SECURITY NATIONAL FINANCIAL CORP

FORM 10-Q

(Quarterly Report)

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

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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, 2014, 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 Exchange A of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has bee 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 Interactive Dat File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (c 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 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]

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	11,844,855
Title of Class	Number of Shares Outstanding as of August 14, 2014
Class C Common Stock, $2.00 par value	1,329,317
Title of Class	Number of Shares Outstanding as of August 14, 2014

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED JUNE 30, 2014

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

Part I - Financial Information

Item 1. Financial Statements.

Assets	**June 30 2014**	**December 31 2013**
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$138,917,469	$143,466,494
Equity securities, available for sale, at estimated fair value	7,442,760	4,498,756
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of $1,694,932 and $1,652,090 for 2014 and 2013	127,408,303	102,781,878
Real estate held for investment, net of accumulated depreciation of $10,419,634 and $9,658,599 for 2014 and 2013	101,388,355	99,760,475
Policy and other loans, net of allowances for doubtful accounts of $532,433 and $269,175 for 2014 and 2013	33,196,385	19,724,006
Short-term investments	20,268,060	12,135,719
Accrued investment income	2,582,515	2,485,054
Total investments	431,203,847	384,852,382
Cash and cash equivalents	31,206,588	38,203,164
Mortgage loans sold to investors	52,550,989	77,179,652
Receivables, net	15,309,079	11,652,572
Restricted assets	6,910,684	6,670,980
Cemetery perpetual care trust investments	2,549,971	2,414,883
Receivable from reinsurers	7,547,822	12,033,877
Cemetery land and improvements	10,844,293	10,631,573
Deferred policy and pre-need contract acquisition costs	48,792,625	45,737,940
Mortgage servicing rights, net	6,131,608	4,844,101
Property and equipment, net	11,985,321	11,523,160
Value of business acquired	8,602,241	8,680,845
Goodwill	3,088,182	677,039
Other	6,234,234	3,655,286
Total Assets	$642,957,484	$618,757,454

See accompanying notes to condensed consolidated financial statements.

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

	June 30 2014	December 31 2013
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	$ 463,833,611	$ 452,130,649
Unearned premium reserve	5,080,503	5,173,785
Bank and other loans payable	17,133,282	18,289,438
Deferred pre-need cemetery and mortuary contract revenues	13,050,402	13,176,476
Cemetery perpetual care obligation	3,332,208	3,266,131
Accounts payable	3,151,823	2,850,575
Other liabilities and accrued expenses	26,059,161	20,167,363
Income taxes	19,309,437	15,951,848
Total liabilities	550,950,427	531,006,265
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 11,844,854 shares in 2014 and 11,807,287 shares in 2013	23,689,708	23,614,574
Class B: non-voting common stock - $1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - $2.00 par value; 2,000,000 shares authorized; issued 1,329,302 shares in 2014 and 1,330,191 shares in 2013	2,658,605	2,660,382
Additional paid-in capital	23,477,240	23,215,875
Accumulated other comprehensive income, net of taxes	2,141,396	1,218,396
Retained earnings	42,421,143	39,666,587
Treasury stock at cost - 1,051,515 Class A shares in 2014 and 1,141,021 Class A shares in 2013	(2,381,035)	(2,624,625)
Total stockholders' equity	92,007,057	87,751,189
Total Liabilities and Stockholders' Equity	$ 642,957,484	$ 618,757,454

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	
	2014	**2013**	**2014**	**2013**
Revenues:				
Insurance premiums and other considerations	$ 13,334,986	$ 12,904,843	$ 26,464,433	$ 25,326,386
Net investment income	6,707,287	5,026,044	12,349,787	10,027,061
Net mortuary and cemetery sales	3,446,882	3,259,293	6,277,944	6,136,816
Realized gains on investments and other assets	339,852	140,182	538,845	982,760
Other than temporary impairments on investments	(30,000)	(145,922)	(60,000)	(175,922)
Mortgage fee income	34,773,299	39,500,034	57,310,837	72,762,915
Other	839,424	647,815	1,583,160	1,124,507
Total revenues	59,411,730	61,332,289	104,465,006	116,184,523
Benefits and expenses:				
Death benefits	7,082,626	6,564,246	13,758,119	13,320,665
Surrenders and other policy benefits	627,151	678,579	1,142,763	1,428,828
Increase in future policy benefits	4,847,082	4,862,670	9,214,525	9,414,411
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,493,293	1,091,619	2,896,935	2,585,524
Selling, general and administrative expenses:				
Commissions	16,185,164	20,877,410	26,746,045	38,447,995
Salaries	9,199,573	8,734,195	18,116,037	16,912,893
Provision for loan losses and loss reserve	571,332	716,001	943,425	1,268,290
Costs related to funding mortgage loans	1,911,634	2,039,365	3,209,319	3,646,600
Other	12,009,485	9,918,320	21,799,298	18,774,920
Interest expense	786,248	877,806	1,284,112	1,685,082
Cost of goods and services sold-mortuaries and cemeteries	511,045	502,558	1,001,344	1,002,172
Total benefits and expenses	55,224,633	56,862,769	100,111,922	108,487,380
Earnings before income taxes	4,187,097	4,469,520	4,353,084	7,697,143
Income tax expense	(1,563,034)	(1,670,275)	(1,590,173)	(2,864,632)
Net earnings	$ 2,624,063	$ 2,799,245	$ 2,762,911	$ 4,832,511
Net earnings per Class A Equivalent common share (1)	$ 0.22	$ 0.24	$ 0.23	$ 0.41
Net earnings per Class A Equivalent common share-assuming dilution (1)	$ 0.21	$ 0.22	$ 0.23	$ 0.38
Weighted-average Class A equivalent common share outstanding (1)	11,835,185	11,724,522	11,844,936	11,669,542
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	12,261,297	12,571,512	12,278,502	12,557,637

(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Net earnings	$ 2,624,063	$ 2,799,245	$ 2,762,911	$ 4,832,511
Other comprehensive income:				
Net unrealized gains (losses) on derivative instruments	484,704	761,683	762,934	183,036
Net unrealized gains (losses) on available for sale securities	122,161	(70,279)	160,066	132,942
Other comprehensive income	606,865	691,404	923,000	315,978
Comprehensive income	$ 3,230,928	$ 3,490,649	$ 3,685,911	$ 5,148,489

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, 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
Balance at December 31, 2013	$ 23,614,574	$ 2,660,382	$ 23,215,875	$ 1,218,396	$ 39,666,587	$ (2,624,625)	$ 87,751,189
Net earnings	-	-	-	-	2,762,911	-	2,762,911
Other comprehensive income	-	-	-	923,000	-	-	923,000
Grant of stock options	-	-	128,526	-	-	-	128,526
Exercise of stock options	69,910	-	(19,611)	-	-	-	50,299
Sale of treasury stock	-	-	147,542	-	-	243,590	391,132
Stock Dividends	3,446	(1)	4,910	-	(8,355)	-	-
Conversion Class C to Class A	1,778	(1,776)	(2)	-	-	-	-
Balance at June 30, 2014	$ 23,689,708	$ 2,658,605	$ 23,477,240	$ 2,141,396	$ 42,421,143	$ (2,381,035)	$ 92,007,057

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	
	2014	**2013**
Cash flows from operating activities:		
Net cash provided by operating activities	$ 40,505,997	$ 38,831,002
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(362,817)	(16,912,365)
Calls and maturities - fixed maturity securities	4,769,126	3,280,582
Securities available for sale:		
Purchase - equity securities	(4,339,038)	(1,675,032)
Sales - equity securities	1,714,695	2,364,674
Purchase of short-term investments	(10,206,586)	(12,231,659)
Sales of short-term investments	2,074,245	35,530,778
Purchases of restricted assets	(200,415)	(7,394,335)
Changes in assets for perpetual care trusts	(120,398)	(127,947)
Amount received for perpetual care trusts	66,077	53,175
Mortgage, policy, and other loans made	(130,692,081)	(64,547,421)
Payments received for mortgage, policy and other loans	91,321,359	59,009,716
Purchase of property and equipment	(733,243)	(1,570,456)
Purchase of real estate	(3,871,169)	(15,590,263)
Sale of real estate	2,332,579	1,119,467
Cash received from reinsurance	7,304,993	-
Cash paid for purchase of subsidiaries, net of cash acquired	(3,000,000)	-
Net cash used in investing activities	(43,942,673)	(18,691,086)
Cash flows from financing activities:		
Annuity contract receipts	5,037,585	4,686,903
Annuity contract withdrawals	(7,503,928)	(7,837,924)
Proceeds from stock options exercised	50,299	249,115
Repayment of bank loans on notes and contracts	(1,174,015)	(1,128,159)
Proceeds from borrowing on bank loans	30,159	4,733,975
Change in line of credit borrowings	-	(4,608,204)
Net cash used in financing activities	(3,559,900)	(3,904,294)
Net change in cash and cash equivalents	(6,996,576)	16,235,622
Cash and cash equivalents at beginning of period	38,203,164	33,494,284
Cash and cash equivalents at end of period	$ 31,206,588	$ 49,729,906
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	$ 886,576	$ 1,939,002

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, 2013, 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 six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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 2013 amounts have been reclassified to bring them into conformity with the 2014 presentation. The Stockholder's Equity section of the balance sheet has been updated to account for the 1-for-10 reverse stock split of the Class C common stock that was approved by the shareholders on July 2, 2014. The effective date of the reverse stock split was August 1, 2014.

2) Recent Accounting Pronouncements

ASU No. 2014-09: "Revenue from Contracts with Customers" – Issued in May 2014, ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts are excluded from the scope of this new guidance. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2016 and is not expected to have a significant impact on the Company's results of operations or financial position.

ASU No. 2014-04: "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)" - In January 2014, ASU No. 2014-04 amended ASC Topic 310, "Receivables" to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant 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, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2014:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$ 1,877,830	$ 335,092	$ -	$ 2,212,922
Obligations of states and political subdivisions	1,734,871	249,165	(5,504)	1,978,532
Corporate securities including public utilities	130,790,757	16,222,135	(259,907)	146,752,985
Mortgage-backed securities	3,901,988	314,204	(10,806)	4,205,386
Redeemable preferred stock	612,023	16,432	-	628,455
Total fixed maturity securities held to maturity	$ 138,917,469	$ 17,137,028	$ (276,217)	$ 155,778,280

3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2014:				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	$ 7,533,929	$ 429,683	$ (520,852)	$ 7,442,760
Total equity securities available for sale at estimated fair value	$ 7,533,929	$ 429,683	$ (520,852)	$ 7,442,760
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$ 61,422,422			
Residential construction	20,414,105			
Commercial	47,266,708			
Less: Allowance for loan losses	(1,694,932)			
Total mortgage loans on real estate and construction loans held for investment	$ 127,408,303			
Real estate held for investment - net of depreciation	$ 101,388,355			
Policy and other loans at amortized cost:				
Policy loans	$ 7,281,130			
Other loans	26,447,688			
Less: Allowance for doubtful accounts	(532,433)			
Total policy and other loans at amortized cost	$ 33,196,385			
Short-term investments at amortized cost	$ 20,268,060			

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2013 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$ 2,284,261	$ 298,901	$ -	$ 2,583,162
Obligations of states and political subdivisions	1,790,661	197,340	(9,404)	1,978,597
Corporate securities including public utilities	134,257,468	10,513,448	(1,394,919)	143,375,997
Mortgage-backed securities	4,522,081	206,617	(11,351)	4,717,347
Redeemable preferred stock	612,023	12,994	(5,900)	619,117
Total fixed maturity securities held to maturity	$ 143,466,494	$ 11,229,300	$ (1,421,574)	$ 153,274,220

3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013:				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	$ 4,783,936	$ 240,206	$ (525,386)	$ 4,498,756
Total securities available for sale carried at estimated fair value	$ 4,783,936	$ 240,206	$ (525,386)	$ 4,498,756
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$ 49,868,486			
Residential construction	12,912,473			
Commercial	41,653,009			
Less: Allowance for loan losses	(1,652,090)			
Total mortgage loans on real estate and construction loans held for investment	$ 102,781,878			
Real estate held for investment - net of depreciation	$ 99,760,475			
Policy and other loans at amortized cost:				
Policy loans	$ 7,520,376			
Other loans	12,472,805			
Less: Allowance for doubtful accounts	(269,175)			
Total policy and other loans at amortized cost	$ 19,724,006			
Short-term investments at amortized cost	$ 12,135,719			

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, 2014 and December 31, 2013. 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, 2014					
Obligations of states and political subdivisions	$ -	0	$ 5,504	1	$ 5,504
Corporate securities including public utilities	28,127	3	231,780	22	259,907
Mortgage-backed securities	2,674	1	8,132	1	10,806
Redeemable preferred stock	-	0	-	0	-
Total unrealized losses	$ 30,801	4	$ 245,416	24	$ 276,217
Fair Value	$ 757,752		$ 5,110,986		$ 5,868,738
At December 31, 2013					
Obligations of states and political subdivisions	$ 7,131	1	$ 2,273	1	$ 9,404
Corporate securities including public utilities	1,134,414	72	260,504	10	1,394,918
Mortgage-backed securities	3,109	1	8,242	1	11,351
Redeemable preferred stock	5,900	1	-	0	5,900
Total unrealized losses	$ 1,150,554	75	$ 271,019	12	$ 1,421,573
Fair Value	$ 22,002,277		$ 2,308,464		$ 24,310,741

As of June 30, 2014, the average market value of the related fixed maturities was 95.5% of amortized cost and the average market value was 94.5% of amortized cost as of December 31, 2013. During the three months ended June 30, 2014 and 2013 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $30,000 and $30,000, respectively, and for the six months ended June 30, 2014 and 2013 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $60,000 and $60,000, respectively.

On a quarterly basis, the Company reviews its fixed maturity 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, 2014 and December 31, 2013. 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, 2014					
Industrial, miscellaneous and all other	$ 85,985	97	$ 434,867	29	$ 520,852
Total unrealized losses	$ 85,985	97	$ 434,867	29	$ 520,852
Fair Value	$ 1,418,657		$ 822,995		$ 2,241,652
At December 31, 2013					
Industrial, miscellaneous and all other	$ 119,450	28	$ 405,936	28	$ 525,386
Total unrealized losses	$ 119,450	28	$ 405,936	28	$ 525,386
Fair Value	$ 993,612		$ 772,345		$ 1,765,957

As of June 30, 2014, the average market value of the equity securities available for sale was 81.1% of the original investment and the average market value was 77.1% of the original investment as of December 31, 2013. 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 three and six months ended June 30, 2014 and 2013, 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.

3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at June 30, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2014	$ 1,998,597	$ 2,014,415
Due in 2015 through 2018	28,025,560	31,140,613
Due in 2019 through 2023	37,841,385	42,592,185
Due after 2023	66,537,916	75,197,226
Mortgage-backed securities	3,901,988	4,205,386
Redeemable preferred stock	612,023	328,455
Total held to maturity	$ 138,917,469	$ 155,478,280

The amortized cost and estimated fair value of available for sale securities at June 30, 2014, 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 2014	$ -	$ -
Due in 2015 through 2018	-	-
Due in 2019 through 2023	-	-
Due after 2023	-	-
Non-redeemable preferred stock	-	-
Common stock	7,533,929	7,442,760
Total available for sale	$ 7,533,929	$ 7,442,760

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	
	2014	2013	2014	2013
Fixed maturity securities held to maturity:				
Gross realized gains	$ 47,548	$ 2,512	$ 47,548	$ 15,404
Gross realized losses	(2,284)	(9,693)	(2,284)	(15,168)
Other than temporary impairments	(30,000)	(30,000)	(60,000)	(60,000)
Securities available for sale:				
Gross realized gains	72,397	105,426	125,650	239,382
Gross realized losses	-	(1,942)	-	(2,678)
Other than temporary impairments	-	-	-	-
Other assets:				
Gross realized gains	222,191	43,879	367,931	745,820
Gross realized losses	-	-	-	-
Other than temporary impairments	-	(115,922)	-	(115,922)
Total	$ 309,852	$ (5,740)	$ 478,845	$ 806,838

The net carrying amount of held to maturity securities sold was $872,882 and $1,455,835 for the six months ended June 30, 2014 and the year ended December 31, 2013, respectively. The net realized gain related to these sales was $40,594 and $-0- for the three months ended June 30, 2014 and 2013, respectively, and was $42,118 and $12,533 for the six months ended June 30, 2014 and 2013, respectively. Certain circumstances lead to these decisions to sell.

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, 2014, 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	
	2014	**2013**	**2014**	**2013**
Fixed maturity securities	$ 2,067,324	$ 2,056,804	$ 4,176,445	$ 4,009,843
Equity securities	50,752	38,729	89,999	104,489
Mortgage loans on real estate	1,837,060	1,011,446	3,389,171	2,051,221
Real estate	2,126,566	1,363,662	4,291,565	2,441,324
Policy and other loans	181,687	196,096	379,255	399,231
Short-term investments, principally gains on sale of mortgage loans and other	2,781,988	2,371,299	4,681,101	4,578,893
Gross investment income	9,045,377	7,038,036	17,007,536	13,585,001
Investment expenses	(2,338,090)	(2,011,992)	(4,657,749)	(3,557,940)
Net investment income	$ 6,707,287	$ 5,026,044	$ 12,349,787	$ 10,027,061

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of $77,254 and $74,539 for the three months ended June 30, 2014 and 2013, respectively, and $171,999 and $166,009 for the six months ended June 30, 2014 and 2013, 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 $9,208,890 at June 30, 2014 and $9,215,222 at December 31, 2013. 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%, maturity dates range from six months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At June 30, 2014, the Company had 35%, 19%, 11%, 13%, and 5% of its mortgage loans from borrowers located in the states of Utah, California, Florida, Texas, and Nevada, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of $1,694,932 and $1,652,090 at June 30, 2014 and December 31, 2013, 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, 2014				
Allowance for credit losses:				
Beginning balance - January 1, 2014	$ 187,129	$ 1,364,847	$ 100,114	$ 1,652,090
Charge-offs	-	(38,444)	-	(38,444)
Provision	-	81,286	-	81,286
Ending balance -June 30, 2014	$ 187,129	$ 1,407,689	$ 100,114	$ 1,694,932
Ending balance: individually evaluated for impairment	$ -	$ 119,897	$ -	$ 119,897
Ending balance: collectively evaluated for impairment	$ 187,129	$ 1,287,792	$ 100,114	$ 1,575,035
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -
Mortgage loans:				
Ending balance	$ 47,266,708	$ 61,422,422	$ 20,414,105	$ 129,103,235
Ending balance: individually evaluated for impairment	$ -	$ 960,360	$ -	$ 960,360
Ending balance: collectively evaluated for impairment	$ 47,266,708	$ 60,462,062	$ 20,414,105	$ 128,142,875
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -
December 31, 2013				
Allowance for credit losses:				
Beginning balance - January 1, 2013	$ -	$ 4,193,674	$ 46,187	$ 4,239,861
Charge-offs	-	(2,670,794)	(137,629)	(2,808,423)
Provision	187,129	(158,033)	191,556	220,652
Ending balance - December 31, 2013	$ 187,129	$ 1,364,847	$ 100,114	$ 1,652,090
Ending balance: individually evaluated for impairment	$ -	$ 152,745	$ -	$ 152,745
Ending balance: collectively evaluated for impairment	$ 187,129	$ 1,212,102	$ 100,114	$ 1,499,345
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -
Mortgage loans:				
Ending balance	$ 41,653,009	$ 49,868,486	$ 12,912,473	$ 104,433,968
Ending balance: individually evaluated for impairment	$ -	$ 1,518,327	$ -	$ 1,518,327
Ending balance: collectively evaluated for impairment	$ 41,653,009	$ 48,350,159	$ 12,912,473	$ 102,915,641
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, 2014									
Commercial	$ -	$ -	$ -	$ -	$ -	$ 47,266,708	$ 47,266,708	$ (187,129)	$ 47,079,579
Residential	1,052,534	1,989,725	5,171,118	960,360	9,173,737	52,248,685	61,422,422	(1,407,689)	60,014,733
Residential Construction	-	-	64,895	-	64,895	20,349,210	20,414,105	(100,114)	20,313,991
Total	$1,052,534	$1,989,725	$5,236,013	$ 960,360	$ 9,238,632	$119,864,603	$129,103,235	$(1,694,932)	$127,408,303
December 31, 2013									
Commercial	$ -	$ -	$ -	$ 4,973,745	$ 4,973,745	$ 36,679,264	$ 41,653,009	$ (187,129)	$ 41,465,880
Residential	1,646,953	1,604,847	5,867,501	1,518,327	10,637,628	39,230,858	49,868,486	(1,364,847)	48,503,639
Residential Construction	-	-	64,895	-	64,895	12,847,578	12,912,473	(100,114)	12,812,359
Total	$1,646,953	$1,604,847	$5,932,396	$ 6,492,072	$15,676,268	$ 88,757,700	$104,433,968	$(1,652,090)	$102,781,878

(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, 2014					
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	-	-	-	-	-
Residential construction	-	-	-	-	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	960,360	960,360	119,897	960,360	-
Residential construction	-	-	-	-	-
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	960,360	960,360	119,897	960,360	-
Residential construction	-	-	-	-	-
December 31, 2013					
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	-	-	-	-	-
Residential construction	-	-	-	-	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	1,518,327	1,518,327	152,745	1,518,327	-
Residential construction	-	-	-	-	-
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	1,518,327	1,518,327	152,745	1,518,327	-
Residential construction	-	-	-	-	-

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, 2014	December 30, 2013	June 30, 2014	December 30, 2013	June 30, 2014	December 30, 2013	June 30, 2014	December 30, 2013
Performing	$47,266,708	$36,679,264	$55,290,944	$42,482,658	$20,349,210	$12,847,578	$122,906,862	$ 92,009,500
Nonperforming	-	4,973,745	6,131,478	7,385,828	64,895	64,895	6,196,373	12,424,468
Total	$47,266,708	$41,653,009	$61,422,422	$49,868,486	$20,414,105	$12,912,473	$129,103,235	$104,433,968

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 $468,000 and $678,000 as of June 30, 2014 and December 31, 2013, 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 2014	As of December 31 2013
Commercial	$ -	$ 4,973,745
Residential	6,131,478	7,385,828
Residential construction	64,895	64,895
Total	$ 6,196,373	$ 12,424,468

Loan Loss Reserve

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

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.

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.

3) Investments (Continued)

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

	As of June 30 2014	As of December 31 2013
Balance, beginning of period	$ 5,506,532	$ 6,035,295
Provisions for losses	943,425	1,846,285
Charge-offs	(240,997)	(2,375,048)
Balance, end of period	$ 6,208,960	$ 5,506,532

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

4) Stock-Based Compensation

The Company has three fixed option plans (the “2003 Plan”, the “2006 Plan” and the “2013 Plan”). Compensation expense for options issued of $64,201 and $9,620 has been recognized for these plans for the three months ended June 30, 2014 and 2013, respectively, and $128,526 and $62,589 for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, the total unrecognized compensation expense related to the options issued in December 2013 was $111,496, which is expected to be recognized over the vesting period of one year.

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, 2014, and the changes during the six months ended June 30, 2014, is presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at December 31, 2013	405,133	$ 2.41	508,656	$ 2.00
Granted	-		-	
Exercised	(34,955)	1.44	-	
Cancelled	(1,838)	2.92	-	
Outstanding at June 30, 2014	368,340	$ 2.50	508,656	$ 2.00
As of June 30, 2014:				
Options exercisable	325,243	$ 2.23	482,406	$ 1.84
As of June 30, 2014:				
Available options for future grant	314,480		105,000	
Weighted average contractual term of options outstanding at June 30, 2014	6.77 years		2.11 years	
Weighted average contractual term of options exercisable at June 30, 2014	6.42 years		1.99 years	
Aggregated intrinsic value of options outstanding at June 30, 2014	$ 690,130		$ 1,194,177	
Aggregated intrinsic value of options exercisable at June 30, 2014	$ 689,924		$ 1,194,177	

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, 2014 and 2013 was $115,977 and $1,241,181, respectively. The Company used a stock price of $4.27 as of June 30, 2014 to derive intrinsic value.

5) Capital Stock

The Company has two classes of common stock with shares outstanding: Class A and Class C.

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	
	2014	**2013**	**2014**	**2013**
Numerator:				
Net earnings	$ 2,624,063	$ 2,799,245	$ 2,762,911	$ 4,832,511
Denominator:				
Basic weighted-average shares outstanding	11,835,185	11,724,522	11,844,936	11,669,542
Effect of dilutive securities:				
Employee stock options	426,112	846,990	433,566	888,095
Diluted weighted-average shares outstanding	12,261,297	12,571,512	12,278,502	12,557,637
Basic net earnings per share	$ 0.22	$ 0.24	$ 0.23	$ 0.41
Diluted net earnings per share	$ 0.21	$ 0.22	$ 0.23	$ 0.38

Net earnings per share amounts have been adjusted for the effect of annual stock dividends. For the six months ended June 30, 2014 and 2013, there were 142,972 and 5,250 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, 2013. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

Factors Management Used to Identify the Enterprise's Reportable Segments

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

7) Business Segments (Continued)

	Life Insurance	Cemetery/ Mortuary	Mortgage	Eliminations	Consolidated
For the Three Months Ended June 30, 2014					
Revenues from external customers	$ 19,810,498	$ 3,534,881	$ 36,066,351	$ -	$ 59,411,730
Intersegment revenues	2,356,195	334,314	231,249	(2,921,758)	-
Segment profit before income taxes	1,515,426	168,911	2,502,760	-	4,187,097
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 Six Months Ended June 30, 2014					
Revenues from external customers	$ 38,283,314	$ 6,575,449	$ 59,606,243	$ -	$ 104,465,006
Intersegment revenues	4,417,915	670,612	395,395	(5,483,922)	-
Segment profit before income taxes	2,846,895	351,689	1,154,500	-	4,353,084
Identifiable Assets	626,378,955	108,686,715	56,057,674	(148,165,860)	642,957,484
Goodwill	2,802,991	285,191	-	-	3,088,182
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

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: 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 Company uses quoted market prices to value its call options.

The items shown under Level 3 are valued as follows:

Policyholder Account Balances and Future Policy Benefits-Annuities: 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.

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

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.

The Company's subsequent accounting for MSRs is based on the class of MSRs. The Company has identified two classes of MSRs: MSRs backed by mortgage loans with initial term of 30 years and MSRs backed by mortgage loans with initial term of 15 years. The Company distinguishes between these classes of MSRs due to their differing sensitivities to change in value as the result of changes in market. After being initially recorded at fair value, MSRs backed by mortgage loans are accounted for using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated nine year life.

8) Fair Value of Financial Instruments (Continued)

The Company periodically assesses MSRs for impairment. Impairment occurs when the current fair value of the MSR falls below the asset's carrying value (carrying value is the amortized cost reduced by any related valuation allowance). 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.

Management periodically reviews the various loan strata to determine whether the value of the MSRs in a given stratum is impaired and likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

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, 2014.

	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	$ 7,442,760	$ 7,442,760	$ -	$ -
Total securities available for sale	$ 7,442,760	$ 7,442,760	$ -	$ -
Restricted assets of cemeteries and mortuaries	$ 706,438	$ 706,438	-	-
Cemetery perpetual care trust investments	710,306	710,306	-	-
Derivatives - interest rate lock commitments	3,112,327	-	-	3,112,327
Total assets accounted for at fair value on a recurring basis	$ 11,971,831	$ 8,859,504	$ -	$ 3,112,327
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$ (47,310,100)	$ -	$ -	$ (47,310,100)
Future policy benefits - annuities	(65,006,572)	-	-	(65,006,572)
Derivatives - bank loan interest rate swaps	(46,010)	-	-	(46,010)
- call options	(126,814)	(126,814)	-	-
- interest rate lock commitments	(386,007)	-	-	(386,007)
Total liabilities accounted for at fair value on a recurring basis	$ (112,875,503)	$ (126,814)	$ -	$ (112,748,689)

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, 2013	$ (48,000,668)	$ (65,052,928)	$ 1,487,908	$ (58,310)
Total gains (losses):				
Included in earnings	690,568	46,356	-	-
Included in other comprehensive income (loss)	-	-	1,238,412	12,300
Balance - June 30, 2014	$ (47,310,100)	$ (65,006,572)	$ 2,726,320	$ (46,010)

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 June 30, 2014.

	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	$ 1,608,696	-	-	$ 1,608,696
Real estate held for investment	53,500	-	-	53,500
Total assets accounted for at fair value on a nonrecurring basis	$ 1,662,196	$ -	$ -	$ 1,662,196

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, 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	$ 4,498,756	$ 4,498,756	$ -	$ -
Total securities available for sale	$ 4,498,756	$ 4,498,756	$ -	$ -
Restricted assets of cemeteries and mortuaries	667,149	667,149	-	-
Cemetery perpetual care trust investments	695,616	695,616	-	-
Derivatives - interest rate lock commitments	1,511,111	-	-	1,511,111
Total assets accounted for at fair value on a recurring basis	$ 7,372,632	$ 5,861,521	$ -	$ 1,511,111
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$ (48,000,668)	$ -	$ -	$ (48,000,668)
Future policy benefits - annuities	(65,052,928)	-	-	(65,052,928)
Derivatives - bank loan interest rate swaps	(58,310)	-	-	(58,310)
- call options	(124,174)	(124,174)	-	-
- interest rate lock commitment	(23,203)	-	-	(23,203)
Total liabilities accounted for at fair value on a recurring basis	$ (113,259,283)	$ (124,174)	$ -	$ (113,135,109)

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, 2012	$ (49,746,337)	$ (65,171,687)	$ 2,961,465	$ (93,572)
Total gains (losses):				
Included in earnings	1,745,669	118,759	-	-
Included in other comprehensive income	-	-	(1,473,557)	35,262
Balance - December 31, 2013	$ (48,000,668)	$ (65,052,928)	$ 1,487,908	$ (58,310)

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, 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	$ 5,291,724	-	-	$ 5,291,724
Mortgage loans on real estate	89,000	-	-	89,000
Real estate held for investment	660,784	-	-	660,784
Total assets accounted for at fair value on a nonrecurring basis	$ 6,041,508	$ -	$ -	$ 6,041,508

Fair Value of Financial Instruments Carried at Other Than Fair Value

ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at June 30, 2014 and December 31, 2013. The estimated fair value amounts for June 30, 2014 and December 31, 2013 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of June 30, 2014:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	$ 60,014,733	$ -	$ -	$ 63,575,379	$ 63,575,379
Residential construction	20,313,991	-	-	20,313,991	20,313,991
Commercial	47,079,579	-	-	49,374,754	49,374,754
Mortgage loans, net	$ 127,408,303	$ -	$ -	$ 133,264,124	$ 133,264,124
Policy loans	7,281,130	-	-	7,281,130	7,281,130
Other loans	25,915,255	-	-	25,915,255	25,915,255
Short-term investments	20,268,060	-	-	20,268,060	20,268,060
Liabilities					
Bank and other loans payable	$ 17,087,272	$ -	$ -	$ 17,087,272	$ 17,087,272

8) Fair Value of Financial Instruments (Continued)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2013:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	$ 48,503,639	$ -	$ -	$ 51,537,154	$ 51,537,154
Residential construction	12,812,359	-	-	12,812,359	12,812,359
Commercial	41,465,880	-	-	42,441,268	42,441,268
Mortgage loans, net	$ 102,781,878	$ -	$ -	$ 106,790,781	$ 106,790,781
Policy loans	7,520,376	-	-	7,520,376	7,520,376
Other loans	12,203,630	-	-	12,203,630	12,203,630
Short-term investments	12,135,719	-	-	12,135,719	12,135,719
Liabilities					
Bank and other loans payable	$ 18,231,128	$ -	$ -	$ 18,231,128	$ 18,231,128

The methods, assumptions and significant valuation techniques and inputs used to estimate the fair value of financial instruments are summarized as follows:

Mortgage Loans on Real Estate: The estimated fair value of the Company's mortgage loans is determined using various methods. The Company's mortgage loans are grouped into three categories: Residential, Residential Construction and Commercial. When estimating the expected future cash flows, it is assumed that all loans will be held to maturity, and any loans that are non-performing are evaluated individually for impairment.

Residential – The estimated fair value of mortgage loans originated prior to 2013 is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages. The estimated fair value of mortgage loans originated in 2013 and 2014 is determined from pricing of similar loans that were sold in December 2013.

Residential Construction – These loans are primarily short in maturity (4-6 months) accordingly, the estimated fair value is determined to be the net book value.

Commercial – The estimated fair value is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates for commercial mortgages.

Policy and Other Loans: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

Short-Term Investments : The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

Bank and Other Loans Payable: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

9) Allowance for Doubtful Accounts, Allowance for 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.

The allowance for doubtful accounts 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 also provides an allowance for losses on its mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting its unpaid principal balances. 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. All expenses for foreclosure are expensed as incurred. Once foreclosed, an adjustment for the lower of cost or fair value is made, if necessary, and the amount is classified as other real estate owned held for investment or sale. The Company rents these properties until it is deemed desirable to sell them.

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

10) Derivative Commitments

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

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

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. 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.

10) Derivative Commitments (Continued)

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, 2014 and December 31, 2013 was $126,814 and $124,174, 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, 2014 and December 31, 2013.

Fair Value of Derivative Instruments

	Asset Derivatives				**Liability Derivatives**			
	June 30, 2014		**December 31, 2013**		**June 30, 2014**		**December 31, 2013**	
	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	$ 3,112,327	other assets	$ 1,511,111	Other liabilities	$ 386,007	Other liabilities	$ 23,203
Call Options	--	--	--	--	Other liabilities	126,814	Other liabilities	124,174
Interest rate swaps	--	--	--	--	Bank loans payable	46,010	Bank loans payable	58,310
Total		$ 3,112,327		$ 1,511,111		$ 558,831		$ 205,687

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:	**2014**	**2013**	**2014**	**2013**
Interest Rate Lock Commitments	$ 789,149	$ 1,234,935	$ 1,238,412	$ 519,211
Interest Rate Swaps	5,449	12,685	12,300	21,801
Sub Total	794,598	1,247,620	1,250,712	541,012
Tax Effect	309,894	485,937	487,778	357,976
Total	$ 484,704	$ 761,683	$ 762,934	$ 183,036

11) Reinsurance, Commitments and Contingencies

Reinsurance Terminated with North America Life Insurance Company

On December 1, 2013, in accordance with the terms of the Coinsurance Agreement, Security National Life, through TransWestern Life Insurance Company ("Trans-Western Life"), recaptured additional policies of Trans-Western Life from North America Life Insurance Company ("North America Life"). On December 10, 2013, pursuant to the Coinsurance Agreement, North America Life paid $2,500,000, less a ceding commission of $34,000 to Security National Life. On February 13, 2014, in accordance with the terms of the Coinsurance Agreement, Security National Life, through Trans Western Life, recaptured the remaining policies of Trans-Western Life from North America Life. Pursuant to the Coinsurance Agreement, North America Life paid $4,684,000 less a ceding commission of $57,000 to Security National Life, and the Reinsurance Agreement between Trans Western Life and North America Life was terminated.

Mortgage Loan Loss Settlements

Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended June 30, 2014 and 2013 were $571,000 and $644,000, respectively, and for the six months ended June 30, 2014 and 2013, were $943,000 and $1,181,000 respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of June 30, 2014 and December 31, 2013, the balances were $6,209,000 and $5,507,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo Funding"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo Funding 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 Funding 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 Funding, and pay such amounts to Wells Fargo Funding. 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 26 real estate properties with a total book value as of June 30, 2014 of $4,232,000.

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

11) Reinsurance, Commitments and Contingencies (Continued)

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued $6,201,000 as of June 30, 2014 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 a guaranty agreement, dated February 23, 2006, by the Company for the benefit of 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 alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust 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 issues with 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.

11) Reinsurance, Commitments and Contingencies (Continued)

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur 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. Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan, however, 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 time the reserve account was established, SecurityNational Mortgage paid a total of $4,281,000 from the reserve account to indemnify Lehman Brothers Bank and Aurora Loan Services for 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. Management cannot fully determine the total losses, however, because there could be potential claims for losses that have not yet been determined. As of June 30, 2014, 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 hereinafter referred to 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 claims, 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 subsidiary of Lehman Holdings 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.

11) Reinsurance, Commitments and Contingencies (Continued)

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. The motion and cross motion were taken under advisement. SecurityNational Mortgage's motion in the Lehman Holdings case was heard on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, and is under advisement.

On May 6, 2014, Judge Nuffer issued his summary of facts, conclusions of law and order granting SecurityNational Mortgage's motion for summary judgment and denying the cross motion of Lehman Bank and Aurora Loan Services. On May 27, 2014, Lehman Bank and Aurora Loan Services filed a motion to reconsider Judge Nuffer's summary judgment ruling. On June 2, 2014, a hearing was held before Judge Nuffer to determine the amount owing to SecurityNational Mortgage pursuant to the summary judgment ruling. The motion to reconsider the summary judgment ruling and the issue of what is owing to SecurityNaitonal Mortgage pursuant to the summary judgment ruling are both under advisement by the Court, the Court having indicated that it will issue a ruling on both matters at the same time.

On May 7, 2014, Judge Stewart issued an order for the parties to submit supplemental briefs as to the effect of Judge Nuffer's summary judgment order on SecurityNational Mortgage's motion for summary judgment in the Lehman Holdings case. The supplemental briefing is due within ten days after Judge Nuffer issues his ruling on the motion to reconsider the summary judgment ruling. Judge Stewart also granted leave for SecurityNational Mortgage to file an additional motion for summary judgment in the Lehman Holdings case on the basis that the claims of Lehman Holdings are barred by the statute of limitations. This motion is also to be filed within ten days after Judge Nuffer rules on the motion to reconsider the summary judgment ruling. The August 11, 2014 trial setting in the Lehman Holdings case was stricken without providing a new trial date.

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.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of June 30, 2014, the Company's commitments were $36,092,000 for these loans of which $20,414,000 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, 2014). Maturities range between six and twelve months.

11) 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.

12) Mortgage Servicing Rights

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

	As of June 30 2014	As of December 31 2013
Amortized cost:		
Balance before valuation allowance at beginning of year	$ 4,844,101	$ 2,797,470
MSRs proceeds from loan sales	1,608,696	2,494,254
Amortization	(321,189)	(447,623)
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at year end	$ 6,131,608	$ 4,844,101
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 end of period	$ -	$ -
Mortgage servicing rights, net	$ 6,131,608	$ 4,844,101
Estimated fair value of MSRs at end of period	$ 6,860,160	$ 5,491,270

The Company reports these MSRs pursuant to the accounting policy discussed in Note 8 and Note 9.

13) Acquisitions

Acquisition of American Funeral Financial

On June 4, 2014, the Company, through its wholly owned subsidiary, SNFC Subsidiary, LLC (“SNFC Subsidiary”), completed a purchase transaction with American Funeral Financial, LLC, a South Carolina limited liability company (“American Funeral Financial”) and Hypershop, LLC, a North Carolina limited liability company (“Hypershop”), the sole owner of all the limited liability company interests of American Funeral Financial, to purchase all of the outstanding limited liability company interests, or membership units, of American Funeral Financial. American Funeral Financial is engaged in the operation of a factoring business with the principal purpose of providing funding for funeral homes and mortuaries.

Under the terms of the transaction, as set forth in the Unit Purchase Agreement dated June 4, 2014 (the “Purchase Agreement”), among the Company, SNFC Subsidiary, American Funeral Financial and Hypershop, the Company paid Hypershop purchase consideration equal to (i) $3,000,000 in cash, of which $175,000 was deposited into an interest bearing escrow account to be held for a period of twelve months from the closing date to pay off the indebtedness and other liabilities of American Funeral Financial, plus (ii) $12,011,183, representing the amount of the good standing receivables of American Funeral Financial, plus (iii) earn-out payments equal to .0042 of the aggregate amount of life insurance assignments funded by American Funeral Financial during the three year period following the closing date of the transaction. The purchase consideration was to be used to pay off the indebtedness that American Funeral Financial owed to Security Finance Corporation of Spartanburg, as well as to pay off all other indebtedness and liabilities of American Funeral Financial.

13) Acquisitions (Continued)

The good standing receivables of American Funeral Financial are defined as its assignment receivables outstanding for less than 120 days from the closing date. Within 15 business days after the expiration of the 120-day period following the closing date, Security National agrees to provide Hypershop with reasonable supporting detail of the amount of any assignment receivables included in the good standing receivables that were not collected in full by Security National during such 120-day period, and which of the uncollected good standing receivables that Security National elects to receive payment from Hypershop. Thus, under the Purchase Agreement, Security National is entitled to payment from Hypershop for any uncollected good standing receivables in which Security National elects to receive payment.

The uncollected good standing receivables payment is to be paid to Security National within 15 days from Hypershop's receipt of the uncollected receivable notice from Security National through reduction of funds in the escrow account until the escrow amount has been reduced to zero or fully disbursed, and if the escrow amount is insufficient, then payment is to be made by offsetting or crediting the amounts owed to Security National from the earn-out payments owed to Hypershop until Security National has received full payment of the amount equal to the uncollected receivables payment. Security National, SNFC Subsidiary, Hyershop and American Funeral agree that if the escrow amount and the offsets against earn-out payments are insufficient to pay the amount of the uncollected good standing receivables and the outstanding indebtedness and other liabilities of American Funeral Financial as of the closing date, then Security National has no further recourse against Hypershop, and Hypershop has no further obligation or liability to Security National.

During the period between the closing date and 270 days after the closing date, Security National is required to use commercially reasonable efforts to collect all outstanding receivables, including assignment receivables outstanding for over 120 days from the closing date. In the event that Security National collects any assignment receivables that are outstanding for more than 120 days, Security National agrees to pay Hypershop the amount of such receivables within 15 business days after the receipt of such receivables. If Security National is unable to collect all the outstanding receivables that are more than 120 days from the closing date, Security National agrees to transfer to Hypershop all right, title and interest to such receivables.

With regard to earn-out payments, Security National agrees to provide earn-out payments to Hypershop on a monthly basis over a three year period in the amount equal to the life insurance assignments that American Funeral Financial has funded during the applicable monthly calculation period multiplied by the earn-out multiple of .0042. In the event any customer of American Funeral Financial has also been a customer of C & J Financial, LLC ("C & J Financial"), a wholly owned subsidiary of Security National, during the twelve month period prior to the closing date, the earn-out multiple would be proportionately reduced by the funding amount provided by American Funeral Financial for such customer during the twelve month period prior to the closing date as compared to the funding amount provided by C & J Financial for such customer during the same twelve month period.

Finally, at closing, Security National, SNFC Subidiary and American Funeral Financial entered into a non-competition and confidentiality agreement with Scott Coffman, President of Hypershop. Additionally, American Funeral Financial entered into an employment agreement with Charles B. Gallagher, Jr., who had been serving as Executive Vice President and Chief Operating Officer of American Funeral Financial, and a consulting agreement with A. Todd Justice, who had been serving as President of American Funeral Financial.

13) Acquisitions (Continued)

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

Other loans, net	$ 11,866,193
Property and equipment	760,120
Goodwill	2,373,722
Other	1,379,158
Total assets acquired	16,379,193
Other liabilities and accrued expenses	(1,368,000)
Total liabilities assumed	(1,368,000)
Fair value of net assets acquired	$ 15,011,193

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of American Funeral Financial had occurred at the beginning of the three and six months periods ended June 30, 2014 and 2013. 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)	
	2014	**2013**	**2014**	**2013**
Total revenues	$ 60,275,049	$ 62,538,480	$ 106,796,985	$ 118,182,856
Net earnings	$ 2,661,985	$ 2,925,290	$ 3,004,668	$ 5,004,912
Net earnings per Class A equivalent common share	$ 0.22	$ 0.25	$ 0.25	$ 0.43
Net earnings per Class A equivalent common share assuming dilution	$ 0.22	$ 0.23	$ 0.24	$ 0.40

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

Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on relatively low interest rates by originating 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 represent a marketing niche that has 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, 2014 and 2013. 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)		
	2014	**2013**	**% Increase (Decrease)**	**2014**	**2013**	**% Increase** (Decrease)
Revenues from external customers						
Insurance premiums	$ 13,335	$ 12,905	3%	$ 26,464	$ 25,326	4%
Net investment income	5,452	3,611	51%	10,279	7,452	38%
Income from loan originations	714	163	338%	1,057	248	326%
Other	309	118	162%	483	1,015	(52%)
Total	$ 19,810	$ 16,797	18%	$ 38,283	$ 34,041	12%
Intersegment revenue	$ 2,356	$ 2,505	(6%)	$ 4,418	$ 5,093	(13%)
Earnings before income taxes	$ 1,516	$ 441	244%	$ 2,847	$ 1,255	127%

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in the three and six months ended June 30, 2014 has increased due to an increase in net investment income, an increase in income from loan originations, and an increase in insurance premiums.

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, 2014 and 2013. 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)		
	2014	2013	% Increase (Decrease)	2014	2013	% Increase (Decrease)
Revenues from external customers						
Mortuary revenues	$ 1,342	$ 1,316	2%	$ 2,661	$ 2,666	0%
Cemetery revenues	2,248	2,059	9%	3,883	3,717	4%
Other	(56)	6	(1,033%)	31	(22)	(241%)
Total	$ 3,534	$ 3,381	5%	$ 6,575	$ 6,361	3%
Earnings before income taxes	$ 169	$ 108	56%	$ 352	$ 184	91%

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 $239,000 and $262,000 for the three months ended June 30, 2014 and 2013, respectively, and $492,000 and $522,000 for the six months ended June 30, 2014 and 2013, respectively.

Mortgage Operations

Overview

The Company's wholly owned subsidiaries, SecurityNational Mortgage Company and Green Street Mortgage Services, Inc., are mortgage lenders incorporated under the laws of the State of Utah, and are 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 and Green Street obtain loans from their retail offices and independent brokers. Mortgage loans originated by the Company's mortgage subsidiaries are funded from internal cash flows, including loan purchase agreements from Security National Life, its wholly owned subsidiary, and unaffiliated financial institutions.

SecurityNational Mortgage and Green Street Mortgage receive fees from the borrowers and secondary fees from third party investors that purchase their loans. Loans originated by SecurityNational Mortgage and Green Street Mortgage are generally sold with mortgage servicing rights released to third party investors. Since the second quarter of 2012, however, SecurityNational Mortgage has sold but retained mortgage servicing rights on approximately 30% of its loan origination volume. The majority of these loans are serviced by an approved third party sub-servicer.

For the six months ended June 30, 2014 and 2013, SecurityNational Mortgage originated and sold 5,021 loans ($937,835,000 total volume) and 6,292 loans ($1,180,674,000 total volume), respectively. For the six months ended June 30, 2014, Green Street Mortgage originated and sold eight loans ($1,817,000 total volume). Green Street Mortgage did not originate and sell any mortgage loans prior to November 2013.

The following table shows the condensed financial results of the mortgage operations for the three and six months ended June 30, 2014 and 2013. 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)		
	2014	2013	% Increase (Decrease)	2014	2013	% Increase (Decrease)
Revenues from external customers						
Income from loan originations	$ 30,413	$ 33,867	(10%)	$ 50,457	$ 60,971	(17%)
Secondary gains from investors	5,653	7,287	(22%)	9,149	14,812	(38%)
Total	$ 36,066	$ 41,154	(12%)	$ 59,606	$ 75,783	(21%)
Earnings before income taxes	$ 2,503	$ 3,921	(36%)	$ 1,155	$ 6,258	(82%)

The decrease in earnings for the three and six months ended June 30, 2014 was due to lower secondary gains on mortgage loans sold to investors and the decline in refinance activity as a result of the increase in mortgage loan interest rates.

Mortgage Loan Loss Settlements

Future loan losses are extremely difficult to estimate, especially in the current market. Management believes that the Company's reserve methodology, however, allows it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended June 30, 2014 and 2013 were $571,000 and $644,000, respectively, and for the six months ended June 30, 2014 and 2013, were $943,000 and $1,181,000 respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of June 30, 2014 and December 31, 2013, the balances were $6,209,000 and $5,507,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo Funding 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 Funding 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 Funding, and pay such amounts to Wells Fargo Funding. 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 26 real estate properties with a total book value as of June 30, 2014 of $4,232,000.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo Funding, Wells Fargo Funding 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 Funding purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo Funding and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo Funding 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 $6,201,000 as of June 30, 2014 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 could 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, relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of 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 alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust 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, 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 issues with 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. Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan, however, 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 time the reserve account was established, SecurityNational Mortgage paid a total of $4,281,000 from the reserve account to indemnify Lehman Brothers Bank and Aurora Loan Services for 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. Management cannot fully determine the total losses, however, because there could be potential claims for losses that have not yet been determined. As of June 30, 2014, 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 hereinafter referred to 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 claims, 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 subsidiary of Lehman Holdings 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. The motion and cross motion were taken under advisement. SecurityNational Mortgage’s motion in the Lehman Holdings case was heard on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, and is under advisement.

On May 6, 2014, Judge Nuffer issued his summary of facts, conclusions of law and order granting SecurityNational Mortgage's motion for summary judgment and denying the cross motion of Lehman Bank and Aurora Loan Services. On May 27, 2014, Lehman Bank and Aurora Loan Services filed a motion to reconsider Judge Nuffer's summary judgment ruling. On June 2, 2014, a hearing was held before Judge Nuffer to determine the amount owing to SecurityNational Mortgage pursuant to the summary judgment ruling. The motion to reconsider the summary judgment ruling and the issue of what is owing to SecurityNaitonal Mortgage pursuant to the summary judgment ruling are both under advisement by the Court, the Court having indicated that it will issue a ruling on both matters at the same time.

On May 7, 2014, Judge Stewart issued an order for the parties to submit supplemental briefs as to the effect of Judge Nuffer's summary judgment order on SecurityNational Mortgage's motion for summary judgment in the Lehman Holdings case. The supplemental briefing is due within ten days after Judge Nuffer issues his ruling on the motion to reconsider the summary judgment ruling. Judge Stewart also granted leave for SecurityNational Mortgage to file an additional motion for summary judgment in the Lehman Holdings case on the basis that the claims of Lehman Holdings are barred by the statute of limitations. This motion is also to be filed within ten days after Judge Nuffer rules on the motion to reconsider the summary judgment ruling. The August 11, 2014 trial setting in the Lehman Holdings case was stricken without providing a new trial date.

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.

Consolidation

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Total revenues decreased by $1,920,000, or 3.1%, to $59,412,000 for the three months ended June 30, 2014, from $61,332,000 for the comparable period in 2013. Contributing to this decrease in total revenues was a $4,727,000 decrease in mortgage fee income. This decrease in total revenues was offset by a $1,681,000 increase in net investment income, a $430,000 increase in insurance premiums and other considerations, a $200,000 increase in realized gains on investments and other assets, a $192,000 increase in other revenues, a $188,000 increase in net mortuary and cemetery sales, and a $116,000 decrease in other than temporary impairments.

Insurance premiums and other considerations increased by $430,000, or 3.3%, to $13,335,000 for the three months ended June 30, 2014, from $12,905,000 for the comparable period in 2013. This increase was primarily due to an increase in first year premiums as a result of increased insurance sales in the second quarter of 2014.

Net investment income increased by $1,681,000, or 33.5%, to $6,707,000 for the three months ended June 30, 2014, from $5,026,000 for the comparable period in 2013. This increase was primarily attributable to an $826,000 increase in mortgage loan interest, a $763,000 increase in rental income from real estate owned, a $410,000 increase in short-term investment income, a $12,000 increase in equity securities income, and a $10,000 increase in fixed maturity securities income during the second quarter of 2014. This decrease was partially offset by a $326,000 increase in investment expenses and a $14,000 decrease in policy loan income during the same period.

Net cemetery and mortuary sales increased by $188,000, or 5.8%, to $3,447,000 for the three months ended June 30, 2014, from $3,259,000 for the comparable period in 2013. This increase was primarily due to an increase in at-need sales in both the cemetery and mortuary operations during the second quarter of 2014.

Realized gains on investments and other assets increased by $200,000, or 142.4%, to $340,000 in realized gains for the three months ended June 30, 2014, from $140,000 in realized gains for the comparable period in 2013. This increase in realized gains on investments and other assets was the result of a $179,000 increase in realized gains on other assets, and a $52,000 increase in realized gains on fixed maturity securities during the second quarter of 2014. This increase was partially offset by a $31,000 decrease in realized gains on securities available for sale during the same period.

Mortgage fee income decreased by $4,727,000, or 12.0%, to $34,773,000 for the three months ended June 30, 2014, from $39,500,000 for the comparable period in 2013. This decrease was primarily attributable to lower secondary gains from mortgage loans sold to investors and the decline in refinance activity resulting from the increase in mortgage loan rates during the second quarter of 2014.

Other revenues increased by $192,000, or 29.6%, to $840,000 for the three months ended June 30, 2014, from $648,000 for the comparable period in 2013. This increase was due to an increase in mortgage servicing fees during the second quarter of 2014.

Total benefits and expenses were $55,225,000, or 93.0% of total revenues, for the three months ended June 30, 2014, as compared to $56,863,000, or 92.7% of total revenues, for the comparable period in 2013.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $451,000 or 3.7%, to $12,557,000 for the three months ended June 30, 2014, from $12,106,000 for the comparable period in 2013. This increase was primarily the result of a $518,000 increase in death benefits during the second quarter 2014. This partially increase was offset by a $51,000 decrease in surrender and other policy benefits, and a $16,000 decrease in future policy benefits during the same period.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by $402,000, or 36.8%, to $1,493,000 for the three months ended June 30, 2014, from $1,091,000 for the comparable period in 2013. This increase was primarily due to increased amortization of value of business acquired for new acquisitions and increased amortization for deferred policy costs due to an increased amount of business terminating during the second quarter of 2014.

Selling, general and administrative expenses decreased by $2,408,000, or 5.7%, to $39,877,000 for the three months ended June 30, 2014, from $42,285,000 for the comparable period in 2013. This decrease was primarily the result of a decrease in mortgage loan originations by SecurityNational Mortgage, which was attributed to the decline in refinance activity resulting from the increase in mortgage loan rates during the second quarter of 2014. Commissions decreased by $4,692,000, provision for loan losses decreased by $144,000, and costs related to funding mortgage loans decreased by $128,000 during the same period. This decrease was partially offset by increases in other expenses by $2,091,000 and in salaries by $465,000 due to an increase in the number of employees during the same period.

Interest expense decreased by $92,000, or 10.4%, to $786,000 for the three months ended June 30, 2014, from $878,000 for the comparable period in 2013. This decrease was primarily due to the reduction in outstanding balances on warehouse lines of credit used to fund mortgage loans during the second quarter of 2014.

Cost of goods and services sold by the cemeteries and mortuaries increased by $8,000, or 1.7%, to $511,000 for the three months ended June 30, 2014, from $503,000 for the comparable period in 2013. This increase was primarily due to an increase in cemetery and mortuary sales during the second quarter of 2014.

Comprehensive income for the three months ended June 30, 2014 and 2013 amounted to gains of $3,231,000 and $3,491,000, respectively. This $260,000 decrease in comprehensive income was primarily the result of a $277,000 decrease in derivatives related to mortgage loans and a $175,000 decrease in net income during the second quarter of 2014, which were partially offset by a $192,000 increase in unrealized gains in securities available for sale during the same period.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Total revenues decreased by $11,719,000, or 10.1%, to $104,465,000 for the six months ended June 30, 2014, from $116,184,000 for the comparable period in 2013. Contributing to this decrease in total revenues was a $15,452,000 decrease in mortgage fee income and a $444,000 decrease in realized gains on investments and other assets during the six months ended June 30, 2014. This decrease in total revenues was partially offset by a $2,323,000 increase in net investment income, a $1,138,000 increase in insurance premiums and other considerations, a $459,000 increase in other revenues, a $141,000 increase in net mortuary and cemetery sales, and a $116,000 decrease in other than temporary impairments during the same period.

Insurance premiums and other considerations increased by $1,138,000, or 4.5%, to $26,464,000 for the six months ended June 30, 2014, from $25,326,000 for the comparable period in 2013. This increase was primarily due to an increase in first year premiums as a result of increased insurance sales during the six months ended June 30, 2014.

Net investment income increased by $2,323,000, or 23.2%, to $12,350,000 for the six months ended June 30, 2014, from $10,027,000 for the comparable period in 2013. This increase was primarily attributable to a $1,850,000 increase in rental income from real estate owned, a $1,338,000 increase in mortgage loan interest, a $166,000 increase in fixed maturity securities income, and a $102,000 increase in short-term investment income during the six months ended June 30, 2014. This increase was partially offset by a $1,099,000 increase in investment expenses, a $14,000 decrease in equity securities income, and a $20,000 decrease in policy loan income during the same period.

Net cemetery and mortuary sales increased by $141,000, or 2.3%, to $6,278,000 for the six months ended June 30, 2014, from $6,137,000 for the comparable period in 2013. This increase was primarily due to an increase in at-need sales in both the cemetery and mortuary operations during the six months ended June 30, 2014.

Realized gains on investments and other assets decreased by $444,000, or 45.2%, to $539,000 in realized gains for the six months ended June 30, 2014, from $983,000 in realized gains for the comparable period in 2013. This decrease in realized gains on investments and other assets was the result of a $378,000 decrease in realized gains on other assets and a $111,000 decrease in realized gains on securities available for sale during the six months ended June 30, 2014. This decrease was offset by a $45,000 increase in realized gains on fixed maturity securities during the same period.

Mortgage fee income decreased by $15,452,000, or 21.2%, to $57,311,000 for the six months ended June 30, 2014, from $72,763,000 for the comparable period in 2013. This decrease was primarily attributable to lower secondary gains from mortgage loans sold to investors and the decline in refinance activity resulting from the increase in mortgage loan rates during the six months ended June 30, 2014.

Other revenues increased by $459,000, or 40.8%, to $1,583,000 for the six months ended June 30, 2014, from $1,124,000 for the comparable period in 2013. This increase was due to an increase in mortgage servicing fees.

Total benefits and expenses were $100,112,000, or 95.8% of total revenues, for the six months ended June 30, 2014, as compared to $108,487,000, or 93.4% of total revenues, for the comparable period in 2013.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits decreased by an aggregate of $49,000 or 0.2%, to $24,115,000 for the six months ended June 30, 2014, from $24,164,000 for the comparable period in 2013. This decrease was primarily the result of a $286,000 decrease in surrender and other policy benefits and a $200,000 decrease in future policy benefits during the six months ended June 30, 2014. This decrease was partially offset by a $437,000 increase in death benefits during the same period.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by $311,000, or 12.0%, to $2,897,000 for the six months ended June 30, 2014, from $2,586,000 for the comparable period in 2013. This increase was primarily due to increased amortization of value of business acquired for new acquisitions and increased amortization for deferred policy costs due to an increased amount of business terminating during the six months ended June 30, 2014.

Selling, general and administrative expenses decreased by $8,237,000, or 10.4%, to $70,814,000 for the six months ended June 30, 2014, from $79,051,000 for the comparable period in 2013. This decrease was primarily the result of a decrease in mortgage loan originations by SecurityNational Mortgage, which was attributed to the decline in refinance activity resulting from the increase in mortgage loan rates during the six month period ended June 30, 2014. Commissions decreased by $11,702,000, costs related to funding mortgage loans decreased by $437,000, and provision for loan losses decreased by $325,000 during the same period. This decrease was partially offset by increases in other expenses by $3,024,000, and in salaries by $1,203,000 due to an increase in the number of employees during the same period.

Interest expense decreased by $401,000, or 23.8%, to $1,284,000 for the six months ended June 30, 2014, from $1,685,000 for the comparable period in 2013. This decrease was primarily due to reduction in outstanding balances on warehouse lines of credit used to fund mortgage loans during the six month period ended June 30, 2014.

Comprehensive income for the six months ended June 30, 2014 and 2013 amounted to gains of $3,686,000 and $5,148,000, respectively. This $1,462,000 decrease in comprehensive income during the six months ended June 30, 2014 was primarily the result of a $2,069,000 decrease in net income, which was partially offset by a $580,000 increase in derivatives related to mortgage loans and a $27,000 increase in unrealized gains in securities available for sale during the same period.

Liquidity and Capital Resources

The Company’s life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from the proceeds from the maturity of held to maturity investments or sale of other investments. The mortgage subsidiaries realize 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 current operating expenses.

During the six months ended June 30, 2014, the Company's operations provided cash of $40,506,000. This was due primarily to a $24,629,000 decrease in the balance of mortgage loans sold to investors and a $10,663,000 increase in future policy benefits. During the six months ended June 30, 2013, the Company's operations provided cash of $38,831,000. This was due primarily to a $14,230,000 decrease in the balance of mortgage loans sold to investors and a $9,663,000 increase in future policy benefits.

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 $138,305,000 as of June 30, 2014 compared to $142,854,000 as of December 31, 2013. This represents 32.1% and 37.1% of the total investments as of June 30, 2014 and December 31, 2013, 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, 2014, 5.50% (or $7,863,000) and at December 31, 2013, 4.6% (or $6,621,000) 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 that 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, 2014 and December 31, 2013, the life insurance subsidiary was in compliance with the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable was $109,139,000 as of June 30, 2014, as compared to $106,040,000 as of December 31, 2013. Stockholders' equity as a percent of total capitalization was 84.3% and 82.8% as of June 30, 2014 and December 31, 2013, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2013 was 5.7% as compared to a rate of 6.0% for 2012. The 2014 lapse rate to date has been approximately the same as 2013.

At June 30, 2014, $33,376,000 of the Company's consolidated stockholders' equity represented 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 state 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, 2013.

Item 4. Controls and Procedures.

<u>Disclosure Controls and Procedures</u>

As of June 30, 2014, 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, 2014, 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 Generally Accepted Accounting Principles (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 issues with 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. Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan, however, 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 time the reserve account was established, SecurityNational Mortgage paid a total of $4,281,000 from the reserve account to indemnify Lehman Brothers Bank and Aurora Loan Services for 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. Management cannot fully determine the total losses, however, because there could be potential claims for losses that have not yet been determined. As of June 30, 2014, 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 hereinafter referred to 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 claims, 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 subsidiary of Lehman Holdings 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. The motion and cross motion were taken under advisement. SecurityNational Mortgage’s motion in the Lehman Holdings case was heard on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, and is under advisement.

On May 6, 2014, Judge Nuffer issued his summary of facts, conclusions of law and order granting SecurityNational Mortgage’s motion for summary judgment and denying the cross motion of Lehman Bank and Aurora Loan Services. On May 27, 2014, Lehman Bank and Aurora Loan Services filed a motion to reconsider Judge Nuffer’s summary judgment ruling. On June 2, 2014, a hearing was held before Judge Nuffer to determine the amount owing to SecurityNational Mortgage pursuant to the summary judgment ruling. The motion to reconsider the summary judgment ruling and the issue of what is owing to SecurityNaitonal Mortgage pursuant to the summary judgment ruling are both under advisement by the Court, the Court having indicated that it will issue a ruling on both matters at the same time.

On May 7, 2014, Judge Stewart issued an order for the parties to submit supplemental briefs as to the effect of Judge Nuffer's summary judgment order on SecurityNational Mortgage's motion for summary judgment in the Lehman Holdings case. The supplemental briefing is due within ten days after Judge Nuffer issues his ruling on the motion to reconsider the summary judgment ruling. Judge Stewart also granted leave for SecurityNational Mortgage to file an additional motion for summary judgment in the Lehman Holdings case on the basis that the claims of Lehman Holdings are barred by the statute of limitations. This motion is also to be filed within ten days after Judge Nuffer rules on the motion to reconsider the summary judgment ruling. The August 11, 2014 trial setting in the Lehman Holdings case was stricken without providing a new trial date.

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.

Acquisition of American Funeral Financial

On June 4, 2014, the Company, through its wholly owned subsidiary, SNFC Subsidiary, LLC, completed a purchase transaction with American Funeral Financial, LLC, a South Carolina limited liability company, and Hypershop, LLC, a North Carolina limited liability company and sole owner of all the limited liability company interests of American Funeral Financial, to purchase all of the outstanding limited liability company interests, or membership units, of American Funeral Financial. American Funeral Financial is engaged in the operation of a factoring business with the principal purpose to provide funding for funeral homes and mortuaries. For the year ended December 31, 2013, American Funeral Financial had revenues of $5,026,000 with a net income of $164,000. As of December 31, 2013, the total assets of American Funeral Financial were $19,153,000 and total equity was $1,680,000.

Under the terms of the transaction, as set forth in the Purchase Agreement dated June 4, 2014, among the Company, SNFC Subsidiary, American Funeral Financial and Hypershop, the Company paid Hypershop purchase consideration equal to (i) $3,000,000 in cash, of which $175,000 was deposited into an interest bearing escrow account to be held for a period of twelve months from the closing date to pay off the indebtedness and other liabilities of American Funeral Financial, plus (ii) $12,011,183, representing the amount of the good standing receivables of American Funeral Financial, plus (iii) earn-out payments equal to .0042 of the aggregate amount of life insurance assignments funded by American Funeral Financial during the three year period following the closing date of the transaction. The purchase consideration was to be used to pay off the indebtedness that American Funeral Financial owed to Security Finance Corporation of Spartanburg, as well as to pay off all other indebtedness and liabilities of American Funeral Financial.

The good standing receivables of American Funeral Financial are defined as its assignment receivables outstanding for less than 120 days from the closing date. Within 15 business days after the expiration of the 120-day period following the closing date, the Company agrees to provide Hypershop with reasonable supporting detail of the amount of any assignment receivables included in the good standing receivables that were not collected in full by the Company during such 120-day period, and which of the uncollected good standing receivables that the Company elects to receive payment from Hypershop. Thus, under the Purchase Agreement, the Company is entitled to payment from Hypershop for any uncollected good standing receivables in which the Company elects to receive payment.

The uncollected good standing receivables payment is to be paid to the Company within 15 days from Hypershop's receipt of the uncollected receivable notice from the Company through reduction of funds in the escrow account until the escrow amount has been reduced to zero or fully disbursed, and if the escrow amount is insufficient, then payment is to be made by offsetting or crediting the amounts owed to the Company from the earn-out payments owed to Hypershop until the Company has received full payment of the amount equal to the uncollected receivables payment. The Company, SNFC Subsidiary, Hyershop and American Funeral agree that if the escrow amount and the offsets against earn-out payments are insufficient to pay the amount of the uncollected good standing receivables and the outstanding indebtedness and other liabilities of American Funeral Financial as of the closing date, then the Company has no further recourse against Hypershop, and Hypershop has no further obligation or liability to the Company.

During the period between the closing date and 270 days after the closing date, the Company is required to use commercially reasonable efforts to collect all outstanding receivables, including assignment receivables outstanding for over 120 days from the closing date. In the event that the Company collects any assignment receivables that are outstanding for more than 120 days, the Company agrees to pay Hypershop the amount of such receivables within 15 business days after the receipt of such receivables. If the Company is unable to collect all the outstanding receivables that are more than 120 days from the closing date, the Company agrees to transfer to Hypershop all right, title and interest to such receivables.

With regard to earn-out payments, the Company agrees to provide earn-out payments to Hypershop on a monthly basis over a three year period in the amount equal to the life insurance assignments that American Funeral Financial has funded during the applicable monthly calculation period multiplied by the earn-out multiple of .0042. In the event any customer of American Funeral Financial has also been a customer of C & J Financial, LLC, a wholly owned subsidiary of the Company, during the twelve month period prior to the closing date, the earn-out multiple would be proportionately reduced by the funding amount provided by American Funeral Financial for such customer during the twelve month period prior to the closing date as compared to the funding amount provided by C & J Financial for such customer during the same twelve month period.

Finally, at closing, the Company, SNFC Subidiary and American Funeral Financial entered into a non-competition and confidential agreement with Scott Coffman, President of Hypershop. Additionally, American Funeral Financial entered into an employment agreement with Charles B. Gallagher, Jr., who had been serving as Executive Vice President and Chief Operating Officer of American Funeral Financial, and a consulting agreement with A. Todd Justice, who had been serving as President of American Funeral Financial.

Approval of Reverse Stock Split and Weighted Voting of Class C Common Stock

On July 2, 2014, the shareholders approved a 1-for-10 reverse stock split of the Company’s Class C common stock at the Annual Meeting of Stockholders. Concurrently with the approval of the reverse stock split, the stockholders also approved amendments to Article V of the Company’s Articles of Incorporation to provide that each share of Class C common stock will have weighted voting of ten votes per share and that each share of Class C common stock may be converted into one share of Class A common stock. The Board of Directors had previously approved the reverse stock split and weighted voting of Class C common stock. Prior to the approval of the reverse stock split and weighted voting of Class C shares, the Company’s Articles of Incorporation provided that each share of Class C common stock had one vote per share and that Class C common shares were convertible into Class A common shares at a conversion ratio of ten shares of Class C common stock for one share of Class A common stock.

The Board of Directors believe the 1-for-10 reverse stock split and the weighted voting of the shares of Class C common stock are in the Company’s best interest. The Company’s per share net income or loss and net book value have often been misreported and understated by the financial community due to a misunderstanding of the conversion and other rights of the Company’s Class C common stock. As a result, the Company’s per share net income or loss and net book value have often been understated because the financial community would often convert Class C common shares to Class A common shares at a one-to-one conversion ratio rather than a ten-to-one ratio when reporting per share net income or loss and net book value. The Company believes that the amendments to the Articles of Incorporation, which were approved by the Board of Directors and stockholders of the Company, will help correct this problem.

The reverse stock split and weighted voting of the Company's Class C common stock were effective on August 1, 2014, when the Articles of Restatement and Amendment to the Company's Articles of Incorporation were filed with the Utah Division of Corporations and Commercial Code. The reverse stock split will affect all of the holders of the Company's Class C common stock uniformly and will not affect any Class C stockholder's percentage ownership interest in the Company or proportionate voting power, except for insignificant changes that will result from the rounding up of fractional shares.

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 (3)

3.2 Amended Bylaws (5)

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 (4)

10.3 2006 Director Stock Option Plan (8)

10.4 2013 Stock Option Plan (12)

10.5 Deferred Compensation Plan (2)

10.6 Employment agreement with J. Lynn Beckstead, Jr. (6)

10.7 Employment agreement with Scott M. Quist (7)

10.8 Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (9)

10.9 Coinsurance Agreement between Security National Life Insurance Company and Mothe Life Insurance Company (10)

10.10 Certificate and Agreement of Contribution to Surplus between Security National Financial Corporation and Security National Life Insurance Company (10)

10.11 Agreement and Plan of Reorganization among Security National Financial Corporation and certain subsidiaries (11)

10.12 Purchase Agreement among Security National Financial Corporation, SNFC Subsidiary, LLC, American Funeral Financial, LLC, and Hypershop, LLC (13)

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*

101 SCH XBRL Schema Document*

101 CAL XBRL Calculation Linkbase Document*

101 DEF XBRL Definition Linkbase Document*

101 LAB XBRL Labels Linkbase Document*

101 PRE XBRL Presentation Linkbase Document*

* 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.

(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 April 3, 2002
(3) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003
(4) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company’s Annual Meeting of Stockholders
(5) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
(6) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
(7) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
(8) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company’s Annual Meeting of Stockholders
(9) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
(10) Incorporated by reference from Report on Form 8-K, as filed on December 27, 2012
(11) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2013
(12) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 5, 2013, relating to the Company’s Annual Meeting of Stockholders
(13) Incorporated by reference from Report on Form 8-K, as filed on June 13, 2014

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, 2014	/s/ Scott M. Quist Scott M. Quist Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Dated: August 14, 2014	/s/ Garrett S. Sill Garrett S. Sill Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)