, 2013.

Options to purchase 342,000 shares of the Company’s common stock were granted April 13, 2012. The fair value relating to stock-based compensation is $219,881. These options have been expensed and are available to be exercised.

The weighted-average fair value of each option granted in 2012 under the 2006 Plan, is estimated at $3.18 for the December 7, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 5%, volatility of 73.89%, risk-free interest rate of 0.70%, and an expected term of 5.31 years.

The weighted-average fair value of each option granted in 2012 under the 2003 Plan and the 2006 Plan, is estimated at $0.66 for the April 13, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 5%, volatility of 72.58%, risk-free interest rate of 1.04%, and an expected term of 5.32 years, respectively.

The Company generally estimates the expected life of the options based upon the contractual term of the options adjusted for actual experience. Future volatility is estimated based upon the a weighted historical volatility of the Company’s Class A common stock and three peer company stocks 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.

4) Stock Based Compensation (Continued)

A summary of the status of the Company's stock incentive plans as of June 30, 2013, and the changes during the six months ended June 30, 2013, is presented below:

| | Number of Class A Shares | Weighted Average Exercise Price | Number of Class C Shares(1) | Weighted Average Exercise Price(1) |
|---|---|---|---|---|
| Outstanding at January 1, 2013 | 972,253 | $ 2.07 | 5,838,505 | $ 2.18 |
| Granted | - | - | - | - |
| Exercised | (138,537) | 2.18 | (1,906,022) | 2.24 |
| Cancelled | (76,032) | 3.36 | (638,138) | 3.33 |
| Outstanding at June 30, 2013 | 757,684 | $ 1.97 | 3,294,345 | $ 1.78 |
| | | | | |
| As of June 30, 2013: | | | | |
| Options Exercisable | 757,684 | $ 1.97 | 3,294,345 | $ 1.78 |
| Weighted average contractual term of options outstanding at June 30, 2013 | 3.98 years | | 2.12 years | |
| Weighted average contractual term of options exercisable at June 30, 2013 | 3.98 years | | 2.12 years | |
| Aggregated intrinsic value of options outstanding at June 30, 2013 | $ 2,999,954 | | $ 1,363,863 | |
| Aggregated intrinsic value of options exercisable at June 30, 2013 | $ 2,999,954 | | $ 1,363,863 | |

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

The total intrinsic value (which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date) of stock options exercised during the six months ended June 30, 2013 and 2012 was $1,241,181 and $-0-, respectively.

5) 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.

6) Earnings Per Share

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Numerator: | | | | |
| Net earnings | $ 2,799,245 | $ 3,593,032 | $ 4,832,511 | $ 5,255,215 |
| Denominator: | | | | |
| Basic weighted-average shares outstanding | 11,046,283 | 10,059,155 | 10,991,303 | 10,036,975 |
| Effect of dilutive securities: | | | | |
| Employee stock options | 806,657 | 379,602 | 845,805 | 175,151 |
| Dilutive potential common shares | 806,657 | 379,602 | 845,805 | 175,151 |
| Diluted weighted-average shares outstanding | 11,852,940 | 10,438,757 | 11,837,108 | 10,212,126 |
| Basic net earnings per share | $ 0.25 | $ 0.36 | $ 0.44 | $ 0.52 |
| Diluted net earnings per share | $ 0.24 | $ 0.34 | $ 0.41 | $ 0.51 |

Net earnings per share amounts have been adjusted for the effect of annual stock dividends. For the three and six months ended June 30, 2013 and 2012, there were 5,250 and 1,178,207 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive.

7) 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 segment consists of loan 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, 2012. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

7) 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 June 30, 2013 | | | | | |
| Revenues from external customers | $ 16,797,489 | $ 3,380,560 | $ 41,154,240 | $ - | $ 61,332,289 |
| Intersegment revenues | 2,504,960 | 357,016 | 67,603 | (2,929,579) | - |
| Segment profit before income taxes | 440,822 | 107,601 | 3,921,097 | - | 4,469,520 |
| For the Three Months Ended June 30, 2012 | | | | | |
| Revenues from external customers | $ 17,481,537 | $ 2,730,517 | $ 36,316,156 | $ - | $ 56,528,210 |
| Intersegment revenues | 2,081,734 | 380,565 | 75,882 | (2,538,181) | - |
| Segment profit before income taxes | 2,054,297 | (77,463) | 3,059,543 | - | 5,036,377 |
| For the Six Months Ended June 30, 2013 | | | | | |
| Revenues from external customers | $ 34,041,381 | $ 6,360,591 | $ 75,782,551 | $ - | $116,184,523 |
| Intersegment revenues | 5,092,793 | 715,506 | 124,765 | (5,933,064) | - |
| Segment profit before income taxes | 1,255,153 | 184,366 | 6,257,624 | - | 7,697,143 |
| Identifiable Assets | 571,473,136 | 112,584,116 | 66,990,347 | (134,012,151) | 617,035,448 |
| Goodwill | 391,848 | 285,191 | - | - | 677,039 |
| For the Six Months Ended June 30, 2012 | | | | | |
| Revenues from external customers | $ 35,108,886 | $ 5,690,157 | $ 63,052,390 | $ - | $103,851,433 |
| Intersegment revenues | 4,160,833 | 757,558 | 151,289 | (5,069,680) | - |
| Segment profit before income taxes | 2,891,861 | 149,092 | 4,324,016 | - | 7,364,969 |
| Identifiable Assets | 520,595,067 | 112,435,625 | 40,261,098 | (119,681,252) | 553,610,538 |
| Goodwill | 391,848 | 285,191 | - | - | 677,039 |

8) 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.

8) 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.

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

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

In addition to this analysis performed by the Company, the Company depreciates Real Estate 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.

*Mortgage Servicing Rights*: The Company initially recognizes MSRs at their estimated fair values derived from the net cash flows associated with the servicing contracts, where the Company assumes the obligation to service the loan in the sale transaction. The precise fair value of MSRs cannot be readily determined because MSRs are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect the Company’s earnings.

8) 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 June 30, 2013.

| | 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** | | | | |
| Common stock | $ 5,090,494 | $ 5,090,494 | $ - | $ - |
| Total securities available for sale | 5,090,494 | 5,090,494 | - | - |
| Restricted assets of cemeteries and mortuaries | 626,320 | 626,320 | - | - |
| Cemetery perpetual care trust investments | 658,073 | 658,073 | - | - |
| Derivatives - interest rate lock commitments | 4,400,432 | - | - | 4,400,432 |
| **Total assets accounted for at fair value on a recurring basis** | $ 10,775,319 | $ 6,374,887 | $ - | $ 4,400,432 |
| **Liabilities accounted for at fair value on a recurring basis** | | | | |
| Policyholder account balances | $ (48,843,514) | $ - | $ - | $ (48,843,514) |
| Future policy benefits - annuities | (62,831,055) | - | - | (62,831,055) |
| Derivatives - bank loan interest rate swaps | (71,771) | - | - | (71,771) |
| - call options | (159,419) | (159,419) | - | - |
| - interest rate lock commitments | (919,756) | - | - | (919,756) |
| **Total liabilities accounted for at fair value on a recurring basis** | $ (112,825,515) | $ (159,419) | $ - | $ (112,666,096) |

8) 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, 2012 | $ (49,746,337) | $ (65,171,687) | $ 2,961,465 | $ (93,572) |
| Total gains (losses): | | | | |
| Included in earnings | 902,823 | 2,340,632 | - | - |
| Included in other comprehensive income (loss) | - | - | 519,211 | 21,801 |
| Balance - June 30, 2013 | $ (48,843,514) | $ (62,831,055) | $ 3,480,676 | $ (71,771) |

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 June 30, 2013.

| | 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** | | | | |
| Mortgage servicing rights | $ 1,431,733 | - | - | $ 1,431,733 |
| Mortgage loans on real estate | 89,300 | - | - | 89,300 |
| Other real estate owned held for investment | 660,784 | - | - | 660,784 |
| **Total assets accounted for at fair value on a nonrecurring basis** | $ 2,181,817 | $ - | $ - | $ 2,181,817 |

8) 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, 2012.

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets accounted for at fair value on a recurring basis** | | | | |
| Non-redeemable preferred stock | $ 18,795 | $ 18,795 | $ - | $ - |
| Common stock | 5,386,317 | 5,386,317 | - | - |
| Total securities available for sale | 5,405,112 | 5,405,112 | - | - |
| Restricted assets of cemeteries and mortuaries | 585,412 | 585,412 | - | - |
| Cemetery perpetual care trust investments | 626,048 | 626,048 | - | - |
| Derivatives - interest rate lock commitments | 3,127,689 | - | - | 3,127,689 |
| **Total assets accounted for at fair value on a recurring basis** | $ 9,744,261 | $ 6,616,572 | $ - | $ 3,127,689 |
| **Liabilities accounted for at fair value on a recurring basis** | | | | |
| Policyholder account balances | $ (49,746,337) | $ - | $ - | $ (49,746,337) |
| Future policy benefits - annuities | (65,171,687) | - | - | (65,171,687) |
| Derivatives - bank loan interest rate swaps | (93,572) | - | - | (93,572) |
| - call options | (126,215) | (126,215) | - | - |
| - interest rate lock commitment | (166,224) | - | - | (166,224) |
| **Total liabilities accounted for at fair value on a recurring basis** | $ (115,304,035) | $ (126,215) | $ - | $ (115,177,820) |

Following is a summary of changes in the condensed 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, 2011 | $ (50,926,020) | $ (65,281,586) | $ 1,694,541 | $ (117,812) |
| Total gains (losses): | | | | |
| Included in earnings | 1,179,683 | 109,899 | - | - |
| Included in other comprehensive income | - | - | 1,266,924 | 24,240 |
| Balance - December 31, 2012 | $ (49,746,337) | $ (65,171,687) | $ 2,961,465 | $ (93,572) |

8) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2012.

| | **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** | | | | |
| Mortgage servicing rights | $ 2,797,470 | - | - | $ 2,797,470 |
| Mortgage loans on real estate | 4,621,500 | - | - | 4,621,500 |
| Other real estate owned held for investment | 985,219 | - | - | 985,219 |
| **Total assets accounted for at fair value on a nonrecurring basis** | $ 8,404,189 | $ - | $ - | $ 8,404,189 |

9) Other Business Activity

**Mortgage Operations**

Approximately 67% of the Company's revenues and expenses for the six months ended June 30, 2013 were through its wholly owned subsidiary, SecurityNational Mortgage Company ("SecurityNational Mortgage"). SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life Insurance Company ("Security National Life"), and with unaffiliated financial institutions.

SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and retains servicing on some of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through or originated by SecurityNational Mortgage. For the six months ended June 30, 2013 and 2012, SecurityNational Mortgage originated and sold 6,292 loans ($1,180,674,000 total volume) and 5,740 loans ($1,034,903,000 total volume), respectively.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks. On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to $55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage of up to 90% of the purchase price of the loans. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from $55,000,000 to $75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. ("UBS") entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to $30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from $30,000,000 to $40,000,000.

SecurityNational Mortgage originates mortgage loans funded by the warehouse banks and immediately sells them to third party investors. Generally, when mortgage loans are sold to the warehouse banks, SecurityNational Mortgage is no longer obligated to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date the loans are sold to warehouse banks and the settlement date with the third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30-day LIBOR rate.

9) Other Business Activity (Continued)

Key accounting policies related to mortgage operations are as follows:

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

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

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

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

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

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

Mortgage Servicing Rights are initially recognized at their estimated fair values derived from the net cash flows associated with the servicing contracts, where the Company assumes the obligation to service the loan in the sale transaction. The precise fair value of MSRs cannot be readily determined because MSRs are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect the Company's earnings. After being initially recorded at fair value, MSRs backed by mortgage loans are accounted for using the amortization method. The Company also periodically assesses MSRs for impairment. If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance.

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria are as follows: (i) the transferred assets have been isolated from SecurityNational Mortgage and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) SecurityNational Mortgage does not maintain effective control over the transferred mortgage.

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of June 30, 2013, there were $143,731,000 in mortgage loans in which settlements with third party investors were still pending.

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

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

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage’s historical data shows that 99% of all loans originated are ordinarily settled by the investors as agreed within 16 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

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

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

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

<u>Determining lower of cost or market</u>. Cost is equal to the amount paid to the warehouse bank and the amount originally funded by SecurityNational Mortgage. Market value, while often difficult to determine, is based on the following guidelines:

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

The appraised value of the real estate underlying the original mortgage loan adds support to SecurityNational Mortgage’s determination of fair value because, if the loan becomes delinquent, SecurityNational Mortgage has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, SecurityNational Mortgage considers the total value of all of the loans because any sale of loans would be made as a pool.

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

10) Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with generally accepted accounting principles.

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

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in Note 3 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company, does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed, the carrying value will approximate its fair value and the amount is classified as other real estate owned held for investment. The Company will rent the properties until it is deemed desirable to sell them.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors.

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

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

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

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

Additional information related to the Loan Loss Reserve is included in Note 3.

11) Derivative Commitments

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

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

11) Derivative Commitments (Continued)

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

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

The Company has adopted a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for call options is adjusted to fair value at each reporting date. The fair value of outstanding call options as of June 30, 2013 and December 31, 2012 was $159,419 and $126,215, respectively. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option and retains the underlying equity security.

The following table shows the fair value of derivatives as of June 30, 2013 and December 31, 2012.

**Fair Value of Derivative Instruments**

| | Asset Derivatives | | | | Liability Derivatives | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2013 | | December 31, 2012 | | June 30, 2013 | | December 31, 2012 | |
| | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Interest rate lock and forward sales commitments | other assets | $ 4,400,432 | other assets | $ 3,127,689 | Other liabilities | $ 919,756 | Other liabilities | $ 166,224 |
| Call Options | -- | -- | -- | -- | Other liabilities | 159,419 | Other liabilities | 126,215 |
| Interest rate swaps | -- | -- | -- | -- | Bank loans payable | 71,771 | Bank loans payable | 93,572 |
| Total | | $ 4,400,432 | | $ 3,127,689 | | $ 1,150,946 | | $ 386,011 |

11) Derivative Commitments (Continued)

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

| | **Net Amount Gain (Loss) Recognized in OCI** | | **Net Amount Gain (Loss) Recognized in OCI** | |
|---|---|---|---|---|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| Derivative - Cash Flow Hedging Relationships: | 2013 | 2012 | 2013 | 2012 |
| Interest Rate Lock Commitments | $ 1,234,935 | $ 1,928,111 | $ 519,211 | $ 2,904,891 |
| Interest Rate Swaps | 12,685 | 2,058 | 21,801 | 10,033 |
| Sub Total | 1,247,620 | 1,930,169 | 541,012 | 2,914,924 |
| Tax Effect | 485,937 | 656,412 | 357,976 | 991,074 |
| Total | $ 761,683 | $ 1,273,757 | $ 183,036 | $ 1,923,850 |

12) Reinsurance, Commitments and Contingencies

Reinsurance with Mothe Life Insurance Company and DLE Life Insurance Company

On December 19, 2012, the Company, through its wholly owned subsidiary, Security National Life, entered into a Coinsurance Agreement with Mothe Life Insurance Company, a Louisiana domiciled insurance company, and a subsidiary, DLE Life Insurance Company, also a Louisiana domiciled life insurance company (collectively referred to as “Mothe Life”). The effective date of the Coinsurance Agreement was November 1, 2012. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of Mothe Life in exchange for the settlement amount of $34,485,000. In addition, the Coinsurance Agreement provides that effective November 1, 2012, Mothe Life ceded and transferred to Security National Life, and Security National Life accepted and coinsured all of Mothe Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. On December 18, 2012, the Louisiana Department of Insurance approved the Coinsurance Agreement.

The Coinsurance Agreement further provides that on and after the effective date of November 1, 2012, Security National Life is entitled to exercise all contractual rights of Mothe Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of December 19, 2012, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a Service Agreement between Security National Life and Mothe Life. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to Mothe Life in the amount of $4,684,000. As a result of the ceding commission, Mothe Life transferred $34,485,000 in assets and $39,169,000 in statutory reserves, or liabilities, to Security National Life.

**Mortgage Loan Loss Settlements**

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company’s reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended June 30, 2013 and 2012 were $644,000 and $1,090,000, respectively, and for the six months ended June 30, 2013 and 2012, were $1,181,000 and $1,535,000 respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of June 30, 2013 and December 31, 2012, the balances were $6,660,000 and $6,035,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. (“Wells Fargo”). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party’s claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of $4,300,000.

12) Reinsurance Commitments and Contingencies (Continued)

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser, including Wells Fargo, and pay such amounts to Wells Fargo. SecurityNational Mortgage is additionally required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value of $5,264,000 as of June 30, 2013.

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

**Mortgage Loan Loss Demands**

Third Party Investors

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

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued $6,660,000 as of June 30, 2013 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors and believes it has significant defenses to these demands. If SecurityNational Mortgage is unable to resolve the alleged claims by the third party investors on acceptable terms, legal action may ensue. 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.

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. (“JP Morgan Chase”) on behalf of EMC Mortgage, LLC (“EMC Mortgage”), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

12) Reinsurance Commitments and Contingencies (Continued)

The indemnification notice from JP Morgan Chase further stated that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit the Trust has brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

**Mortgage Loan Loss Litigation**

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

12) Reinsurance Commitments and Contingencies (Continued)

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

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

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of $5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately $4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage’s motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage’s September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage’s motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court’s earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. The motion and cross motion are under advisement. SecurityNational Mortgage’s motion in the Lehman Holdings case has been reset for hearing on September 26, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of June 30, 2013, the Company’s commitments were $2,390,000 for these loans of which $1,547,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of June 30, 2013). Maturities range between six and twelve months.

12) Reinsurance Commitments and Contingencies (Continued)

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

13) Acquisitions

On August 31, 2011 the Company entered into a stock purchase agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company ("Trans-Western"), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. The Company completed the Stock Purchase Agreement on May 2, 2012. Purchase consideration paid was $494,207 which was the capital and surplus of Trans-Western at May 2, 2012. The Stock Purchase Agreement was approved by the Texas Insurance Department on March 20, 2012. All of Trans-Western's insurance business had been ceded to North America Life, of which approximately 47% of the insurance in force had been assumed by the Company under the Coinsurance Agreement explained in note 12. As part of the stock purchase agreement, the Company recaptured the 47% of insurance in force.

The estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition were as follows:

| | |
|---|---|
| Cash | $ 313,616 |
| Receivables, net | 186,487 |
| Receivable from reinsurers | 7,422,999 |
| Total assets acquired | 7,923,102 |
| Future life, annuity, and other benefits | (7,422,999) |
| Other liabilities and accrued expenses | (5,896) |
| Total liabilities assumed | (7,428,895) |
| Fair value of net assets acquired | $ 494,207 |

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of Trans-Western had occurred at the beginning of the six months periods ended June 30, 2013 and 2012. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

| | For the Three Months Ended June 30 (unaudited) | | For the Six Months Ended June 30 (unaudited) | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Total revenues | $ 61,332,289 | $ 56,529,818 | $ 116,184,523 | $ 103,859,760 |
| Net earnings | $ 2,799,245 | $ 3,593,272 | $ 4,832,511 | $ 5,256,652 |
| Net earnings per Class A equivalent common share | $ 0.25 | $ 0.36 | $ 0.44 | $ 0.55 |
| Net earnings per Class A equivalent common share assuming dilution | $ 0.24 | $ 0.34 | $ 0.41 | $ 0.54 |

14) Mortgage Servicing Rights

The following is a summary of the MSR activity for the periods presented.

| | As of June 30 2013 | As of December 31 2012 |
|---|---|---|
| Amortized cost: | | |
| Balance before valuation allowance at beginning of year | $ 2,797,470 | $ - |
| MSRs received as proceeds from loan sales | 1,431,733 | 2,797,470 |
| Amortization | (190,973) | - |
| Application of valuation allowance to write down MSRs with other than temporary impairment | - | - |
| Balance before valuation allowance at year end | $ 4,038,230 | $ 2,797,470 |
| Valuation allowance for impairment of MSRs: | | |
| Balance at beginning of year | $ - | $ - |
| Additions | - | - |
| Application of valuation allowance to write down MSRs with other than temporary impairment | - | - |
| Balance at year end | $ - | $ - |
| Mortgage servicing rights, net | $ 4,038,230 | $ 2,797,470 |
| Estimated fair value of MSRs at year end | $ 4,038,230 | $ 2,797,470 |

Amortization for 2012 was immaterial, and was not recorded. The following table summarizes the Company's estimate of future amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its June 30, 2013 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

| | Estimated MSR Amortization |
|---|---|
| 2013 | $ 403,823 |
| 2014 | 403,823 |
| 2015 | 403,823 |
| 2016 | 403,823 |
| 2017 | 403,823 |
| Thereafter | 2,019,115 |
| Total | $ 4,038,230 |

The Company began to retain MSRs in the second quarter of 2012. Since the retained MSRs were relatively small, they were determined to be immaterial. However, the Company substantially increased its MSR retention in the fourth quarter 2012 and began to report these MSRs pursuant to the accounting policy discussed in Note 9 of the Notes to Consolidated Financial Statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

***Overview***

The operations of Security National Financial Corporation ("the Company") over the last several years generally reflect three trends or events that the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole-life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on low interest rates by originating and refinancing mortgage loans.

**Results of Operations**

**Insurance Operations**

The Company's insurance business includes funeral plans, interest sensitive life insurance, as well as other traditional life and accident insurance, and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to $25,000. The Company believes that funeral plans represents a marketing niche where there is less competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person's death. On a per thousand dollar cost of insurance basis, these policies can be more expensive to the policy holder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the condensed financial results of the insurance operations for the three and six months ended June 30, 2013 and 2012. See the Note 7 to the Condensed Consolidated Financial Statements.

| | Three months ended June 30 (in thousands of dollars) | | | Six months ended June 30 (in thousands of dollars) | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | % Increase (Decrease) | 2013 | 2012 | % Increase (Decrease) |
| Revenues from external customers | | | | | | |
| Insurance premiums | $ 12,905 | $ 12,282 | 5% | $ 25,326 | $ 24,870 | 2% |
| Net investment income | 3,611 | 4,366 | (17%) | 7,452 | 8,719 | (15%) |
| Income from loan originations | 163 | 573 | (72%) | 248 | 1,042 | (76%) |
| Other | 118 | 261 | (55%) | 1,015 | 478 | 112% |
| Total | $ 16,797 | $ 17,482 | (4%) | $ 34,041 | $ 35,109 | (3%) |
| Intersegment revenue | $ 2,505 | $ 2,082 | 20% | $ 5,093 | $ 4,161 | 22% |
| Earnings before income taxes | $ 441 | $ 2,054 | (79%) | $ 1,255 | $ 2,892 | (57%) |

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in the six months ended June 30, 2013 has decreased due to a reduction in net investment income, a reduction in income from loan originations, which was offset by realized gains on investments and other assets from the sale of a real estate property, which is included in other income.

**Cemetery and Mortuary Operations**

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

The following table shows the condensed financial results of the Cemetery and Mortuary operations for the three and six months ended June 30, 2013 and 2012. See Note 7 to the Condensed Consolidated Financial Statements.

| | Three months ended March 31 (in thousands of dollars) | | | Six months ended June 30 (in thousands of dollars) | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | % Increase (Decrease) | 2013 | 2012 | % Increase (Decrease) |
| Revenues from external customers | | | | | | |
| Mortuary revenues | $ 1,316 | $ 1,011 | 30% | $ 2,666 | $ 2,400 | 11% |
| Cemetery revenues | 2,059 | 1,752 | 18% | 3,717 | 3,377 | 10% |
| Other | 6 | (32) | 119% | (22) | (87) | 75% |
| Total | $ 3,381 | $ 2,731 | 24% | $ 6,361 | $ 5,690 | 12% |
| Earnings before income taxes | $ 108 | $ (77) | 240% | $ 184 | $ 149 | 23% |

Included in other revenue is rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income is offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates has recorded depreciation on these properties of $262,000 and $258,000 for the three months ended June 30, 2013 and 2012, respectively and $522,000 and $517,000 for the six months ended June 30, 2013 and 2012, respectively..

**Mortgage Operations**

Overview

SecurityNational Mortgage Company ("SecurityNational Mortgage"), a wholly owned subsidiary of the Company, is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains mortgage loans primarily from its retail offices and independent brokers. The loans are funded from internal cash flows, including through loan purchase agreements with Security National Life Insurance Company ("Security National Life") and from unaffiliated financial institutions.

SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and retains servicing on some of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage.

For the six months ended June 30, 2013 and 2012, SecurityNational Mortgage originated and sold 6,292 loans ($1,180,674,000 total volume) and 5,740 loans ($1,034,903,000 total volume), respectively. The mortgage loan volume in 2013 has been higher than in 2012 primarily due to an increase in market share. The increase in market share was attributed to an expansion of the retail loan operations of SecurityNational Mortgage, including the opening of six additional mortgage offices for the six months ended June 30, 2013. SecurityNational Mortgage anticipates the loan volume for 2013 to be approximately $125,000,000 to $240,000,000 per month range compared to $80,000,000 to $150,000,000 per month range in 2012.

The following table shows the condensed financial results of the mortgage operations for the three and six months ended June 30, 2013 and 2012. See Note 7 to the Condensed Consolidated Financial Statements.

| | Three months ended June 30 (in thousands of dollars) | | | Six months ended June 30 (in thousands of dollars) | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | % Increase (Decrease) | 2013 | 2012 | % Increase (Decrease) |
| Revenues from external customers | | | | | | |
| Income from loan originations | $ 33,867 | $ 30,652 | 10% | $ 60,971 | $ 53,053 | 15% |
| Secondary gains from investors | 7,287 | 5,664 | 29% | 14,812 | 9,999 | 48% |
| Total | $ 41,154 | $ 36,316 | 13% | $ 75,783 | $ 63,052 | 20% |
| Earnings before income taxes | $ 3,921 | $ 3,060 | 28% | $ 6,258 | $ 4,324 | 45% |

Overall, this increase in profitability for the six months ended June 30, 2013 was due to the greater loan volume and increased secondary gains from third party investors.

Significant Accounting Policies

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks.  On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to $55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from $55,000,000 to $75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. ("UBS") entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to $30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from $30,000,000 to $40,000,000.

SecurityNational Mortgage originates mortgage loans funded by the warehouse banks and immediately sells them to third party investors. Generally, when mortgage loans are sold to the warehouse banks, SecurityNational Mortgage is no longer obligated to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date the loans are sold to warehouse banks and the settlement date with the third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30-day LIBOR rate.

Mortgage fee income consists of origination fees, processing fees, and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria are as follows: (i) the transferred assets have been isolated from SecurityNational Mortgage and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) SecurityNational Mortgage does not maintain effective control over the transferred mortgage.

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of June 30, 2013, there were $143,731,000 in mortgage loans in which settlements with third party investors were still pending.

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

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

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage's historical data shows that 99% of all loans originated are ordinarily settled by the investors as agreed within 16 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

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

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

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

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

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

The appraised value of the real estate underlying the original mortgage loan adds support to SecurityNational Mortgage's determination of fair value because, if the loan becomes delinquent, SecurityNational Mortgage has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, SecurityNational Mortgage considers the total value of all of the loans because any sale of loans would be made as a pool.

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

As of June 30, 2013, the Company's long term mortgage loan portfolio consisted of $10,977,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $3,451,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $10,977,000 in mortgage loans with delinquencies more than 90 days. During the six months ended June 30, 2013, the Company provided an allowance for mortgage losses of $291,000. This allowance for mortgage losses was charged to loan loss expense and included in selling, general and administrative expenses for the period. The ending balances of allowances for mortgage loan losses as of June 30, 2013 and December 31, 2012 were $4,414,000 and $4,239,000, respectively.

Also as of June 30, 2013, the Company had foreclosed on a total of $61,236,000 in long term mortgage loans, of which $1,939,000 of the loans foreclosed were reclassified as other real estate held for investment during 2013. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will lease or rent these properties until it is deemed economically desirable to sell them.

**Mortgage Loan Loss Settlements**

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended June 30, 2013 and 2012 were $644,000 and $1,090,000, respectively, and for the six months ended June 30, 2012 and 2011, were $1,181,000 and $1,535,000 respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of June 30, 2013 and December 31, 2012, the balances were $6,660,000 and $6,035,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of $4,300,000.

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser, including Wells Fargo, and pay such amounts to Wells Fargo. SecurityNational Mortgage is additionally required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value of $5,264,000 as of June 30, 2013.

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

**Mortgage Loan Loss Demands**

Third Party Investors

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

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued $6,660,000 as of June 30, 2013 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors and believes it has significant defenses to these demands. If SecurityNational Mortgage is unable to resolve the alleged claims by the third party investors on acceptable terms, legal action may ensue. 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.

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. ("JP Morgan Chase") on behalf of EMC Mortgage, LLC ("EMC Mortgage"), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the "Trust"), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further stated that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit the Trust has brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

**Mortgage Loan Loss Litigation**

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased 5from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. ("Lehman Holdings") claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

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

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

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of $5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately $4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage.  Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage’s motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage’s September 4, 2012 motion.  The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage’s motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court’s earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. The motion and cross motion are under advisement. SecurityNational Mortgage’s motion in the Lehman Holdings case has been reset for hearing on September 26, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

**Consolidation**

**Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012**

Total revenues increased by $4,804,000, or 8.5%, to $61,332,000 for the three months ended June 30, 2013, from $56,528,000 for the three months ended June 30, 2012. Contributing to this increase in total revenues was a $3,840,000 increase in mortgage fee income, a $633,000 increase in net mortuary and cemetery sales, a $623,000 increase in insurance premiums and other considerations, and a $395,000 increase in other revenues. This increase in total revenues was offset by a $539,000 decrease in net investment income, a $101,000 increase in other than temporary impairments on investments, and a $47,000 decrease in realized gains on investments and other assets.

Insurance premiums and other considerations increased by $623,000, or 5.1%, to $12,905,000 for the three months ended June 30, 2013, from $12,282,000 for the comparable period in 2012. This increase was primarily due to an increase in first year premiums offset by a decrease in renewal premiums. This decrease in renewal premiums was primarily from the assumption of the block of business from North America Life as expected by the Company.

Net investment income decreased by $539,000, or 9.7%, to $5,026,000 for the three months ended June 30, 2013, from $5,565,000 for the comparable period in 2012. This decrease was primarily attributable to a $629,000 increase in investment expenses, a $480,000 decrease in mortgage loan interest, and a $29,000 decrease in equity securities income. This decrease was offset by a $365,000 increase in short-term investment income, a $114,000 increase in rental income from real estate owned, a $114,000 increase in fixed maturity securities income, and a $6,000 increase in policy loan income.

Net cemetery and mortuary sales increased by $633,000, or 24.1%, to $3,259,000 for the three months ended June 30, 2013, from $2,626,000 for the comparable period in 2012. This increase was primarily due to an increase in at-need sales in both the cemetery and mortuary operations.

Realized gains on investments and other assets decreased by $47,000, or 25%, to $140,000 in realized gains for the three months ended June 30, 2013, from $187,000 in realized gains for the comparable period in 2012. This decrease in realized gains on investments and other assets was the result of a $137,000 decrease in realized gains on fixed maturity securities. This decrease was offset by an $88,000 increase in realized gains on securities available for sale, and a $2,000 increase in realized gains on other assets.

Other than temporary impairments on investments increased by $101,000, or 224.3%, to $146,000 for the three months ended June 30, 2013, from $45,000 for the comparable period in 2012. This increase was the result of a $116,000 increase in other than temporary impairments on construction mortgage loans which was offset by a $15,000 decrease in other than temporary impairments on fixed maturity securities held to maturity.

Mortgage fee income increased by $3,840,000, or 10.8%, to $39,500,000 for the three months ended June 30, 2013, from $35,660,000 for the comparable period in 2012. This increase was primarily attributable to an increased market share in mortgage loan originations and an increase in secondary gains on mortgage loans which was sold to investors. The increase in market share was attributed to an expansion of the retail loan operations of SecurityNational Mortgage, including the opening of six additional mortgage offices during the three months ending June 30, 2013.

Other revenues increased by $395,000, or 156.3%, to $648,000 for the three months ended June 30, 2013, from $253,000 for the comparable period in 2012. This increase was due to an increase in mortgage servicing fees.

Total benefits and expenses were $56,863,000, or 92.7% of total revenues, for the three months ended June 30, 2013, as compared to $51,492,000, or 91.1% of total revenues, for the comparable period in 2012.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $1,006,000 or 9.1%, to $12,106,000 for the three months ended June 30, 2013, from $11,100,000 for the comparable period in 2012. This increase was primarily the result of a $1,641,000 increase in death benefits, and a $404,000 increase in surrender and other policy benefits. This increase was offset by a $1,039,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by $254,000, or 18.9%, to $1,092,000 for the three months ended June 30, 2013, from $1,346,000 for the comparable period in 2012. This decrease was primarily due to more traditional life business persisting as premium paying business during the period as well as higher claims on universal life insurance policies.

Selling, general and administrative expenses increased by $4,479,000, or 11.8%, to $42,285,000 for the three months ended June 30, 2013, from $37,806,000 for the comparable period in 2012. This increase was the result of an an increase in other expenses of $2,212,000 from $7,706,000 for the three months ended June 30, 2012 to $9,918,000 for the comparable period in 2013. Salaries increased by $1,927,000, from $6,807,000 for the three months ended June 30, 2012 to $8,734,000 for the comparable period in 2013. This increase was primarily due to an increase in the number of employees as a result of the additional mortgage offices. Commission expenses increased by $483,000, from $20,394,000 for the three months ended June 30, 2012 to $20,877,000 for the comparable period in 2013. This increase was primarily due to increased mortgage loan originations made by SecurityNational Mortgage.

Costs related to funding mortgage loans increased by $239,000, from $1,800,000 for the three months ended June 30, 2012 to $2,039,000 for the comparable period in 2013 due to additional loans funded. This increase was offset by a decrease in the provision for loan losses and loss reserve by $382,000, from $1,098,000 for the three months ended June 30, 2012 to $716,000 for the comparable period in 2013, primarily due to a decrease in the monthly accrual amount.

Interest expense increased by $31,000, or 3.6%, to $878,000 for the three months ended June 30, 2013, from $847,000 for the comparable period in 2012. This increase was primarily due to an increased use of the mortgage warehouse line resulting from additional mortgage loan originations.

Cost of goods and services sold of the cemeteries and mortuaries increased by $110,000, or 27.9%, to $503,000 for the three months ended June 30, 2013, from $393,000 for the comparable period in 2012. This increase was primarily due to an increase in cemetery and mortuary sales.

Comprehensive income for the three months ended June 30, 2013 and 2012 amounted to gains of $3,491,000 and $4,553,000, respectively. This $1,062,000 decrease in comprehensive income in 2013 was primarily the result of a $793,000 decrease in net income and a $512,000 decrease in derivatives related to mortgage loans, which was offset by a $243,000 increase in unrealized gains in securities available for sale.

**Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012**

Total revenues increased by $12,333,000, or 11.9%, to $116,185,000 for the six months ended June 30, 2013, from $103,851,000 for the six months ended June 30, 2012. Contributing to this increase in total revenues was a $11,144,000 increase in mortgage fee income, a $682,000 increase in other revenues, a $635,000 increase in net mortuary and cemetery sales, a $625,000 increase in realized gains on investments and other assets, and a $456,000 increase in insurance premiums and other considerations. This increase in total revenues was offset by a $1,123,000 decrease in net investment income, and an $86,000 increase in other than temporary impairments on investments.

Insurance premiums and other considerations increased by $456,000, or 1.8%, to $25,326,000 for the six months ended June 30, 2013, from $24,870,000 for the comparable period in 2012. This increase was primarily due to an increase in first year premiums offset by a decrease in renewal premiums. This decrease in renewal premiums was primarily from the assumption of the block of business from North America Life as expected by the Company.

Net investment income decreased by $1,123,000, or 10.1%, to $10,027,000 for the six months ended June 30, 2013, from $11,150,000 for the comparable period in 2012. This decrease was primarily attributable to a $1,040,000 decrease in mortgage loan interest, an $826,000 increase in investment expenses, a $27,000 decrease in equity securities income, and a $19,000 decrease in policy loan income. This decrease was offset by a $535,000 increase in short-term investment income, a $156,000 increase in fixed maturity securities income, and a $98,000 increase in rental income from real estate owned.

Net cemetery and mortuary sales increased by $635,000, or 11.5%, to $6,137,000 for the six months ended June 30, 2013, from $5,502,000 for the comparable period in 2012 This increase was primarily due to an increase in at-need sales in both the cemetery and mortuary operations.

Realized gains on investments and other assets increased by $625,000, or 174.5%, to $983,000 in realized gains for the six months ended June 30, 2013, from $358,000 in realized gains for the comparable period in 2012. This increase in realized gains on investments and other assets was the result of an increase in realized gains on other assets of $672,000 primarily due to the sale of a real estate property, and a $90,000 increase in realized gains on securities available for sale. This increase was offset by a $137,000 decrease in realized gains on fixed maturity securities.

Other than temporary impairments on investments increased by $86,000, or 95.5%, to $176,000 for the six months ended June 30, 2013, from $90,000 for the comparable period in 2012. This increase was the result of a $116,000 increase in other than temporary impairments on construction mortgage loans, which was offset by a $30,000 decrease in other than temporary impairments on fixed maturity securities held to maturity.

Mortgage fee income increased by $11,144,000, or 18.1%, to $72,763,000 for the six months ended June 30, 2013, from $61,619,000 for the comparable period in 2012. This increase was primarily attributable to an increased market share in mortgage loan originations and an increase in secondary gains on mortgage loans sold to investors. The increase in market share was attributed to an expansion of the retail loan operations of SecurityNational Mortgage, including the opening of six additional mortgage offices for the six months ended June 30, 2013.

Other revenues increased by $682,000, or 154.1%, to $1,125,000 for the six months ended June 30, 2013, from $443,000 for the comparable period in 2012. This increase was due to an increase in mortgage servicing fees.

Total benefits and expenses were $108,487,000, or 93.4% of total revenues, for the six months ended June 30, 2013, as compared to $96,486,000, or 92.9% of total revenues, for the comparable period in 2012.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $889,000 or 3.8%, to $24,164,000 for the six months ended June 30, 2013, from $23,275,000 for the comparable period in 2012. This increase was primarily the result of a $3,211,000 increase in death benefits, and a $316,000 increase in surrender and other policy benefits. This increase was offset by $2,638,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by $173,000, or 6.3%, to $2,585,000 for the six months ended June 30, 2013, from $2,758,000 for the comparable period in 2012. This decrease was primarily due to more traditional life business persisting as premium paying business during the period as well as higher claims on universal life insurance policies.

Selling, general and administrative expenses increased by $11,085,000, or 16.3%, to $79,051,000 for the six months ended June 30, 2013, from $67,966,000 for the comparable period in 2012. This increase was the result of an increase in other expenses of $4,070,000 from $14,705,000 for the six months ended June 30, 2012 to $18,775,000 for the comparable period in 2013. Salaries increased by $3,593,000 from $13,320,000 for the six months ended June 30, 2012 to $16,913,000 for the comparable period in 2013. This increase was primarily due to an increase in the number of employees as a result of increased mortgage offices. Commission expenses increased by $3,168,000, from $35,280,000 for the six months ended June 30, 2012 to $38,448,000 for the comparable period in 2013. This increase was primarily due to increased mortgage loan originations made by SecurityNational Mortgage.

Costs related to funding mortgage loans increased by $486,000, from $3,161,000 for the six months ended June 30, 2012 to $3,647,000 for the comparable period in 2013 due to additional loans funded. This increase was offset by decrease in the provision for loan losses and loss reserve by $232,000, from $1,500,000 for the six months ended June 30, 2012 to $1,268,000 for the comparable period in 2013, primarily due to a decrease in the monthly accrual amount.

Interest expense increased by $69,000, or 4.3%, to $1,685,000 for the six months ended June 30, 2013, from $1,616,000 for the comparable period in 2012. This increase was primarily due to an increased use of the mortgage warehouse line resulting from additional mortgage loan originations.

Cost of goods and services sold of the cemeteries and mortuaries increased by $131,000, or 15.1%, to $1,002,000 for the six months ended June 30, 2013, from $871,000 for the comparable period in 2012. This increase was primarily due to an increase in cemetery and mortuary sales.

Comprehensive income for the six months ended June 30, 2013 and 2012 amounted to gains of $5,148,000 and $7,195,000, respectively. This $2,047,000 decrease in comprehensive income in 2013 was primarily the result of a $117,000 increase in unrealized gains in securities available for sale. This increase was offset by a $1,741,000 decrease in derivatives related to mortgage loans and a $423,000 decrease in net income.

**Liquidity and Capital Resources**

The Company’s life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from proceeds from the maturity of held-to-maturity investments or sale of other investments. The mortgage subsidiary realizes cash flow from fees generated by originating and refinancing mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long term and adequate to pay current policyholder claims, annuity payments, expenses on the issuance of new policies, the maintenance of existing policies, debt service, and to meet operating expenses.

During the six months ended June 30, 2013, the Company's operations provided cash of $38,831,000. This was due primarily to a $9,663,000 increase in future policy benefits and a $14,230,000 decrease for the six months of 2013 in the balance of mortgage loans sold to investors. During the six months ended June 30, 2012, the Company’s operations provided cash of $24,431,000. This was due primarily to a $10,062,000 increase in future policy benefits and a $4,665,000 decrease for the six months of 2012 in the balance of mortgage loans sold to investors.

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

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held to maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

The Company's investment philosophy is intended to provide a rate of return that will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and the warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to $142,208,000 as of June 30, 2013 compared to $127,939,000 as of December 31, 2012. This represents 40.2% and 37.1% of the total investments as of June 30, 2013 and December 31, 2012, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners (NAIC). Under this rating system, there are six categories used for rating bonds. At June 30, 2013, 4.17% (or $5,933,000) and at December 31, 2012, 3.4% (or $4,392,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which were considered non-investment grade.

The Company has classified its fixed income securities as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher yielding longer-term securities.

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At June 30, 2013 and December 31, 2012, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable was $96,402,000 as of June 30, 2013, as compared to $91,722,000 as of December 31, 2012. Stockholders' equity as a percent of total capitalization was 88.7% and 87.0% as of June 30, 2013 and December 31, 2012, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2012 was 6.0% as compared to a rate of 6.5% for 2011. The 2013 lapse rate to date has been approximately the same as 2012.

At June 30, 2013, $31,843,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to the Company, its parent company, without approval of insurance regulatory authorities.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no significant changes since the annual report on Form 10-K filed for the year ended December 31, 2012.

**Item 4. Controls and Procedures.**

Disclosure Controls and Procedures

As of June 30, 2013, the Company carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The officers have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2013 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with United States GAAP.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings.

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

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

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

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of $5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately $4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage.  Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage's motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage's September 4, 2012 motion.  The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. The motion and cross motion are under advisement. SecurityNational Mortgage's motion in the Lehman Holdings case has been reset for hearing on September 26, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Mine Safety Disclosures.**

None

**Item 5. Other Information.**

Completion of Reorganization Transaction

On May 8, 2013, the Company completed a reorganization transaction involving several of its wholly owned subsidiaries.  Under the terms of the Agreement and Plan of Reorganization, the Company contributed all its shares of common stock of Select Appraisal Management, Inc. ("Select Appraisal Management"), which had been a wholly owned subsidiary of the Company, to Green Street Mortgage Services, Inc. ("Green Street Mortgage"), a wholly owned subsidiary of the Company.  The purpose of the transaction is to develop the appraisal business of Select Appraisal Management through Green Street Mortgage, which would be responsible for the development, management and oversight of the appraisal business of Select Appraisal Management. SecurityNational Mortgage agreed, as part of the reorganization, to transfer to Green Street Mortgage, in the form of a dividend, the appraisal management contracts and related operations that it owned.

In addition, as part of the reorganization, SecurityNational Mortgage agreed to assign to the Company, in the form of a dividend, beginning January 1, 2013, the net servicing income from the mortgage servicing rights that it retains from the mortgage loans that it originates and sells on a servicing retained basis to third party investors in connection with its mortgage loan operations. Pursuant to the organization, SecurityNational Mortgage also agreed to pay such net income from its mortgage servicing operations on a monthly basis to the Company, provided such payments do not violate the financial covenants that SecurityNational Mortgage is required to maintain with its warehouse mortgage lenders.

Finally, the Company agreed as part of the reorganization to contribute all of its shares of stock of Dry Creek Property Development, Inc. ("Dry Creek Development"), which had been a wholly owned subsidiary of the Company, to Security National Life Insurance Company ("Security National Life"). The purpose of this transaction was to help facilitate the future funding and development of approximately 32 acres of land that the Company owns in Sandy, Utah.

Election of Jason G. Overbaugh and S. Andrew Quist as New Directors at Annual Meeting of Stockholders

On July 12, 2013, at the Company's Annual Meeting of Stockholders, Jason G. Overbaugh and S. Andrew Quist were each elected as a new director of the Company. Each will serve as a director until the next Annual Meeting of Stockholders and until a successor is duly elected and qualified.

Mr. Jason Overbaugh has served as a Vice President and the Assistant Secretary of the Company since 2002. He has also served as the Company's National Marketing Director of Life Insurance since 2008. Mr. Overbaugh has additionally served as Vice President and National Marketing Director of Security National Life Insurance Company, a wholly-owned subsidiary of the Company, since 2006. From 2003 to 2006, he served as a Vice President of Security National Life Insurance Company with responsibilities as an investment manager over construction lending and commercial real estate investments. From 2000 to 2003, Mr. Overbaugh served as a Vice President of Memorial Estates, Inc., with responsibilities over operations and sales.

In addition, Mr. Overbaugh has served since 2007 as a director of the LOMA Life Insurance Council, a trade association of life insurance companies. He is also a member of the NFDA Trade Association. Mr. Overbaugh received a B.S. degree in Finance from the University of Utah. Mr. Overbaugh's expertise in insurance and marketing and his 17 years of experience with the Company in its insurance, real estate, and mortgage and cemetery operations led the Board of Directors to conclude that he should serve as a director.

Mr. Andrew Quist has served as a Vice President of the Company since 2010. He has also served as the Company's Associate General Counsel since 2007, where his responsibilities have included the Company's regulatory matters and acquisitions. In addition, Mr. Quist has been Vice President and Chief Operating Officer since 2010, and Vice President from 2008 to 2010, of C&J Financial, LLC, a wholly owned subsidiary of the Company, which funds the purchase of funeral and burial policies from funeral homes after the death of the insureds.

On April 11, 2013, Mr. Quist was elected as a director of the National Alliance of Life Companies (NALC), a national trade association of over 200 life insurance companies, where he also serves as Vice President and Treasurer. Mr. Quist is also currently the President of the Utah Life Convention, a consortium of Utah domestic life insurers. Mr. Quist holds a B.S. degree in Accounting from Brigham Young University and received his law degree from the University of Southern California. Mr. Quist's expertise in insurance, legal and regulatory matters led the Board of Directors to conclude that he should serve as a director.

Appointment of Garrett S. Sill as Chief Financial Officer and Treasurer at Annual Meeting of Board of Directors

On July 12, 2013, at the Company's Annual Meeting of the Board of Directors, Garrett S. Sill was appointed as Chief Financial Officer and Treasurer. Mr. Sill has been serving as the Company's Chief Financial Officer and Acting Treasurer, since January 18, 2013. Prior to his appointment as Acting Chief Financial Officer and Acting Treasurer, Mr. Sill had been servicing since 2011 as Vice President and Assistant Treasurer of Security National Life Insurance Company, a wholly owned subsidiary of the company.

From 2002 to 2011, Mr. Sill was Chief Financial Officer and Treasurer of SecurityNational Mortgage Company. From 1997 to 2002, he was Vice President and Controller of SecurityNational Mortgage Company. Mr. Sill is a certified public accountant, having been licensed since 2002. He holds a B.A. degree in Accounting from Weber State University and an M.B.A. degree in Business Administration from the University of Utah. Mr. Sill also serves as a member of the Advisory Council of the School of Accounting and Taxation at Weber State University.

**Item 6. Exhibits, Financial Statements Schedules and Reports on Form 8-K.**

(a)(1) Financial Statements

See “Table of Contents – Part I – Financial Information” under page 2 above

(a)(2) Financial Statement Schedules

None

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits

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

| | |
|---|---|
| 3.1 | Articles of Restatement of Articles of Incorporation (4) |
| 3.2 | Amended Bylaws (6) |
| 4.1 | Specimen Class A Stock Certificate (1) |
| 4.2 | Specimen Class C Stock Certificate (1) |
| 4.3 | Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1) |
| 10.1 | Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1) |
| 10.2 | 2003 Stock Option Plan (5) |
| 10.3 | 2006 Director Stock Option Plan (9) |
| 10.4 | Deferred Compensation Agreement with George R. Quist (2) |
| 10.5 | Deferred Compensation Plan (3) |
| 10.6 | Employment agreement with J. Lynn Beckstead, Jr. (7) |
| 10.7 | Employment agreement with Scott M. Quist (8) |
| 10.8 | Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (10) |
| 10.9 | Coinsurance Agreement between Security National Life Insurance Company and Mothe Life Insurance Company (11) |
| 10.10 | Certificate and Agreement of Contribution to Surplus between Security National Financial Corporation and Security National Life Insurance Company (11) |
| 10.11 | Agreement and Plan of Reorganization among Security National Financial Corporation and certain subsidiaries (12) |
| 21 | Subsidiaries of the Registrant |
| 31.1 | Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 INS | XBRL Instance Document (13) |
| 101 SCH | XBRL Schema Document (13) |
| 101 CAL | XBRL Calculation Linkbase Document (13) |
| 101 DEF | XBRL Definition Linkbase Document (13) |
| 101 LAB | XBRL Labels Linkbase Document (13) |
| 101 PRE | XBRL Presentation Linkbase Document (13) |

(1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987

(2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989

(3) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002

(4) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003

(5) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company’s Annual Meeting of Shareholders

(6) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003

(7) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004

(8) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004

(9) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company’s Annual Meeting of Shareholders

(10) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009

(11) Incorporated by reference from Report on Form 8-K, as filed on December 27, 2012

(12) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2013

(13) The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

***REGISTRANT***

SECURITY NATIONAL FINANCIAL CORPORATION
Registrant

| | |
|---|---|
| Dated: August 14, 2013 | /s/ Scott M. Quist<br>Scott M. Quist<br>Chairman of the Board, President and Chief Executive Officer<br>(Principal Executive Officer) |
| Dated: August 14, 2013 | /s/ Garrett S. Sill<br>Garrett S. Sill<br>Chief Financial Officer and Treasurer<br>(Principal Financial Officer and Principal Accounting Officer) |