

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

SECURITY NATIONAL FINANCIAL CORP

Form 10-Q

August 14, 2007

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarter ended June 30, 2007, or

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

Commission file number: 0-9341

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

UTAH  
(State or other jurisdiction of  
incorporation or organization)

87-0345941  
(I.R.S. Employer  
Identification No.)

5300 South 360 West, Suite 250 Salt Lake City, Utah  
(Address of principal executive office)

84123  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one)

Large accelerate filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934): Yes No

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	6,297,729
-----	-----
Title of Class	Number of Shares Outstanding as of July 31, 2007
Class C Common Stock, \$.20 par value	7,500,000
-----	-----
Title of Class	Number of Shares Outstanding as of July 31, 2007

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

=====

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED JUNE 30, 2007

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1	Financial Statements	Page No.
-----		-----
	Condensed Consolidated Balance Sheets June 30, 2007 and December 31, 2006, (unaudited).....	3-4
	Condensed Consolidated Statements of Earnings - Three and Six Months ended June 30, 2007 and 2006 (unaudited).....	5
	Condensed Consolidated Statements of Cash Flows - Six Months ended June 30, 2007 and 2006 (unaudited).....	6
	Notes to Condensed Consolidated Financial Statements (unaudited)...	7-14
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15-20
Item 3	Quantitative and Qualitative Disclosures about Market Risk.....	20
-----		
Item 4	Controls and Procedures.....	20
-----		

PART II - OTHER INFORMATION

Other Information.....	20-26
Signature Page.....	27
Certifications.....	28-30

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

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Assets	June 30, 2007
Investments:	
Fixed maturity securities, held to maturity, at amortized cost	\$ 94,611,167
Fixed maturity securities, available for sale, at estimated fair value	2,903,281
Equity securities, available for sale, at estimated fair value	5,588,669
Mortgage loans on real estate and construction loans, net of allowances for losses	70,190,705
Real estate, net of accumulated depreciation	4,869,973
Policy, student and other loans net of allowance for doubtful accounts	12,597,159
Short-term investments	7,008,869
Accrued investment income	3,004,393
Total investments	200,774,211
Cash and cash equivalents	7,260,800
Mortgage loans sold to investors	81,468,490
Receivable, net	17,273,240
Restricted assets of cemeteries and mortuaries	5,691,640
Cemetery perpetual care trust investments	1,424,530
Receivable from reinsurers	718,110
Cemetery land and improvements sold to investors	9,084,110
Deferred policy and pre-need contract acquisition costs	29,650,710
Property and equipment, net	14,887,030
Cost of insurance acquired	11,395,700
Goodwill	683,190
Other	5,272,070
Total assets	\$385,583,871

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2007
Liabilities and Stockholders' Equity	
Liabilities	
Future life, annuity, and other benefits	\$272,144,533
Unearned premium reserve	4,807,565
Bank loans payable	8,115,089
Notes and contracts payable	621,159
Deferred pre-need cemetery and mortuary contract revenues	12,169,581
Accounts payable	1,562,118

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Other liabilities and accrued expenses	11,619,716
Income taxes	16,955,923
	-----
Total liabilities	327,995,684
	-----
Non-Controlling Interest in Perpetual Care Trusts	2,352,529
	-----
Stockholders' Equity:	
Common stock:	
Class A: \$2.00 par value, 10,000,000 shares authorized; issued 7,537,394 shares in 2007 and 7,533,230 shares in 2006	15,074,788
Class B non-voting common stock-\$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	--
Class C: convertible common stock - \$0.20 par value; 7,500,000 shares authorized; issued 7,500,000 shares in 2007 and 7,117,591 shares in 2006	1,500,000
Additional paid-in capital	17,075,572
Accumulated other comprehensive income and other items	2,368,249
Retained earnings	22,174,740
Treasury stock at cost - 1,239,665 Class A shares and -0- Class C shares in 2007; 1,195,127 Class A shares and 145,045 Class C shares in 2006	(2,957,688)
	-----
Total stockholders' equity	55,235,661
	-----
Total Liabilities and Stockholders' Equity	\$385,583,874
	=====

See accompanying notes to condensed consolidated financial statements.

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

Revenues:	Three Months Ended		
	2007	2006	
	-----	-----	
Insurance premiums and other considerations	\$ 7,906,334	\$ 7,403,252	\$1
Net investment income	9,009,038	5,504,372	1
Net mortuary and cemetery sales	3,434,182	3,154,220	
Realized gains on investments and other assets	758,199	60,255	
Mortgage fee income	33,079,231	17,930,096	6
Other	128,904	94,254	
	-----	-----	-----
Total revenues	54,315,888	34,146,449	10
	-----	-----	-----
Benefits and expenses:			

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Death benefits	4,081,699	3,567,731	
Surrenders and other policy benefits	463,580	410,236	
Increase in future policy benefits	2,930,517	3,014,873	
Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired	1,362,645	757,542	
General and administrative expenses:			
Commissions	24,855,478	13,686,056	
Salaries	5,901,947	4,247,101	
Other	8,538,985	5,909,659	
Interest expense	4,158,004	1,087,760	
Cost of goods and services sold-			
Mortuaries and cemeteries	663,183	572,624	
Total benefits and expenses	52,956,038	33,253,582	1
Earnings before income taxes	1,359,850	892,867	
Income tax expense	(328,822)	(169,228)	
Net earnings	\$1,031,028	\$ 723,639	\$
Net earnings per class A equivalent common share	\$0.15	\$0.10	
Net earnings per class A equivalent common share-assuming dilution	\$0.14	\$0.10	
Weighted-average Class A equivalent common shares outstanding	7,049,416	6,914,442	
Weighted-average Class A equivalent common shares outstanding assuming-dilution	7,321,334	7,099,143	

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

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,

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

	2007	2006
	-----	-----
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$(16,613,660)	\$12,925,511
	-----	-----
Cash flows from investing activities:		
Securities held to maturity:		
Purchase - fixed maturity securities	(2,026,486)	(6,874,419)
Calls and maturities - fixed maturity securities	5,756,249	1,926,606
Securities available for sale:		
Purchase - fixed maturity securities	(76,974)	(134,262)
Sales - equity securities	789,494	9,164,900
Purchases of short-term investments	(10,817,321)	(7,387,637)
Sales of short-term investments	8,395,280	--
Purchases of restricted assets	(243,851)	12,500
Change in assets for perpetual care trusts	(89,321)	19,897
Amount received for perpetual care trusts	74,019	57,475
Mortgage, policy, and other loans made	(32,831,713)	(36,282,485)
Payments received for mortgage, policy, and other loans	47,986,468	22,858,386
Purchases of property and equipment	(1,981,495)	(664,104)
Disposal of property and equipment	730,242	--
Purchases of real estate	(1,219,465)	(1,686,113)
Sale of real estate	1,195,183	2,039,638
	-----	-----
Net cash provided by (used in) investing activities	15,640,309	(16,949,618)
	-----	-----
Cash flows from financing activities:		
Annuity contract receipts	2,954,809	2,992,944
Annuity contract withdrawals	(6,136,505)	(5,013,124)
Sale of treasury stock	--	19,619
Repayment of bank loans and notes and contracts payable	(787,138)	(1,270,089)
Proceeds from borrowing on bank loans	1,826,400	750,000
	-----	-----
Net cash used in financing activities	(2,142,434)	(2,520,650)
	-----	-----
Net change in cash and cash equivalents	(3,115,785)	(6,544,757)
Cash and cash equivalents at beginning of period	10,376,585	16,632,966
	-----	-----
Cash and cash equivalents at end of period	\$ 7,260,800	\$10,088,209
	=====	=====

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2007 (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

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 Article 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, 2006, included in the Company's Annual Report on Form 10-K (file number 0-9341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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 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 2006 amounts have been reclassified to bring them into conformity with the 2007 presentation.

### 2. Recent Accounting Pronouncements

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, which attempts to set out a consistent framework for preparers to use to determine the appropriate level of valuation allowance tax reserves to maintain for deferred tax assets relating to uncertain tax positions. This interpretation for FASB Statement No. 109 uses a two-step approach wherein a tax benefit is recognized if a position is more-than-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit, which is greater than fifty percent likely to be realized. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves. The Company adopted this Interpretation as of January 1, 2007. Management has considered the amounts and the probabilities of the outcomes that could be realized upon ultimate settlement and believes that it is more-likely-than-not that the Company's recorded income tax benefits will be fully realized. There were no unrecognized tax benefits at the beginning or at the end of the six months ended June 30, 2007.

The Company records interest earned on income-tax refunds in other income, and penalties and interest charged on tax deficiencies in interest expense. As of the date of adoption, there were no amounts accrued for penalties or interest related to unrecognized tax benefits.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

### SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2007 (Unaudited)

In February 2007, the FASB issued SFAS No 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No 115 ("SFAS 159"). SFAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the Company elects for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the application of the fair value option and its effect on its financial position and results of operations.

#### 3. Comprehensive Income

For the three months ended June 30, 2007 and 2006, total comprehensive income amounted to \$1,134,604 and \$450,827, respectively. This increase of \$683,777 was primarily the result of an increase in net income of \$307,419, an increase in derivatives of \$111,927, and an increase in unrealized gains and losses in securities available for sale of \$264,431.

For the six months ended June 30, 2007 and 2006, total comprehensive income amounted to \$2,440,663 and \$2,660,626, respectively. This decrease of \$219,963 was primarily the result of an increase in net income of \$38,294, a decrease in derivatives of \$121,887, and a decrease in unrealized gains and losses in securities available for sale of \$136,370.

#### 4. Stock-Based Compensation

The Company accounts for its stock-based compensation plans according to the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("FAS 123R") for its stock-based compensation plans. Under SFAS 123R, all stock-based compensation is measured at the grant date, based on the fair value of the option or award, and is recognized as an expense in earnings over the requisite service, which is typically through the date the options vest.

The Company adopted SFAS 123R using the modified prospective method. Under this method, for all stock-based options and awards granted prior to January 1, 2006 that remain outstanding as of that date, compensation cost is recognized for the unvested portion over the remaining requisite service period, using the grant-date fair value measured under the original provisions of SFAS 123 for pro forma and disclosure purposes. Furthermore, compensation costs will also be recognized for any awards issued, modified, repurchased or cancelled after January 1, 2006.

The Company utilized the Black-Scholes-Merton model for calculating the fair value of stock awards and stock options.

No options were granted for the three and six months ended June 30, 2007. Total compensation costs relating to stock-based compensation was not material during the three and six months ended June 30, 2007.



## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

### SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2007 (Unaudited)

The Company's Board of Directors granted stock options in 2004 to Scott M. Quist, the Company's President and Chief Operating Officer, to purchase up to 1,000,000 shares of Class C common stock at exercise prices of \$.323 and \$.36 per share. On May 31, 2007, Mr. Quist made a cashless exercise of such options to purchase a total of 1,157,625 shares of Class C common stock that he was entitled to receive, after adjustments for 5% stock dividends issued in 2005, 2006 and 2007.

In connection with the exercise of such options on a cashless basis, Mr. Quist delivered a total of 58,376 shares of Class A common stock to the Company that he held in exchange for all the Class C shares he would be entitled to receive for exercising the options. Inasmuch as there were 6,966,849 shares of Class C common stock outstanding as of May 31, 2007 out of a total of 7,500,000 authorized shares of Class C common stock, the Company could legally issue only 533,151 shares of Class C common stock to Mr. Quist, leaving a balance of 624,474 Class C common shares owing to him.

In order to issue the additional shares of Class C common shares owing to Mr. Quist, the Board of Directors approved on July 13, 2007 an amendment to the Company's Articles of Incorporation to increase the number of Class C common shares from 7,500,000 shares to 15,000,000 shares. Because stockholder approval is also required to amend the Company's Articles of Incorporation, the Company has scheduled a special stockholders meeting on September 21, 2007 to approve the amendment to the Articles of Incorporation to increase the number of authorized shares of Class C common stock from 7,500,000 shares to 15,000,000 shares.

If the stockholders approve the amendment at the special stockholders meeting, the Company will issue Mr. Quist the additional 624,474 shares of Class C common stock that are owed pursuant to his exercise of stock options. If the amendment is not approved at the special stockholders meeting, the Company will, alternatively, issue Mr. Quist 62,487 shares of Class A common stock, representing 10% of the 624,474 Class C common shares that are owed to Mr. Quist based on the conversion ratio set forth in the Articles of Incorporation of one share of Class A common stock for each ten shares of Class C common stock. As of June 30, 2007, the Company has recorded the fair value of the derivative liability in the amount of \$175,700 to reflect the Company's obligation to issue the shares of Class C common stock or, alternatively, shares of Class A common stock owed to Mr. Quist pursuant to the exercise of the stock options. This liability is included in other liabilities and accrued expenses in the accompanying condensed consolidated balance sheet.

#### 5. Earnings Per Share

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

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

	Three Months Ended June 30, 2007	2006
Numerator:		
Net income	\$1,031,028 =====	\$ 723,639 =====
Denominator:		
Basic weighted-average shares outstanding	7,049,416 -----	6,914,442 -----
Effect of dilutive securities:		
Employee stock options	257,075	183,470
Stock appreciation rights	--	1,231
Employee deferred compensation rights	14,843	--
	-----	-----
Dilutive potential common shares	271,918	184,701
	-----	-----
Diluted weighted-average shares outstanding	7,321,334 =====	7,099,143 =====
Basic earnings per share	\$0.15 =====	\$0.10 =====
Diluted earnings per share	\$0.14 =====	\$0.10 =====

Earnings per share amounts have been adjusted for the effect of annual stock dividends.

	Six Months Ended June 30, 2007	2006
Numerator:		
Net income	\$1,775,569 =====	\$1,737,305 =====
Denominator:		
Basic weighted-average shares outstanding	7,047,167 -----	6,914,441 -----
Effect of dilutive securities:		
Employee stock options	244,292	134,946
Stock appreciation rights	--	1,081
Employee deferred compensation rights	14,843	--
	-----	-----
Dilutive potential common shares	259,135	136,027
	-----	-----
Diluted weighted-average shares outstanding	7,306,302 =====	7,050,468 =====
Basic earnings per share	\$0.25 =====	\$0.25 =====
Diluted earnings per share	\$0.24	\$0.25

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

=====

=====

Earnings per share amounts have been adjusted for the effect of annual stock dividends.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2007 (Unaudited)

6. Business Segment

	Life Insurance -----	Cemetery/ Mortuary -----	Mortgage -----	Receivables -----
For the Three Months Ended June 30, 2007				
Revenues from external customers	\$11,428,079	\$4,347,795	\$38,540,014	\$
Intersegment revenues	1,767,705	23,001	122,184	(
Segment profit (loss) before income taxes	1,039,469	588,153	(267,772)	
For the Three Months Ended June 30, 2006				
Revenues from external customers	\$10,698,047	\$3,452,483	\$19,995,919	\$
Intersegment revenues	1,264,601	23,001	121,182	(
Segment profit (loss) before income taxes	947,324	233,273	(287,730)	
For the Six Months Ended June 30, 2007				
Revenues from external customers	\$23,227,261	\$8,127,011	\$72,007,768	\$
Intersegment revenues	3,105,062	46,002	242,344	(
Segment profit (loss) before income taxes	1,645,114	1,018,730	(246,616)	
Identifiable assets	359,542,165	58,490,187	22,721,012	(5
For the Six Months Ended June 30, 2006				
Revenues from external customers	\$21,609,384	\$6,769,172	\$38,171,586	\$
Intersegment revenues	2,654,467	46,002	212,618	(
Segment profit (loss) before income taxes	2,053,401	605,128	(463,505)	
Identifiable assets	352,247,310	51,897,683	18,891,648	(5

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

### SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2007, (Unaudited)

#### 7. Other Business Activity

On March 5, 2007, the Company received a proposed consent order from the Florida Office of Insurance Regulation concerning the New Success Life Program, the higher education product currently being marketed and sold by Southern Security Life. The proposed order states that as a result of an investigation the Florida Office has determined that Southern Security Life violated Florida law (i) by knowingly making statements, sales presentations, omissions or comparisons that misrepresented the benefits, advantages, or terms of the New Success Life Program, and (ii) by knowingly making, advertisements, announcements, or statements containing representations that were untrue or misleading.

The proposed order would require Security National Life and Southern Security Life to immediately cease and desist from making any false or misleading representations to Florida consumers suggesting that the New Success Life Program would accumulate enough value to pay for college expenses in full. The proposed order would also require Security National Life and Southern Security Life to agree to no longer market or sell the New Success Life Program in the State of Florida. In addition, Security National Life and Southern Security Life would be required to send a written notice to Florida consumers who purchased the New Success Life Program on or after January 1, 1998 stating that the higher education program is a whole life insurance product, with a term and annuity rider, and not a college trust fund, savings plan, or other program, and it may not necessarily pay college expenses in full from the accumulated value.

Moreover, the written notice is to provide an opportunity for the Florida consumers who purchased the New Success Life Program on or after January 1, 1998 to cancel their policy and be given a full refund, including all premiums paid, together with interest at the agreed upon rate in the original contract. If each of the Florida consumers who purchased the New Success Life Program after January 1, 1998 was to cancel his or her policy and receive a refund, the cost to the Company to refund all premiums paid, including interest, would be approximately \$8,200,000, an amount in excess of the assets of Southern Security Life.

The proposed consent order would also require Security National Life and Southern Security Life to issue refunds including interest to the eleven policyholders whose affidavits were taken in connection with the administrative complaint that the Florida Office had previously filed against Franz Wallace, the former National Sales Director of Southern Security Life. Security National Life and Southern Security Life would additionally be required to issue refunds, including interest, to any Florida policyholder in the New Success Life Program who had filed a complaint with the Florida Department of Financial Services or whose coverage had lapsed. Furthermore, Security National Life and Southern Security Life would be required to notify the state insurance department in each state in which the New Success Life Program is marketed of the order and any complaint that Southern Security Life received relating to the New Success Life Program from policyholders in that state. Finally, Security National Life and Southern Security Life would be required to pay the Florida Office a penalty of \$100,000 and administrative costs of \$5,000.

The Company disputes the terms of the proposed consent order. The Company is not aware of specific concerns that the Florida Office has with the New Success Life

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Program because it has received no specific administrative complaint from the Florida Office nor is it aware of any recent market conduct examination that the Florida Office has conducted relative to the program. The Company intends to vigorously oppose the proposed consent order. The Company is currently engaged in discussions with the Florida Office in an effort to settle the dispute

### SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2007, (Unaudited)

#### 7. Other Business Activity (continued)

concerning the proposed order. If the Company is unable to reach a satisfactory resolution with the Florida Office with respect to the terms of the proposed consent order and the Florida Office issues a similar order, the Company intends to take action necessary to protect its rights and interests, including requesting a hearing before an administrative law judge to oppose the order. The Company believes any potential liability would be limited to the net assets of Southern Security Life, which are approximately \$3,914,000.

In June 2007, the Company completed the sale of the Colonial Funeral Home property to the Utopia Station Development Corp. for \$730,242, net of selling costs of \$44,758. The Colonial Funeral Home ceased operations in July 2006 and has been inactive since that date. The carrying amount on the Company's financial statements on June 30, 2007 was \$148,777. As a result of the sale and after the related selling expenses, the Company recognized a gain of \$581,465. The Company received a down payment of \$15,242 with the remaining \$715,000 to be received in a lump sum within one year. The gain has been included as a part of Realized Gains on Investments and Other Assets in the Company's condensed consolidated statement of earnings.

#### 8. Subsequent Event

On July 16, 2007, the Company completed a purchase transaction with C & J Financial, LLC, an Alabama limited liability company ("C & J Financial"). C & J Financial operates a factoring business with offices in Rainbow City, Alabama with an emphasis on providing financing for funeral homes and mortuaries. Under the terms of the Unit Purchase Agreement dated July 16, 2007, (the "Purchase Agreement") among the Company, C & J Financial, Henry Culp, Jr. ("Culp") and Culp Industries, Inc. ("Culp Industries"), the Company purchased all of the outstanding member units of C & J Financial for a purchase consideration of (i) \$1,250,000 in cash, (ii) a promissory note from the Company to Culp in the amount of \$381,500 plus interest at the rate of 5% per annum, payable over a period of 24 months in monthly payments of \$16,737, including interest, until paid in full, and (iii) a quit claim deed from C & J Financial to Culp, conveying ownership of the building and surrounding property located in the Jester Commercial Park in Rainbow City, Alabama, where C & J Financial currently maintains its business offices. At closing, Culp Industries entered into a lease agreement with C & J Financial to lease to C & J Financial approximately 5,000 square feet in the building located at the Jester Commercial Park. The lease is for a term of three years for which C & J Financial, as tenant, is required to make monthly payments of \$1,200, for a total lease payment of \$43,200.

The Purchase Agreement additionally required Culp to deliver to the Company at closing a promissory note (the "Note") in the principal amount of \$1,755,236 plus interest at the rate of 8.25% per annum from C & J Financial, as borrower, to Culp, as lender, with such note to be cancelled and marked "paid in full".

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Moreover, the agreement provides for the possibility of adjustments. If the total equity on the balance sheet of C & J Financial as of May 31, 2007, defined as total assets minus total liabilities, is greater than the amount of the equity on the balance sheet of C & J Financial as of the closing date, or July 16, 2007, Culp agrees to pay to the Company the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by reducing the amount of the Note by such difference in the amounts of the total equity on such balance sheets. If the amount of the total equity on the balance sheet of C & J Financial as of May 31, 2007 is less than the amount of the total equity on the balance sheet of C & J Financial as of July 16, 2007, the Company agrees to pay Culp the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by increasing the amount of the Note payable by such difference in the amounts of the total equity on such balance sheets.

### SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements June 30, 2007, (Unaudited)

The Purchase Agreement further requires each unitholder to deliver to the Company a non-competition and confidentiality agreement prohibiting the unitholder from competing with C & J Financial for a period of five years from July 16, 2007 through July 16, 2012. The Company also entered into a one year consulting agreement with Culp, which requires Culp to provide part-time consulting services for C & J Financial at \$50.00 per hour, and a five year employment agreement with Kevin O. Smith ("Smith"), Vice President of C & J Financial, who will continue to serve in that position. The employment agreement requires C & J Financial to pay Smith an annual salary of \$96,000 plus a discretionary bonus and a monthly car allowance of \$1,161.

Finally, the Purchase Agreement requires the Company, C & J Financial, Culp and Culp Industries to acknowledge the existence of a business loan agreement between Regions Bank, as lender, and Culp Industries, as borrower, which provides for a line of credit for C & J Financial. The outstanding balance on the line of credit as of July 16, 2007 was \$1,931,764. The line of credit is secured by, among other assets, the accounts receivable of C & J Financial and is personally guaranteed by Culp. The Company has received confirmation that Regions Bank will not authorize any further advances or sweeps with respect to the line of credit. The Company agrees that it will pay off the outstanding balance of the line of credit with Regions Bank relating to the business of C & J Financial. The Company will initially attempt to pay off the line of credit by means of applying the payments from the accounts receivable of C & J Financial as such payments are made in the ordinary course of business.

At June 30, 2007, total assets of C & J Financial were \$3,197,000 and total liabilities were \$3,526,000, which includes the Note to Culp in the amount of \$1,755,000 that was cancelled at closing. For the seven month period from November 1, 2006 to May 31, 2007, total revenues of C & J Financial were \$775,000 and total expenses were \$764,000, resulting in net income of \$11,000. For the fiscal year ended October 31, 2006, total revenues of C & J Financial were \$1,397,000 and total expenses were \$1,351,000, resulting in net income of \$46,000. For the fiscal year ended October 31, 2005, total revenues of C & J Financial were \$1,137,000 and total expenses were \$1,114,000, resulting in net income of \$23,000. The Company anticipates utilizing the employees and operations of C & J Financial to expand its fast funding operations, which provide financing for funeral homes and mortuaries.

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) originating and refinancing mortgage loans.

Mortgage Operations

During the three months ended June 30, 2007, Security National Mortgage Company ("SNMC") experienced an increase in revenue and expenses due to the increase in loan volume of its operations. SNMC is a mortgage lender incorporated under the laws of the State of Utah. SNMC is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SNMC obtains loans primarily from independent brokers and correspondents. SNMC funds the loans from internal cash flows and lines of credit from financial institutions. SNMC receives fees from the borrowers and other secondary fees from third party investors who purchase the loans from SNMC. SNMC primarily sells all of its loans to third party investors and does not retain servicing to these loans. SNMC pays the brokers and correspondents a commission for loans that are brokered through SNMC. SNMC originated and sold 10,755 loans (\$1,985,066,000 total volume) and 6,002 loans (\$993,094,000 total volume), respectively, for the six months ended June 30, 2007 and 2006.

The mortgage industry is currently experiencing substantial change due to higher than expected delinquencies from subprime loans. The market for new subprime loans has been substantially reduced and several mortgage companies whose primary product was subprime mortgage originations have ceased operations. The Company funded \$4.2 million (.2% of the Company's production) in subprime loans during the six months ending June 30, 2007 and has currently eliminated subprime loans from its product offerings. The Company believes that its potential losses from subprime loans are minimal.

The industry problem with subprime mortgages has created a volatile secondary market for other high risk products, especially alternative documentation (Alt A) loans. Alt A loans are typically offered to qualified borrowers who have relatively high credit scores but are not required to provide full documentation to support personal income and assets owned. Alt A loans can have a loan to value ratio as high as 100%. There is currently a smaller market for Alt A loans and the Company's warehouse line providers have shortened the allowable time for the Company to sell these products to investors. As a result of these changes, the Company is only offering these loans on a limited basis.

Alt A loans represented approximately 21% of the Company's production for the six months ended June 30, 2007. The Company is currently experiencing an increase in production of its other mortgage products. This increased mortgage production will offset some of the loss of income related to the discontinuance

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

of Alt A loans. As of August 13, 2007, the Company had originated a total of \$60,400,000 in Alt A loans that had not been settled by investors. If the Company were unable to sell its Alt A loans it would be required to assume the risk of holding and servicing such loans. The Company believes it has adequate liquidity, however, through its life insurance operations to carry such loans until purchased by investors if warehousing lines are not available.

The Company expects the current mortgage market conditions to continue for the remainder of 2007. Under these circumstances it is difficult to predict profitability. Profitability may be impacted by volume reduction, changes in margins, increased borrowing costs and future loans losses. Management has taken and will continue to take a number of actions, however, in response to the changing market conditions. These include offering Alt A loans on a limited basis, closing unprofitable branch offices, obtaining new warehousing agreements at a lower interest rates, and expense reduction initiatives.

During the six months ending June 30, 2007, the Company experienced loan losses of \$2,459,000. This amount was charged against the provision for loan losses. The balance of the reserve for loan losses at June 30, 2007 was \$1,594,000. The Company adds approximately \$165,000 per month to its loan loss reserves. The Company believes the loan loss reserves are sufficient to cover reasonably foreseeable future loan losses and that its formula for determining the provision for such reserves is adequate.

### Results of Operations

#### Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Total revenues increased by \$20,169,000, or 59.1%, to \$54,316,000 for the three months ended June 30, 2007, from \$34,147,000 for the three months ended June 30, 2006. Contributing to this increase in total revenues was a \$15,149,000 increase in mortgage fee income, a \$503,000 increase in insurance premiums and other considerations, a \$3,505,000 increase in investment income, a \$280,000 increase in net mortuary and cemetery sales, a \$34,000 increase in other revenues, and a \$698,000 increase in realized gains on investments and other assets.

Insurance premiums and other considerations increased by \$503,000, or 6.8%, to \$7,906,000 for the three months ended June 30, 2007, from \$7,403,000 for the comparable period in 2006. This increase was primarily due to the additional premiums realized from new insurance sales.

Net investment income increased by \$3,505,000, or 63.7%, to \$9,009,000 for the three months ended June 30, 2007, from \$5,504,000 for the comparable period in 2006. This increase was primarily attributable to additional interest income from increased long-term bond and mortgage purchases over the comparable period in 2006.

Net mortuary and cemetery sales increased by \$280,000, or 8.9%, to \$3,434,000 for the three months ended June 30, 2007, from \$3,154,000 for the comparable period in 2006. This increase was due to increased at-need sales in the cemetery and mortuary operations and increased pre-need land sales in the cemetery operations.

Realized gains on investments and other assets increased by \$698,000, or 1,163% to \$758,000 for the three months ended June 30, 2007 from \$60,000 for the comparable period in 2006. This was primarily due to a gain of \$581,000 from the sale of Colonial Funeral Home in Salt Lake City.

Mortgage fee income increased by \$15,149,000, or 84.5%, to \$33,079,000 for the



## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

three months ended June 30, 2007, from \$17,930,000 for the comparable period in 2006. This increase was primarily attributable to an increase in the number of loan originations during the second quarter of 2007 as new mortgage offices were opened and production increased in existing mortgage offices, which resulted in the financing of a greater number of mortgage loans.

Other revenues increased by \$34,000, or 35.8% to \$129,000, for the three months ended June 30, 2007 from \$95,000 for the comparable period in 2006. This increase was due to increases in several small income items throughout the Company's operations.

Total benefits and expenses were \$52,956,000, or 97.5% of total revenues, for the three months ended June 30, 2007, as compared to \$33,254,000, or 97.4% of total revenues, for the comparable period in 2006. This increase primarily resulted from increased loan costs at SecurityNational Mortgage Company due to a greater number of loan originations.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$483,000, or 6.9%, to \$7,476,000 for the three months ended June 30, 2007, from \$6,993,000 for the comparable period in 2006. This increase was primarily due to increased insurance business and to the expected increase in reserves for policyholder benefits and death claims.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired increased by \$605,000, or 79.8%, to \$1,363,000 for the three months ended June 30, 2007, from \$758,000 for the comparable period in 2006. This increase was primarily due to increased deferred acquisition costs associated with interest sensitive products and pre-need cemetery contracts.

General and administrative expenses increased by \$15,454,000, or 64.8%, to \$39,296,000 for the three months ended June 30, 2007, from \$23,843,000 for the comparable period in 2006. This increase primarily resulted from an increase in commission expenses of \$11,169,000, from \$13,686,000 in 2006 to \$24,855,000 in 2007, due to a greater number of mortgage loan originations made by SecurityNational Mortgage Company during the second quarter of 2007. Salaries increased by \$1,655,000 from \$4,247,000 in 2006 to \$5,902,000 in 2007, primarily due to merit increases in salaries of existing employees, and an increase in the number of employees necessitated by the Company's expanding business operations. Other expenses increased by \$2,629,000 from \$5,910,000 in 2006 to \$8,539,000 in 2007. The increase in other expenses primarily resulted from increased loan costs at SecurityNational Mortgage Company due to a greater number of loan originations.

Interest expense increased by \$3,070,000, or 282.3%, to \$4,158,000 for the three months ended June 30, 2007, from \$1,088,000 for the comparable period in 2006. This increase was primarily due to increased warehouse lines of credit required for a greater number of warehoused mortgage loans by SecurityNational Mortgage Company.

Cost of goods and services sold of the mortuaries and cemeteries increased by \$91,000, or 15.8%, to \$663,000 for the three months ended June 30, 2007, from \$572,000 for the comparable period in 2006. This increase was primarily due to increased at-need cemetery sales.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Total revenues increased by \$36,812,000, or 55.3%, to \$103,362,000 for the six months ended June 30, 2007, from \$66,550,000 for the six months ended June 30,

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

2006. Contributing to this increase in total revenues was a \$28,042,000 increase in mortgage fee income, a \$911,000 increase in insurance premiums and other considerations, a \$6,373,000 increase in investment income, a \$736,000 increase in net mortuary and cemetery sales, a \$71,000 increase in other revenues, and a \$679,000 increase in realized gains on investments and other assets.

Insurance premiums and other considerations increased by \$911,000, or 6.1%, to \$15,869,000 for the six months ended June 30, 2007, from \$14,958,000 for the comparable period in 2006. This increase was primarily due to the additional insurance premiums realized from new insurance sales.

Net investment income increased by \$6,373,000, or 60.2%, to \$16,952,000 for the six months ended June 30, 2007, from \$10,579,000 for the comparable period in 2006. This increase was primarily attributable to additional interest income from increased long-term bond and mortgage purchases over the comparable period in 2006.

Net mortuary and cemetery sales increased by \$736,000, or 11.9%, to \$6,945,000 for the six months ended June 30, 2007, from \$6,209,000 for the comparable period in 2006. This increase was due to increased at-need sales in the cemetery and mortuary operations and increased pre-need land sales in cemetery operations.

Realized gains on investments and other assets increased by \$679,000, or 1,170.7%, to \$737,000 for the six months ended June 30, 2007 from \$58,000 for the comparable period in 2006. This was primarily due to a one time gain of \$581,000 from the sale of Colonial Funeral Home in Salt Lake City.

Mortgage fee income increased by \$28,042,000, or 81.1%, to \$62,601,000 for the six months ended June 30, 2007, from \$34,559,000 for the comparable period in 2006. This increase was primarily attributable to an increase in the number of loan originations during the six months of 2006 as new mortgage offices were opened and production increased in existing mortgage offices, which resulted in the financing of a greater number of mortgage loans.

Other revenues increased by \$71,000, or 38.0%, to \$258,000 for the six months ended June 30, 2007 from \$187,000 for the comparable period in 2006. This increase was due to increases in several small income items throughout the Company's operations.

Total benefits and expenses were \$100,945,000, or 97.7% of total revenues, for the six months ended June 30, 2007, as compared to \$64,355,000, or 96.7% of total revenues, for the comparable period in 2006. This increase primarily resulted from increased loan costs at SecurityNational Mortgage Company due to a greater number of loan originations.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$1,185,000, or 8.6%, to \$14,920,000 for the six months ended June 30, 2007, from \$13,735,000 for the comparable period in 2006. This increase was primarily due to increased insurance business and to the expected increase in reserves for policyholder benefits and death claims.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired increased by \$1,158,000, or 74.0%, to \$2,723,000 for the six months ended June 30, 2007, from \$1,565,000 for the comparable period in 2006. This increase was primarily due to increased deferred acquisition costs associated with interest-sensitive products from the recapture of the Mega reinsurance agreement in the first quarter of 2006, and pre-need cemetery

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

contracts.

General and administrative expenses increased by \$28,990,000, or 63.4%, to \$74,729,000 for the six months ended June 30, 2007, from \$45,739,000 for the comparable period in 2006. This increase primarily resulted from an increase in commission expenses by \$21,247,000 from \$26,048,000 in 2006 to \$47,295,000 in 2007, due to a greater number of mortgage loan originations made by SecurityNational Mortgage Company during the first six months of 2007. Salaries increased by \$3,197,000 from \$8,490,000 in 2006 to \$11,687,000 in 2007, primarily due to merit increases in salaries of existing employees, and an increase in the number of employees necessitated by the Company's expanding business operations. Other expenses increased by \$4,546,000 from \$11,201,000 in 2006 to \$15,747,000 in 2007. The increase in other expenses primarily resulted from increased loan costs at SecurityNational Mortgage Company due to a greater number of loan originations.

Interest expense increased by \$5,149,000, or 244.3%, to \$7,257,000 for the six months ended June 30, 2007, from \$2,108,000 for the comparable period in 2006. This increase was primarily from increased warehouse lines of credit required for a greater number of warehoused mortgage loans by SecurityNational Mortgage Company.

Cost of goods and services sold by the mortuaries and cemeteries increased by \$107,000, or 8.9%, to \$1,315,000 for the six months ended June 30, 2007, from \$1,208,000 for the comparable period in 2006. This increase was primarily due to increased cemetery and mortuary sales.

### Liquidity and Capital Resources

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

During the six months ended June 30, 2007, the Company's operations used cash of \$15,414,000, while cash totaling \$12,926,000 was provided by operations during the six months ended June 30, 2006. This is due to an increase in the accrual for mortgage loans sold to investors of \$21,651,000, which is attributed to a higher mortgage loan volume for the first six months of 2007 versus mortgage loan volume during the first six months of 2006. The increase in the accrual resulted from an increase in mortgage loans originated but not yet settled by investors as of June 30, 2007.

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; however, to date, that has not been necessary. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

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

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$97,514,000 as of June 30, 2007, compared to \$101,735,000 as of December 31, 2006. This represents 48.6% and 46.8% of the total investments as of June 30, 2007, and December 31, 2006, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At June 30, 2007 0.9% (or \$893,000) and at December 31, 2006, 2.3% (or \$2,402,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

The Company has classified certain of its fixed income securities, including high-yield securities, in its portfolio as available for sale, with the remainder classified as held to maturity. However, in accordance with Company policy, any such securities purchased in the future will be classified as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher-yielding longer-term securities.

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, 2007, and December 31, 2006, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable was \$63,972,000 as of June 30, 2007, as compared to \$60,641,000 as of December 31, 2006. Stockholders' equity as a percent of total capitalization was 86 % and 87% as of June 30, 2007 and December 31, 2006, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2006 was 8.4% as compared to a rate of 7.9% for 2005. The 2007 lapse rate to date has been approximately the same as 2006.

At June 30, 2007, \$19,497,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes since the annual report Form 10-K filed for the year ended December 31, 2006.

### Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures - The Company's principal executive officer and principal financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

(as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of June 30, 2007. Based on that evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) Changes in internal controls - There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect the Company's internal controls and procedures subsequent to the date of their most recent evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

### Part II Other Information

#### Item 1. Legal Proceedings

On March 5, 2007, the Company received a proposed consent order from the Florida Office of Insurance Regulation concerning the New Success Life Program, the higher education product currently being marketed and sold by Southern Security Life. The proposed order states that as a result of an investigation the Florida Office has determined that Southern Security Life violated Florida law (i) by knowingly making statements, sales presentations, omissions or comparisons that misrepresented the benefits, advantages, or terms of the New Success Life Program, and (ii) by knowingly making, advertisements, announcements, or statements containing representations that were untrue or misleading.

The proposed order would require Security National Life and Southern Security Life to immediately cease and desist from making any false or misleading representations to Florida consumers suggesting that the New Success Life Program would accumulate enough value to pay for college expenses in full. The proposed order would also require Security National Life and Southern Security Life to agree to no longer market or sell the New Success Life Program in the State of Florida. In addition, Security National Life and Southern Security Life would be required to send a written notice to Florida consumers who purchased the New Success Life Program on or after January 1, 1998 stating that the higher education program is a whole life insurance product, with a term and annuity rider, and not a college trust fund, savings plan, or other program, and it may not necessarily pay college expenses in full from the accumulated value.

Moreover, the written notice is to provide an opportunity for the Florida consumers who purchased the New Success Life Program on or after January 1, 1998 to cancel their policy and be given a full refund, including all premiums paid, together with interest at the agreed upon rate in the original contract. If each of the Florida consumers who purchased the New Success Life Program after January 1, 1998 was to cancel his or her policy and receive a refund, the cost to the Company to refund all premiums paid, including interest, would be approximately \$8,200,000, an amount in excess of the assets of Southern Security Life.

The proposed consent order would also require Security National Life and Southern Security Life to issue refunds including interest to the eleven policyholders whose affidavits were taken in connection with the administrative complaint that the Florida Office had previously filed against Franz Wallace, the former National Sales Director of Southern Security Life. Security National

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Life and Southern Security Life would additionally be required to issue refunds, including interest, to any Florida policyholder in the New Success Life Program who had filed a complaint with the Florida Department of Financial Services or whose coverage had lapsed. Furthermore, Security National Life and Southern Security Life would be required to notify the state insurance department in each state in which the New Success Life Program is marketed of the order and any complaint that Southern Security Life received relating to the New Success Life Program from policyholders in that state. Finally, Security National Life and Southern Security Life would be required to pay the Florida Office a penalty of \$100,000 and administrative costs of \$5,000.

The Company disputes the terms of the proposed consent order. The Company is not aware of specific concerns that the Florida Office has with the New Success Life Program because it has received no specific administrative complaint from the Florida Office nor is it aware of any recent market conduct examination that the Florida Office has conducted relative to the program. The Company intends to vigorously oppose the proposed consent order. The Company is currently engaged in discussions with the Florida Office in an effort to settle the dispute concerning the proposed order. If the Company is unable to reach a satisfactory resolution with the Florida Office with respect to the terms of the proposed consent order and the Florida Office issues a similar order, the Company intends to take action necessary to protect its rights and interests, including requesting a hearing before an administrative law judge to oppose the order. The Company believes any potential liability would be limited to the net assets of Southern Security Life, which are approximately \$3,914,000.

Except for the proposed consent order from the Florida Office of Insurance Regulation, the Company is not a party to any 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 1A Risk Factors

Due to changes in the mortgage industry from higher than expected delinquencies in subprime loans, the Company may be unable to sell its alternative documentation loans to investors, which would require the Company to assume the risk of holding and servicing such loans.

The mortgage industry is currently experiencing substantial change due to higher than expected delinquencies from subprime loans. The market for new subprime loans has been substantially reduced and several mortgage companies whose primary product was subprime mortgage originations have ceased operations. The Company funded \$4.2 million (.2% of the Company's production) in subprime loans during the six months ending June 30, 2007 and has currently eliminated subprime loans from its product offerings. The Company believes that its potential losses from subprime loans are minimal.

The industry problem with subprime mortgages has created a volatile secondary market for other high risk products, especially alternative documentation (Alt A) loans. Alt A loans are typically offered to qualified borrowers who have relatively high credit scores but are not required to provide full documentation to support personal income and assets owned. Alt A loans can have a loan to value ratio as high as 100%. There is currently a smaller market for Alt A loans and the Company's warehouse line providers have shortened the allowable time for the Company to sell these products to investors. As a result of these changes, the Company is only offering these loans on a limited basis.

Alt A loans represented approximately 21% of the Company's production for the

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

six months ended June 30, 2007. The Company is currently experiencing an increase in production of its other mortgage products. This increased mortgage production will offset some of the loss of income related to the discontinuance of Alt A loans. As of August 13, 2007, the Company had originated a total of \$60,400,000 in Alt A loans that had not been settled by investors. If the Company were unable to sell its Alt A loans it would be required to assume the risk of holding and servicing such loans. The Company believes it has adequate liquidity, however, through its life insurance operations to carry such loans until purchased by investors if warehousing lines are not available.

### Item 2. Changes in Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Submission of Matters to a Vote of Security Holders

None

### Item 5. Other Information

#### Acquisition of C & J Financial, LLC

On July 16, 2007, the Company completed a purchase transaction with C & J Financial, LLC, an Alabama limited liability company ("C & J Financial"). C & J Financial operates a factoring business with offices in Rainbow City, Alabama with an emphasis on providing financing for funeral homes and mortuaries. Under the terms of the Unit Purchase Agreement dated July 16, 2007 (the "Purchase Agreement") among the Company, C & J Financial, Henry Culp, Jr. ("Culp") and Culp Industries, Inc. ("Culp Industries"), the Company purchased all of the outstanding member units of C & J Financial for a purchase consideration of (i) \$1,250,000 in cash, (ii) a

promissory note from the Company to Culp in the amount of \$381,500 plus interest at the rate of 5% per annum, payable over a period of 24 months in monthly payments of \$16,737, including interest, until paid in full, and (iii) a quit claim deed from C & J Financial to Culp, conveying ownership of the building and surrounding property located in the Jester Commercial Park in Rainbow City, Alabama, where C & J Financial currently maintains its business offices. At closing, Culp Industries entered into a lease agreement with C & J Financial to lease to C & J Financial approximately 5,000 square feet in the building located at the Jester Commercial Park. The lease is for a term of three years for which C & J Financial, as tenant, is required to make monthly payments of \$1,200, for a total lease payment of \$43,200.

The Purchase Agreement additionally required Culp to deliver to the Company at closing a promissory note (the "Note") in the principal amount of \$1,755,236 plus interest at the rate of 8.25% per annum from C & J Financial, as borrower, to Culp, as lender, with such note to be cancelled and marked "paid in full". Moreover, the agreement provides for the possibility of adjustments. If the total equity on the balance sheet of C & J Financial as of May 31, 2007, defined as total assets minus total liabilities, is greater than the amount of the equity on the balance sheet of C & J Financial as of the closing date, or July 16, 2007, Culp agrees to pay to the Company the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

July 16, 2007 by reducing the amount of the Note by such difference in the amounts of the total equity on such balance sheets. If the amount of the total equity on the balance sheet of C & J Financial as of May 31, 2007 is less than the amount of the total equity on the balance sheet of C & J Financial as of July 16, 2007, the Company agrees to pay Culp the difference between the total equity on the balance sheet as of May 31, 2007 and the total equity on the balance sheet as of July 16, 2007 by increasing the amount of the Note payable by such difference in the amounts of the total equity on such balance sheets.

The Purchase Agreement further requires each unitholder to deliver to the Company a non-competition and confidentiality agreement prohibiting the unitholder from competing with C & J Financial for a period of five years from July 16, 2007 through July 16, 2012. The Company also entered into a one year consulting agreement with Culp, which requires Culp to provide part-time consulting services for C & J Financial at \$50.00 per hour, and a five year employment agreement with Kevin O. Smith ("Smith"), Vice President of C & J Financial, who will continue to serve in that position. The employment agreement requires C & J Financial to pay Smith an annual salary of \$96,000 plus a discretionary bonus and a monthly car allowance of \$1,161.

Finally, the Purchase Agreement requires the Company, C & J Financial, Culp and Culp Industries to acknowledge the existence of a business loan agreement between Regions Bank, as lender, and Culp Industries, as borrower, which provides for a line of credit for C & J Financial. The outstanding balance on the line of credit as of July 16, 2007 was \$1,931,764. The line of credit is secured by, among other assets, the accounts receivable of C & J Financial and is personally guaranteed by Culp. The Company has received confirmation that Regions Bank will not authorize any further advances or sweeps with respect to the line of credit. The Company agrees that it will pay off the outstanding balance of the line of credit with Regions Bank relating to the business of C & J Financial. The Company will initially attempt to pay off the line of credit by means of applying the payments from the accounts receivable of C & J Financial as such payments are made in the ordinary course of business.

At June 30, 2007, total assets of C & J Financial were \$3,197,000 and total liabilities were \$3,526,000, which includes the Note to Culp in the amount of \$1,755,000 that was cancelled at closing. For the seven month period from November 1, 2006 to May 31, 2007, total revenues of C & J Financial were \$775,000 and total expenses were \$764,000, resulting in net income of \$11,000. For the fiscal year ended October 31, 2006, total revenues of C & J Financial were \$1,397,000 and total expenses were \$1,351,000, resulting in net income of \$46,000. For the fiscal year ended October 31, 2005, total revenues of C & J Financial were \$1,137,000 and total expenses were \$1,114,000, resulting in net income of \$23,000. The Company anticipates utilizing the employees and operations of C & J Financial to expand its fast funding operations, which provide financing for funeral homes and mortuaries.

### Exercise of Stock Options and Special Stockholders Meeting

The Company's Board of Directors granted stock options in 2004 to Scott M. Quist, the Company's President and Chief Operating Officer, to purchase up to 1,000,000 shares of Class C common stock at exercise prices of \$.323 and \$.36 per share. On May 31, 2007, Mr. Quist made a cashless exercise of such options to purchase a total of 1,157,625 shares of Class C common stock that he was entitled to receive, after adjustments for 5% stock dividends issued in 2005,



## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

2006 and 2007.

In connection with the exercise of such options on a cashless basis, Mr. Quist delivered a total of 58,376 shares of Class A common stock to the Company that he held in exchange for all the Class C shares he would be entitled to receive for exercising the options. Inasmuch as there were 6,966,849 shares of Class C common stock outstanding as of May 31, 2007 out of a total of 7,500,000 authorized shares of Class C common stock, the Company could legally issue only 533,151 shares of Class C common stock to Mr. Quist, leaving a balance of 624,474 Class C common shares owing to him.

In order to issue the additional shares of Class C common shares owing to Mr. Quist, the Board of Directors approved on July 13, 2007 an amendment to the Company's Articles of Incorporation to increase the number of Class C common shares from 7,500,000 shares to 15,000,000 shares. Because stockholder approval is also required to amend the Company's Articles of Incorporation, the Company has scheduled a special stockholders meeting on September 21, 2007 to approve the amendment to the Articles of Incorporation to increase the number of authorized shares of Class C common stock from 7,500,000 shares to 15,000,000 shares.

If the stockholders approve the amendment at the special stockholders meeting, the Company will issue Mr. Quist the additional 624,474 shares of Class C common stock that are owed pursuant to his exercise of stock options. If the amendment is not approved at the special stockholders meeting, the Company will, alternatively, issue Mr. Quist 62,487 shares of Class A common stock, representing 10% of the 624,474 Class C common shares that are owed to Mr. Quist based on the conversion ratio set forth in the Articles of Incorporation of one share of Class A common stock for each ten shares of Class C common stock. As of June 30, 2007, the Company has recorded the fair value of the derivative liability in the amount of \$175,700 to reflect the Company's obligation to issue the shares of Class C common stock or, alternatively, shares of Class A common stock owed to Mr. Quist pursuant to the exercise of the stock options. This liability is included in other liabilities and accrued expenses in the accompanying condensed consolidated balance sheet.

Item 6. Exhibits, Financial Statement 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.

(3) Exhibits

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

3.1 Articles of Restatement of Articles of Incorporation (4)

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

- 3.2 Amended Bylaws (6)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- 10.2 2003 Stock Option Plan (5)
- 10.3 2006 Director Stock Option Plan
- 10.4 Deferred Compensation Agreement with George R. Quist (2)
- 10.5 Deferred Compensation Plan (3)
- 10.6 Employment agreement with J. Lynn Beckstead, Jr. (7)
- 10.7 Employment agreement with Scott M. Quist (8)
- 10.8 Stock Purchase Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, Memorial Insurance Company of America, and the shareholders of Memorial Insurance Company (9)
- 10.9 Reinsurance Agreement between Security National Life Insurance Company and Memorial Insurance Company of America (10)
- 10.10 Trust Agreement between Security National Life Insurance Company and Memorial Insurance Company of America (10)
- 10.11 Promissory Note between Memorial Insurance Company as Maker and Security National Life Insurance Company as Payee (10)
- 10.12 Security Agreement between Memorial Insurance Company as Debtor and Security National Life Insurance Company as Secured Party (10)
- 10.13 Surplus Contribution Note between Memorial Insurance Company of America as Maker and Southern Security Life Insurance Company as Payee (10)
- 10.14 Guaranty Agreement by Security National Life Insurance Company and Southern Security Life Insurance Company as Guarantors (10)
- 10.15 Administrative Services Agreement between Security National Life Insurance Company and Memorial Insurance Company of America (10)
- 10.16 Reinsurance Agreement between Security National Life Insurance Company and Southern Security Life Insurance Company (11)
- 10.17 Trust Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company and Zions First National Bank (11)
- 10.18 Stock Purchase Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company and American Network Insurance Company (12)
- 10.19 Escrow Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, American Network Insurance Company and Mackey Price Thompson & Ostler (12)
- 10.20 Escrow Agreement among American Network Insurance Company, Security National Life Insurance Company, Southern Security Life Insurance Company, and Preferred Insurance Capital Consultants, LLC (12)
- 10.21 Agreement and Plan of Complete Liquidation of Southern Security Life Insurance Company into Security National Life Insurance Company (12)
- 10.22 Assignment between Southern Security Life Insurance Company and Security National Life Insurance Company (12)
- 10.23 Assignment between Southern Security Life Insurance Company and Security National Life Insurance Company (12)
- 10.24 Unit Purchase Agreement among Security National Financial Corporation, C&J Financial, LLC, Henry Culp, Jr., and Culp Industries, Inc. (13)
  
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

- 31.2 enacted by Section 302 of the Sarbanes-Oxley Act of 2002  
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
- 

- (1) Incorporated by reference from Registration Statement on Form S-1,  
as filed on June 29, 1987
- (2) Incorporated by reference from Annual Report on Form 10-K, as  
filed on June 30, 1989
- (3) Incorporated by reference from Annual Report on Form 10-K, as  
filed on April 3, 2002
- (4) Incorporated by reference from Report on Form 8-K/A as filed on  
January 8, 2003
- (5) Incorporated by reference from Schedule 14A Definitive Proxy  
Statement, Filed on June 5, 2003, relating to the Company's Annual  
Meeting of Shareholders
- (6) Incorporated by reference from Report on Form 10-Q, as filed on  
November 14, 2003
- (7) Incorporated by reference from Report on Form 10-K, as filed  
on March 30, 2004
- (8) Incorporated by reference from Report on Form 10-Q, as filed on  
August 13, 2004
- (9) Incorporated by reference from Report on Form 8-K, as filed on  
September 27, 2005
- (10) Incorporated by reference from Report on Form 8-K, as filed on  
January 5, 2006
- (11) Incorporated by reference from Report on Form 8-K, as filed on  
January 11, 2006
- (12) Incorporated by reference from Report on Form 8-K, as filed on  
January 12, 2007
- (13) Incorporated by reference from Report on Form 8-K, as filed on  
August 8, 2007

(b) Reports on Form 8-K:

No reports were filed by the Company during the quarter ended June 30,  
2007.

### 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, 2007

By: s/s George R. Quist

-----  
George R. Quist  
Chairman of the Board and Chief

# Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

Executive Officer  
(Principal Executive Officer)

Dated: August 14, 2007

By: s/s Stephen M. Sill

-----  
Stephen M. Sill  
Vice President, Treasurer and Chief  
Financial Officer  
(Principal Financial and Accounting  
Officer)

## Exhibit 31.1

CERTIFICATION PURSUANT TO  
18 U.S.C. ss. 1350,  
AS ENACTED BY  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, George R. Quist, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Security National Financial Corporation.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant to have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 14, 2007

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

### Exhibit 31.2

CERTIFICATION PURSUANT TO  
18 U.S.C. ss. 1350,  
AS ENACED BY  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen M. Sill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Security National Financial Corporation.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant to have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 14, 2007

By: Stephen M. Sill  
Vice President, Treasurer and Chief  
Financial Officer

EXHIBIT 32.1  
CERTIFICATION PURSUANT TO  
18 U.S.C. ss. 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George R. Quist, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 14, 2007

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

EXHIBIT 32.2  
CERTIFICATION PURSUANT TO  
18 U.S.C. ss. 1350,  
AS ADOPTED PURSUANT TO

## Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

### SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 14, 2007

By: Stephen M. Sill  
Vice President, Treasurer and Chief  
Financial Officer