SECURITY NATIONAL FINANCIAL CORP
Form 10-K
March 30, 2012

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

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011, or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934f
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)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $2.00 Par Value	Nasdaq National Market
Class C Common Stock, $0.20 Par Value	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [ ]
Accelerated filer [ ]
Nonaccelerated filer [ ]
Smaller reporting company
[X]

(Do not check if a smaller reporting company)

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business date of the registrant’s most recently completed second fiscal quarter. $13,582,000

As of March 29, 2012, there were outstanding 9,638,798 shares of Class A Common Stock, $2.00 par value per share, and 10,135,976 shares of Class C Common Stock, $.20 par value per share.

Documents Incorporated by Reference

None.

Item 1. Business

Security National Financial Corporation (the "Company") operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment of the Company consists of five cemeteries in the state of Utah and one cemetery in the state of California, and seven mortuaries in the state of Utah and one mortuary in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery, mortuary and cremation services through its Utah, Arizona and California operations. Many of the insurance agents also sell pre-need funeral, cemetery and cremation services. The mortgage loan segment is an approved government and conventional lender that originates and underwrites or otherwise purchases residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 73 wholesale and retail offices in sixteen states, and is an approved mortgage lender in several other states.

The design and structure of the Company is that each business segment is related to the other business segments and contributes to the profitability of the other segments. Because of the Company's cemetery and mortuary operations in Utah, California and Arizona, the Company enjoys a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. The Company's insurance subsidiaries invest their assets (representing, in part, the pre-paid funerals) in investments authorized by the respective insurance departments of their states of domicile. One such investment authorized by insurance departments is mortgage loans. Thus, while each business segment is a profit center on a stand-alone basis, this horizontal integration of each segment is planned to lead to improved profitability of the Company. The Company also pursues growth through acquisitions. The Company's acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing the Company's existing personnel, management, and technology while still providing quality service to customers and policyholders.

The Company was organized as a holding company in 1979, when Security National Life Insurance Company ("Security National Life") became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has grown through the direct sales of life insurance and annuities and through the acquisition of other insurance companies.

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies. In 1989, the Company acquired Paradise Chapel Funeral Home, Inc. and, in 1991, it acquired Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. In 1993, the Company formed SecurityNational Mortgage Company ("SecurityNational Mortgage") to originate and refinance residential mortgage loans. See note 14 of the Notes to Consolidated Financial Statements for additional disclosure and discussion regarding segments of the business.

Life Insurance

Products

The Company, through Security National Life and its insurance subsidiaries, Memorial Insurance Company of America ("Memorial Insurance Company") and Southern Security Life Insurance Company ("Southern Security"), issues and distributes selected lines of life insurance and annuities. The Company's life insurance business includes funeral plans, and interest-sensitive life insurance, as well as other traditional life and accident and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

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

Markets and Distribution

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

A majority of the Company’s funeral plan premiums come from the states of Florida, Louisiana, Mississippi, Oklahoma, Tennessee, Texas and Utah.

The Company sells its life insurance products through direct agents, brokers and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 10% to 120% of first year premiums. In those cases where the Company utilizes its direct agents in selling such policies, those agents customarily receive advances against future commissions.

In some instances, funeral plan insurance is marketed in conjunction with the Company’s cemetery and mortuary sales force. When it is marketed by that group, the beneficiary is usually the Company’s cemeteries and mortuaries. Thus, death benefits that become payable under the policy are paid to the Company’s cemetery and mortuary subsidiaries to the extent of services performed and products purchased.

In marketing funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs. The incentive for such businesses to share the costs is that these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2011:

	2011		2010	2009		2008		2007	
Life Insurance Policy/Cert. Count as of December 31	414,411	(3)	398,774	407,673		415,656	(2)	405,224	(1)
Insurance in force as of December 31 (omitted 000)	$ 2,969,648	(3)	$ 3,003,622	$ 2,617,946		$ 2,454,409	(2)	$ 2,434,733	(1)
Premiums Collected (omitted 000)	$ 47,982	(3)	$ 38,579	$ 38,399	(2)	$ 36,063	(1)	$ 32,173	

(1) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(2) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.
(3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

Underwriting

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

Age Nearest Birthday	Non-Medical Limits

0-50	$100,000
51-up	Medical information required (APS or exam)

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

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

Annuities

Products

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

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

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

Markets and Distribution

The general market for the Company's annuities is middle to older age individuals who wish to save or invest their money in a tax-deferred environment, having relatively high yields. The major source of annuity considerations comes from direct agents. Annuities are also sold in conjunction with other insurance sales. If an individual does not qualify for a funeral plan due to health considerations, the agent will often sell that individual an annuity to fund those final expenses.

The following table summarizes the annuity business for the five years ended December 31, 2011:

	2011		2010	2009	2008		2007	
Annuities Policy/Cert. Count as of December 31	11,313	(3)	12,344	12,366	11,411	(2)	11,175	(1)
Deposits Collected (omitted 000)	$5,757	(3)	$6,166	$6,737	$8,959	(1)(2)	$4,080	

(1) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(2) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.
(3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

Accident and Health

Products

Prior to the acquisition of Capital Investors in 1994, the Company did not actively market accident and health products. With the acquisition of Capital Investors, the Company acquired a block of accident and health policies that pay limited benefits to policyholders. The Company is currently offering low-cost comprehensive diver's and limited recreational accident policies. These policies provide worldwide coverage for medical expense reimbursement in the event of diving or certain recreational sports accidents.

Markets and Distribution

The Company currently markets its accident policies through web marketing.

The following table summarizes the accident and health insurance business for the five years ended December 31, 2011:

	2011	2010	2009	2008	2007
Accident and Health Policy/Cert. Count as of December 31	8,268	9,269	13,436	14,060	14,845
Premiums Collected (omitted 000)	$175	$203	$219	$232	$257

Reinsurance

The primary purpose of reinsurance is to enable an insurance company to write a policy in an amount larger than the risk it is willing to assume for itself. The Company remains obligated for amounts ceded in the event the reinsurers do not meet their obligations.

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

The Company's policy is to retain no more than $100,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2011, reinsured by other companies, aggregated $87,441,000, representing approximately 3.0% of the Company's life insurance in force on that date.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding reinsurance.

Investments

The investments that support the Company's life insurance and annuity obligations are determined by the Investment Committee of the Board of Directors of the various subsidiaries and ratified by the full Board of Directors of the respective subsidiaries. A significant portion of the investments must meet statutory requirements governing the nature and quality of permitted investments by insurance companies. The Company's interest-sensitive type products, primarily annuities and interest-sensitive whole life, compete with other financial products such as bank certificates of deposit, and brokerage sponsored money market funds as well as competing life insurance company products. Although it is not the Company's policy to offer the highest yield in this economic climate, in order to offer what the Company considers to be a competitive yield, it maintains a diversified portfolio consisting of common stocks, preferred stocks, municipal bonds, investment and non-investment grade bonds, mortgage loans, real estate, short-term investments and other securities and investments.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding investments.

Cemetery and Mortuary

Products

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

Markets and Distribution

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

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

Potential customers are located via telephone sales prospecting, responses to letters mailed by the pre planning consultants, newspaper inserts, referrals, and door-to-door canvassing. The Company trains its sales representatives and generates leads for them.

Mortgage Loans

Products

Beginning in 1993, the Company, through its wholly owned subsidiary, SecurityNational Mortgage Company ("SecurityNational Mortgage") has been active in the residential real estate market. The Company has current approvals through HUD, Fannie Mae, Freddie Mac and other substantial secondary market investors, which enable it to originate a variety of residential mortgage loan products that are subsequently sold to investors and the Company uses internal and external funding sources with unaffiliated financial institutions.

Security National Life, an affiliate of SecurityNational Mortgage, originates commercial real estate loans both for internal investment as well as for sale to unaffiliated investors and also originates residential construction loans.

Markets and Distribution

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

Recent Acquisitions and Other Business Activities

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company ("North America Life"), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of $15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of $3,525,875. In addition, North America Life transferred $15,703,641 in assets and $19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The $15,703,641 in assets included $12,990,444 in cash, $8,997 in policy loans, and $2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

On September 1, 2011 Security National Life with the approval of the Texas Department of Insurance assumed all of the policies which were issued by North America Life previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

Regulation

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

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

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

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

Income Taxes

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

Security National Life, Memorial Insurance Company and Southern Security may not continue to receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined tax assets of the Company must be less than $500,000,000 and the taxable income of the life insurance companies must be less than $3,000,000 on a tax accounting basis. To the extent that the net income limitation is exceeded, the small life insurance company deduction is phased out over the next $12,000,000 of life insurance company taxable income.

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

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

Competition

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

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

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

Employees

As of December 31, 2011, the Company had 652 full-time and 288 part-time employees.

Item 2. Properties

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

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount		Expiration
5300 South 360 West	Salt Lake City	UT	Corporate Headquarters	Owned	30,317	$356,760/	yr	month to month
755 Rinehart Road	Lake Mary	FL	Mortgage Sales	Owned	9,348	$121,151/	yr	month to month
3935 I-55 South, Frontage Road	Jackson	MS	Insurance Operations	Owned	12,000	$84,000/	yr	month to month
5247 Greenpine Drive	Murray	UT	Cemetery & Insurance Sales	Owned	1,700	$3,106/	mo	month to month
497-A Sutton Bridge Road	Rainbow City	AL	Fast Funding Operations	Leased	5,500	$26,400/	yr	06/30/14
222 N Hervey, Suite B	Hope	AR	Mortgage Sales	Leased	1,000	$300/	mo	month to month
3807 McCain Park Dr. #110	North Little Rock	AR	Mortgage Sales	Leased	1,125	$1,000/	mo	month to month
5701 Talavi Blvd. #155	Glendale	AZ	Mortgage Sales	Leased	2,214	$45,500/	yr	05/06/15
4740 Green River Road, #107	Corona	CA	Mortgage Sales	Leased	1,677	$23,142/	yr	04/15/12
12150 Tributary Point Dr., Suite 160	Gold River	CA	Mortgage Sales	Leased	2,400	$49,400/	yr	06/30/12
27344 Tourney Road Suite 220	San Clarita	CA	Mortgage Sales	Leased	2,455	$72,000/	yr	04/30/14
27451 Tourney Road Suite 130	San Clarita	CA	Mortgage Sales	Leased	1,191	$33,600/	yr	04/30/14
421 S. Cataract	San Dimas	CA	Mortgage Sales	Leased	6,200	$56,400/	yr	03/31/13
8695 College Parkway	Ft Myers	FL	Mortgage Sales	Leased	1,000	$11,100/	yr	06/30/12
2435 US Highway 19 North Suite #208	Holiday	FL	Mortgage Sales	Leased	305	$250/	mo	month to month
905 Lee Road	Orlando	FL	Mortgage Sales	Leased	201	$925/	mo	month to month
935 Main Street, Suite C-2	Safe Harbor	FL	Mortgage Sales	Leased	1,050	$17,334/	yr	10/11/12
1221 Kapiolani Blvd #930	Honolulu	HI	Mortgage Sales	Leased	1,340	$15,912/	yr	08/27/12
970 No. Kalaheo Ave, Suite A-214	Kailua	HI	Mortgage Sales	Leased	665	$19,094/	yr	09/30/12
360 Sun Valley Road Suite 2	Ketchum	ID	Mortgage Sales	Leased	1,430	$24,000/	yr	11/30/14
1540 W North Ave. #2	Chicago	IL	Mortgage Sales	Leased	1,000	$19,200/	yr	04/30/12
7227 West Madison Avenue	Forest Park	IL	Mortgage Sales	Leased	1,800	$21,600/	yr	05/31/12
1200 Jorie Blvd #220	Oak Brook	IL	Mortgage Sales	Leased	4,763	$84,543/	yr	10/31/14
2525-24th Suite #208	Rock Island	IL	Mortgage Sales	Leased	1,000	$2,400/	mo	month to month
6813 Hobson Valley Drive #104	Woodridge	IL	Mortgage Sales	Leased	1,000	$3,000/	yr	11/30/12

47-51 Southpark Boulevard	Greenwood	IN	Mortgage Sales	Leased	4,818	$22,800/	yr	03/31/12
1655 Thornapple Circle	Valparaiso	IN	Mortgage Sales	Leased	744	$10,416/	yr	07/31/12
822 North Main	McPhearson	KS	Mortgage Sales	Leased	560	$900/	mo	month to month
6900 College Blvd., Suite 950	Overland Park	KS	Mortgage Sales	Leased	2,800	$55,100/	yr	01/31/13
150 A Andover Street	Danvers	MA	Mortgage Sales	Leased	2,138	$28,863/	yr	05/30/13
2016 NW South Outer Road	Blue Spring	MO	Mortgage Sales	Leased	1,000	$10,800/	yr	11/30/12
200 NE Missouri Road #235	Lee's Summit	MO	Mortgage Sales	Leased	1,000	$150/	mo	month to month
111 West Port Plaza, Suite 600	St. Louis	MO	Mortgage Sales	Leased	300	$7,600/	yr	08/30/11
12977 North Forty Drive Ste 203	St. Louis	MO	Mortgage Sales	Leased	2,933	$50,881/	yr	11/30/14
1400 Battleground Ave #202-A	Greensboro	NC	Mortgage Sales	Leased	600	$300/	mo	month to month
375 N Stephanie #2311	Henderson	NV	Mortgage Sales	Leased	3,938	$47,256/	yr	08/31/14
3035 South Jones Blvd #5	Las Vegas	NV	Mortgage Sales	Leased	890	$1,100/	mo	month to month
3285 North Fort Apache Road	Las Vegas	NV	Mortgage Sales	Leased	1,000	$11,500/	mo	month to month
2499 Capital of Texas Hwy #102	Austin	TX	Mortgage Sales	Leased	1,363	$2,428/	mo	month to month
2900 South Congress #101	Austin	TX	Mortgage Sales	Leased	916	$1,070/	mo	month to month
5000 Plaza on the Lake Drive, Suite 250	Austin	TX	Mortgage Sales	Leased	9,500	$1,254/	mo	month to month
6805 Capitol of Texas Highway, Suite 315	Austin	TX	Mortgage Sales	Leased	2,300	$4,275/	mo	month to month
8700 Manchca Road #603	Austin	TX	Mortgage Sales	Leased	1,000	$300/	mo	month to month
9737 Great Hills Trail, Suite 200	Austin	TX	Mortgage Sales	Leased	8,000	$2,500/	mo	month to month
1213 East Alton Gloor Blvd Suite H	Brownsville	TX	Mortgage Sales	Leased	1,000	$13,200/	yr	09/30/12
255 Elk Drive Suite D	Burleson	TX	Mortgage Sales	Leased	1,182	$19,503/	yr	01/31/14
12201 Merit Drive, Suite 400	Dallas	TX	Mortgage Sales	Leased	4,613	$83,034/	yr	06/01/12
501 Wynnewood Village #210	Dallas	TX	Mortgage Sales	Leased	1,000	$12,000/	yr	06/30/14
5211 South McColl Road Suite G	Edinburg	TX	Mortgage Sales	Leased	1,000	$450/	mo	month to month
17000 El Camino Real #103D	Houston	TX	Mortgage Sales	Leased	750	$750/	mo	month to month
17347 Village Green Drive-102A	Houston	TX	Mortgage Sales	Leased	3,000	$4,195/	mo	month to month
5353 W. Sam Houston Parkway N., Suite 170	Houston	TX	Mortgage Sales	Leased	5,442	$69,756/	yr	04/30/13
7410 Westview	Houston	TX	Mortgage Sales	Leased	1,000	$7,260/	yr	03/31/15
21394 Provincial Blvd	Katy	TX	Mortgage Sales	Leased	1,250	$15,720/	yr	01/31/12

201 Kingwood Medical Drive A400	Kingwood	TX	Mortgage Sales	Leased	1,850	$4,420/	mo	month to month
1310 RR 620 S #C15	Lakeway	TX	Mortgage Sales	Leased	2,472	$3,060/	mo	03/31/12
1354 North Loop 1604 East	San Antonio	TX	Mortgage Sales	Leased	3,622	$56,684/	mo	03/18/13
2511 N Loop 1604 West Ste 100	San Antonio	TX	Mortgage Sales	Leased	1,100	$1,500/	mo	month to month
613 Northwest Loop 410, Suite 685	San Antonio	TX	Mortgage Sales	Leased	1,170	$48,500/	yr	10/31/12
1095 Evergreen Circle #214	The Woodlands	TX	Mortgage Sales	Leased	1,000	$17,760/	yr	02/29/12
1201 Lake Woodlands Drive #4016	The Woodlands	TX	Mortgage Sales	Leased	2,648	$15,600/	yr	02/28/12

Item 2. Properties (Continued)

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount		Expiration
6965 Union Park Center #200	Cottonwood Heights	UT	Mortgage Sales	Leased	7,620	$14,065/	yr	07/31/15
288 SR 248, Suite 2A	Kamas	UT	Mortgage Sales	Leased	1,480	$22,200/	yr	02/01/12
1558 N Woodland Park Drive #400	Layton	UT	Mortgage Sales	Leased	1,000	$2,500/	yr	month to month
6965 South Union Park, Suites 200, 470 & 480	Midvale	UT	Mortgage Sales	Leased	7,978	$15,351/	yr	08/31/16
378 East 720 South	Orem	UT	Mortgage Sales	Leased	2,048	$19,200/	yr	05/31/12
1245 Deer Valley Drive #3A	Park City	UT	Mortgage Sales	Leased	2,183	$43,660/	yr	12/31/14
6584 North Creekside Lane, Suite 150	Park City	UT	Mortgage Sales	Leased	200	$4,800/	yr	month to month
1864 West 12600 South	Riverton	UT	Mortgage Sales	Leased	277	$6,911/	yr	03/14/12
5525 South 900 East, Suite 210	Salt Lake City	UT	Mortgage Sales	Leased	2,000	$37,000/	yr	month to month
6740 South 1300 East, Suite 100	Salt Lake City	UT	Mortgage Sales	Leased	3,200	$79,796/	yr	04/17/12
970 East Murray-Holladay Rd., Suite 603	Salt Lake City	UT	Mortgage Sales	Leased	6,357	$43,742/	yr	01/31/13
9815 S. Monroe Street	Sandy	UT	Mortgage Sales	Leased	2,800	$59,988/	yr	03/31/16
1099 West South Jordan Parkway	South Jordan	UT	Mortgage Sales	Leased	3,329	$60,913/	yr	10/31/14
1244 North Main Street, Suite 203	Tooele	UT	Mortgage Sales	Leased	1,230	$2,200/	mo	month to month
70 South Main Street	Tooele	UT	Mortgage Sales	Leased	1,230	$24,000/	yr	04/19/14
8831 South Redwood Rd	West Jordan	UT	Mortgage Sales	Leased	1,000	$97,248/	yr	07/31/12
5909 6th Avenue A	Kenosha	WI	Mortgage Sales	Leased	1,000	$950/	mo	month to month

The Company believes the office facilities it occupies are in good operating condition and adequate for current operations. The company will enter into additional leases as expansion warrants. Those leases will be month to month where possible. As leases expire the Company will either renew or find comparable leases or acquire additional office space.

The following table summarizes the location and acreage of the six Company owned cemeteries, each of which includes one or more mausoleums:

			Net Saleable Acreage			
Name of Cemetery	Location	Date Acquired	Developed Acreage (1)	Total Acreage (1)	Acres Sold as Cemetery Spaces (2)	Total Available Acreage (1)
Memorial Estates, Inc.						
Lakeview Cemetery	1640 East Lakeview Drive	1973	7	40	6	34

	Bountiful, Utah					
Mountain View Cemetery	3115 East 7800 South Salt Lake City, Utah	1973	15	54	15	39
Redwood Cemetery (4)	6500 South Redwood Road West Jordan, Utah	1973	27	78	28	50
Cottonwood Mortuary, Inc.						
Deseret Memorial Inc. Lake Hills Cemetery (3)	10055 South State Street Sandy, Utah	1991	9	41	4	37
Holladay Memorial Park (3)(4)	4900 South Memory Lane Holladay, Utah	1991	5	14	4	10
California Memorial Estates						
Singing Hills Memorial Park	2800 Dehesa Road El Cajon, California	1995	8	35	4	31

(1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries.

(2) Includes spaces sold for cash and installment contract sales.

(3) As of December 31, 2011, there were mortgages of approximately $878,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, and Lake Hills Cemetery.

(4) These cemeteries include two granite mausoleums.

Item 2. Properties (Continued)

The following table summarizes the location, square footage and the number of viewing rooms and chapels of the eleven Company owned mortuaries:

Name of Mortuary	Location	Date Acquired	Viewing Room(s)	Chapel(s)	Square Footage
Memorial Mortuary	5850 South 900 East Murray, Utah	1973	3	1	20,000
Memorial Estates, Inc.:					
Redwood Mortuary(2)	6500 South Redwood Rd. West Jordan, Utah	1973	2	1	10,000
Mountain View Mortuary(2)	3115 East 7800 South Salt Lake City, Utah	1973	2	1	16,000
Lakeview Mortuary(2)	1640 East Lakeview Dr. Bountiful, Utah	1973	0	1	5,500
Paradise Chapel Funeral Home	3934 East Indian School Road Phoenix, Arizona	1989	2	1	9,800
Deseret Memorial, Inc.:					
Deseret Mortuary(1)	36 East 700 South Salt Lake City, Utah	1991	2	2	36,300
Lakehills Mortuary(2)	10055 South State St. Sandy, Utah	1991	2	1	18,000
Cottonwood Mortuary(1)(2)	4670 South Highland Dr. Holladay, Utah	1991	2	1	14,500

(1) As of December 31, 2011, there were mortgages of approximately $878,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park and Lake Hills Cemetery.

(2) These funeral homes also provide burial niches at their respective locations.

Item 3. Legal Proceedings

Lehman Brothers – Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 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 54 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among the 54 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 2009, 2010 and 2011, the Company recognized alleged losses of $1,032,000, $1,289,000 and $0, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2011, 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 Brothers Bank FSB (hereinafter “Lehman Bank”), and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately $4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

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

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 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's shareholders during the quarter ended December 31, 2011.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's Class A Common Stock trades on the Nasdaq National Market under the symbol "SNFCA." Prior to August 13, 1987, there was no active public market for the Class A and Class C Common Stock. As of March 29, 2012, the closing sales price of the Class A Common Stock was $1.30 per share. The following were the high and low market closing sales prices for the Class A Common Stock by quarter as reported by Nasdaq since January 1, 2010:

	Price Range (1)	
	High	Low
Period (Calendar Year)		
2010		
First Quarter	$3.75	$3.00
Second Quarter	$3.25	$1.94
Third Quarter	$2.13	$1.73
Fourth Quarter	$2.03	$1.72
2011		
First Quarter	$2.13	$1.65
Second Quarter	$1.80	$1.36
Third Quarter	$1.58	$1.17
Fourth Quarter	$1.55	$1.05

2012		
First Quarter (through March 29, 2012)	$1.70	$1.23

(1) Sales prices have been adjusted retroactively for the effect of annual stock dividends.

The Class C Common Stock is not actively traded, although there are occasional transactions in such stock by brokerage firms. See note 11 of the Notes to Consolidated Financial Statements.

The Company has never paid a cash dividend on its Class A or Class C Common Stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C Common Stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C Common Stock has been paid each year from 1990 through 2011.

The graph below compares the cumulative total stockholder return of the Company's Class A common stock with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's Insurance Index for the period from December 31, 2007 through December 31, 2011. The graph assumes that the value of the investment in the Company's Class A common stock and in each of the indexes was 100 at December 31, 2007 and that all dividends were reinvested.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company's Class A common stock.

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
SNFC	100	45	97	57	44
S & P 500	100	62	76	86	86
S & P Insurance	100	41	45	52	47

The graph set forth above is required by the Securities and Exchange Commission and shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such acts.

As of December 31, 2011, there were 3,809 record holders of Class A Common Stock and 101 record holders of Class C Common Stock.

Item 6. Selected Financial Data - The Company and Subsidiaries (Consolidated)

The following selected financial data is for each of the five years ended December 31, 2011, and is derived from the audited consolidated financial statements. The data as of December 31, 2011 and 2010, and for the three years ended December 31, 2011, should be read in conjunction with the consolidated financial statements, related notes and other financial information.

Consolidated Statement of Earnings Data:

	Year Ended December 31,				
	2011(3)	2010	2009	2008(1)	2007(2)
Revenue					
Premiums	$48,479,000	$38,528,000	$38,413,000	$35,981,000	$32,263,000
Net investment income	20,011,000	18,616,000	19,915,000	28,201,000	33,227,000
Net mortuary and cemetery sales	10,761,000	11,520,000	11,974,000	12,726,000	13,189,000
Realized gains on investments	2,464,000	1,615,000	1,223,000	1,018,000	1,008,000
Other than temporary impairments	(841,000)	(674,000)	(326,000)	(2,752,000)	-
Mortgage fee income	77,605,000	97,343,000	144,275,000	143,259,000	130,472,000
Other	1,110,000	1,582,000	1,415,000	1,015,000	860,000
Total revenue	159,589,000	168,530,000	216,889,000	219,448,000	211,019,000
Expenses					
Policyholder benefits	44,486,000	36,452,000	35,920,000	32,904,000	29,742,000
Amortization of deferred policy acquisition costs	7,509,000	5,945,000	7,161,000	6,010,000	5,571,000
Selling, general and administrative expenses	102,513,000	122,217,000	161,785,000	169,917,000	156,775,000
Interest expense	1,961,000	2,779,000	3,326,000	7,449,000	13,271,000
Cost of goods and services of the mortuaries and cemeteries	1,883,000	2,226,000	2,349,000	2,437,000	2,537,000
Total benefits and expenses	158,352,000	169,619,000	210,541,000	218,717,000	207,896,000
Income before income tax benefit (expense)	1,237,000	(1,089,000)	6,348,000	731,000	3,123,000
Income tax benefit (expense)	62,000	658,000	(2,574,000)	(156,000)	(858,000)
Net earnings (loss)	$1,299,000	$(431,000)	$3,774,000	$575,000	$2,265,000
Net earnings (loss) per common share (4)	$0.14	$(0.05)	$0.41	$0.06	$0.25
Weighted average outstanding common shares (4)	9,375,000	9,169,000	9,149,000	9,555,000	8,922,000
Net earnings (loss) per common share-assuming dilution (4)	$0.14	$(0.05)	$0.41	$0.06	$0.25
Weighted average outstanding common shares-assuming dilution (4)	9,478,000	9,169,000	9,152,000	9,555,000	9,121,000

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Balance Sheet Data:

	December 31,				
	2011(3)	2010	2009	2008(1)	2007(2)
Assets					
Investments and restricted assets	$ 336,124,000	$ 278,949,000	$ 302,915,000	$ 309,142,000	$ 258,242,000
Cash	17,084,000	39,557,000	39,464,000	19,914,000	5,203,000
Receivables	87,274,000	71,054,000	50,143,000	33,021,000	80,445,000
Other assets	80,657,000	76,075,000	78,055,000	79,728,000	74,273,000
Total assets	$ 521,139,000	$ 465,635,000	$ 470,577,000	$ 441,805,000	$ 418,163,000
Liabilities					
Policyholder benefits	$ 386,626,000	$ 350,186,000	$ 341,124,000	$ 330,533,000	$ 301,064,000
Bank & other loans payable	25,019,000	7,066,000	8,940,000	6,640,000	13,372,000
Cemetery & mortuary liabilities	13,140,000	13,192,000	13,382,000	13,467,000	12,643,000
Cemetery perpetual care obligation	2,983,000	2,854,000	2,756,000	2,648,000	2,474,000
Other liabilities	32,140,000	32,408,000	44,570,000	34,605,000	32,826,000
Total liabilities	459,908,000	405,706,000	410,772,000	387,893,000	362,379,000
Stockholders' equity	61,231,000	59,929,000	59,805,000	53,912,000	55,784,000
Total liabilities and stockholders' equity	$ 521,139,000	$ 465,635,000	$ 470,577,000	$ 441,805,000	$ 418,163,000

(1) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.
(2) Includes the purchase of C & J Financial on July 16, 2007 and the purchase of Capital Reserve Life Insurance Company on December 17, 2007.
(3) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.
(4) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Item 7. 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 low interest rates by originating and refinancing mortgage loans.

Mortgage Operations

Over 50% of the Company's revenues and expenses are through its wholly owned subsidiary, SecurityNational Mortgage. SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its mortgage sales offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life, and with unaffiliated financial institutions.

SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not usually retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the twelve months ended December 31, 2011, 2010 and 2009, SecurityNational Mortgage originated and sold 8,100 loans ($1,407,212,000 total volume), 11,251 loans ($2,094,738,000 total volume), and 17,797 loans ($3,243,734,000 total volume), respectively.

The loan volume in 2011 was lower than 2010 primarily due to reduced refinancing activity in 2011. For the first six months of 2011, the loan volume was primarily compared to home purchases and was lower from the same period in 2010 due to the slow-down in the economy, the reduced demand in the housing sector, and new regulations affecting mortgage origination and lending activities. For the third and fourth quarters of 2011, the loan volume increased from the previous two quarters due to new office openings and an increase in retail sales production.

SecurityNational Mortgage anticipates the loan volume for 2012 to remain at the $80,000,000 to $150,000,000 per month range. SecurityNational Mortgage continues to monitor staff size and funding costs, and will make adjustments based on levels of loan production.

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The amount available to originate loans under this agreement at December 31, 2011 was $65,000,000. SecurityNational Mortgage originates the loans and immediately sells them to third party investors. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances as noted below in the Mortgage Accounting Policy section, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the settlement date with third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with an unaffiliated warehouse bank, which had expired on December 19, 2011, for an indefinite period.

The following table shows the condensed financial results for the year 2011, 2010 and 2009. See note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2011	2010	2011 vs 2010 % Increase (Decrease)	2009	2010 vs 2009 % Increase (Decrease)
Revenues from external customers					
Revenues from loan originations	$64,415	$78,450	(20%)	$106,852	(27%)
Secondary gains from investors	13,190	18,892	(30%)	37,422	(50%)
Total	$77,605	$97,342	(22%)	$144,274	(33%)
Earnings (Losses) before income taxes	$(1,922)	$(1,964)	2%	$6,910	(128%)

The losses for the twelve months ended December 31, 2011 was due to the lower loan volume and lower secondary gains from investors. However, there were earnings in the third and fourth quarters for 2011 due to increased loan volume during that period.

Mortgage Accounting Policy

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

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of December 31, 2011, there was $64,991,000 in mortgage loans in which settlements with third party investors were still pending.

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

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

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

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

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

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

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

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

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

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

Mortgage Loan Repurchases and Delinquencies

The mortgage industry is still 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. SecurityNational Mortgage funded $5,505,000 (0.14% of its production) in subprime loans during the twelve months ending December 31, 2007 and eliminated subprime loans from its product offerings in August 2007. SecurityNational Mortgage believes that its potential losses from subprime loans are minimal.

The industry problem with subprime mortgages has created a volatile secondary market for other 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%. As a result of these changes, SecurityNational Mortgage discontinued offering these loans in September 2007.

As a result of the volatile secondary market for mortgage loans, SecurityNational Mortgage sold mortgage loans in 2007 and 2008 to certain third party investors, including Lehman Brothers-Aurora Loan Services and Bear Stearns-EMC Mortgage Corp. that experienced financial difficulties and were not able to settle the loans. The total amount of these loans was $52,556,000, of which $36,499,000 were loans in which the secondary market no longer existed. Due to these changes in circumstances, SecurityNational Mortgage regained control of the mortgages and, in accordance with generally accepted accounting principles, accounted for the loans retained in the same manner as a purchase of assets from former transferees in exchange for liabilities assumed.

At the time of repurchase, the loans were determined to be held for investment purposes, and the fair value of the loans was determined to approximate the unpaid principal balances adjusted for charge-offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The 2009, 2010 and 2011 financial statements reflect the transfer of mortgage loans from "Mortgage Loans Sold to Investors" to "Mortgage Loans on Real Estate". The loan sale revenue recorded on the sale of the mortgage loans was reversed on the date the loans were repurchased.

As standard in the industry, SecurityNational Mortgage receives payments on the mortgage loans during the time period between the sale date and settlement or repurchase date. Also during this period, SecurityNational Mortgage services these loans.

As of December 31, 2011, the Company's long term mortgage loan portfolio consisted of $19,880,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $13,016,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $19,880,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2011 and 2010, the Company increased its allowance for mortgage losses by $1,236,000 and $630,000, respectively, which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2011 and 2010 were $4,881,000 and $7,070,000, respectively.

Also at December 31, 2011, the Company had foreclosed on a total of $52,192,000 in long term mortgage loans, of which $9,228,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2011. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. The amounts accrued for loan losses in years ended December 31, 2011 and 2010 were $1,668,000 and $4,534,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2011 and 2010, the balances were $2,338,000 and $5,899,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault in regards to either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of $4,300,000, of which $1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of $3,300,000. The $3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. From April 8, 2011 to December 31, 2011, Wells Fargo deducted a total of $530,329, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period. 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 other than Wells Fargo and pay such amounts to Wells Fargo. From April 8, 2011 to December 31, 2011, SecurityNational Mortgage paid Wells Fargo a total of $50,393, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period. Finally, SecurityNational Mortgage is 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 28 real estate properties with a total book value of $5,597,900 as of December 31, 2011.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of December 31, 2011, the Company reserved and accrued $2,338,000 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers.

Mortgage Loan Loss Demands

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained 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.

As of December 31, 2011, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than $20,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2011. The Company has reserved and accrued $2,338,000 as of December 31, 2011 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was $17,351,000 on December 31, 2011, and its reserve for mortgage loan loss, which was $2,338,000 on December 31, 2011. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, 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.

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal because it regarded the language in the settlement documents as unreasonable, the investor notified SecurityNational Mortgage by letter dated October 20, 2010 of its decision to terminate its business relationship with SecurityNational Mortgage.

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting $5,971,000 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage.

SecurityNational Mortgage believes the investor wrongfully applied the $5,971,000 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. The investor has asserted potential claims and notices of potential claims concerning the alleged defective loans that SecurityNational Mortgage sold to such investor. SecurityNational Mortgage disagrees with these potential claims and notices and believes it has significant defenses to such claims and notices, as well as a claim against the investor for the return of the $5,971,000 that the investor had wrongfully taken from the over/under account.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification relating to mortgage loans that EMC Mortgage, LLC (“EMC Mortgage”) allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase & Co. (“JP Morgan Chase”) in behalf of EMC Mortgage. According to the notice, the alleged indemnification claims relate to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claims from JP Morgan Chase also states that EMC Mortgage has 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. A copy of the complaint and the amended complaint has been provided by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage’s assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required 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 notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter from JP Morgan Chase accompanying a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example, neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 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 54 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among the 54 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 2009, 2010 and 2011, the Company recognized alleged losses of $1,032,000, $1,289,000 and $0, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2011, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

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

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to

Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, 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. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement 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.

Life Insurance Acquisitions, Mergers and Reinsurance

Reinsurance with American Life and Security Corporation

On May 24, 2010, the Company completed a stock purchase transaction with American Life and Security Corporation ("American Life"), a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the Stock Purchase Agreement among the Company, American Life, and the shareholders of the Company, American Life paid the Company at closing purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of $1,692,576, plus additional consideration in the amount of $105,000 for a total of $1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate Capital Reserve into the Company in the same manner as the liquidation described in Private Letter Ruling 9847027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue code of 1986, as amended, and other applicable provisions described in such Letter Ruling. American Life obtained approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, the Company entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Under the terms of the agreement, the Company ceded to American Life a block of deferred annuities in the amount of $2,678,931 and a block of whole life policies in the amount of $1,048,134, together with net due and deferred premiums in the amount of $12,305, advance premiums in the amount of $353, claims liability in the amount of $14,486, and net policy loans in the amount of $128,487. The total initial consideration of $3,601,112 in cash was transferred to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of a custodial agreement.

The agreement further requires American Life to pay the Company an initial ceding commission of $375,000 and a management fee of $3,500 per quarter to administer the policies. American Life agreed to indemnify the Company for these contracts and risks. The initial term on this agreement will be for a period of one year. After the initial one year term, this agreement will be automatically renewed unless American Life notifies the Company in writing of its intention not to renew, no less than 180 days prior to the expiration of the then current agreement. Each automatic renewal period of this agreement will be for a term of one year. The accounting and settlement of this agreement will be on a quarterly basis and calculated pursuant to the terms thereof.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company ("North America Life"), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of $15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement.

Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of $3,525,875. In addition, North America Life transferred $15,703,641 in assets and $19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The $15,703,641 in assets included $12,990,444 in cash, $8,997 in policy loans, and $2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

On September 1, 2011, Security National Life, with the approval of the Texas Department of Insurance, assumed all of the policies which were issued by North America Life and previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

On August 31, 2011 the Company entered into a stock purchase agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company ("Trans-Western"), a Texas domiciled insurance company and a wholly owned subsidiary of North America Life. Under the terms of the transaction as set forth in a Stock Purchase Agreement involving the Company and North America Life, the Company agreed to pay to North America Life purchase consideration equal to the capital and surplus of Trans-Western as of the date of closing. As of September 30, 2011, the capital and surplus of Trans-Western was $544,000. The Stock Purchase Agreement was approved by the Texas Insurance Department on March 20, 2012. All of Trans-Western's insurance business has been ceded to North America Life, of which approximately 47% of the insurance in force has been assumed by the Company under the Coinsurance Agreement explained above.

Insurance Operations

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

A funeral plan is a small face value life insurance policy that generally has face coverage of up to $15,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar 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 be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the financial results for the years ended December 31, 2011, 2010 and 2009. See note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2011	2010	2011 vs 2010 % Increase (Decrease)	2009	2010 vs 2009 % Increase (Decrease)
Revenues from external customers					
Insurance premiums	$48,480	$38,528	26 %	$38,413	0 %
Net investment income	17,296	14,738	17 %	15,869	(7 %)
Other	1,468	2,008	(27 %)	1,676	20 %
Total	$67,244	$55,274	22 %	$55,958	(1 %)
Intersegment revenue	$5,833	$6,817	(14 %)	$5,041	35 %
Earnings before income taxes	$2,698	$1,860	45 %	$(434)	529 %

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2011 has improved due to increases in net investment income and insurance premiums primarily due to the reinsurance transaction with North America Life entered into during March 2011.

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 for the years ended December 31, 2011, 2010 and 2009. See note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2011	2010	2011 vs 2010 % Increase (Decrease)	2009	2010 vs 2009 % Increase (Decrease)
Revenues from external customers					
Mortuary revenues	$4,864	$6,211	(22%)	$6,368	(2%)
Cemetery revenues	5,897	5,309	11%	5,605	(5%)
Realized gains (losses)	868	(27)	3,315%	-	-
Other	308	321	300%	247	19%
Total	$11,937	$11,814	1%	$12,220	(3%)
Earnings (Losses) before income taxes	$461	$(986)	147%	$(128)	670%

The realized gain in 2011 is due to the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home. 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 $1,025,000 and $841,000 for the twelve months ended December 31, 2011 and 2010, respectively.

Significant Accounting Policies

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. See Note 1 of the Notes to Consolidated Financial Statements.

Insurance Operations

In accordance with accounting principles generally accepted in the United States of America (GAAP), premiums and considerations received for interest sensitive products such as universal life insurance and ordinary annuities are reflected as increases in liabilities for policyholder account balances and not as revenues. Revenues reported for these products consist of policy charges for the cost of insurance, administration charges, amortization of policy initiation fees and surrender charges assessed against policyholder account balances. Surrender benefits paid relating to these products are reflected as decreases in liabilities for policyholder account balances and not as expenses.

The Company receives investment income earned from the funds deposited into account balances, a portion of which is passed through to the policyholders in the form of interest credited. Interest credited to policyholder account balances and benefit claims in excess of policyholder account balances are reported as expenses in the consolidated financial statements.

Premium revenues reported for traditional life insurance products are recognized as revenues when due. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

The costs related to acquiring new business, including certain costs of issuing policies and other variable selling expenses (principally commissions), defined as deferred policy acquisition costs, are capitalized and amortized into expense. For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally “locked in” at the date the policies are issued. For interest sensitive products, these costs are amortized generally in proportion to expected gross profits from surrender charges and investment, mortality and expense margins. This amortization is adjusted when the Company revises the estimate of current or future gross profits or margins. For example, deferred policy acquisition costs are amortized earlier than originally estimated when policy terminations are higher than originally estimated or when investments backing the related policyholder liabilities are sold at a gain prior to their anticipated maturity.

Death and other policyholder benefits reflect exposure to mortality risk and fluctuate from year to year on the level of claims incurred under insurance retention limits. The profitability of the Company is primarily affected by fluctuations in mortality, other policyholder benefits, expense levels, interest spreads (i.e., the difference between interest earned on investments and interest credited to policyholders) and persistency. The Company has the ability to mitigate adverse experience through sound underwriting, asset/liability duration matching, sound actuarial practices, adjustments to credited interest rates, policyholder dividends and cost of insurance charges.

Cemetery and Mortuary Operations

Pre-need sales of funeral services and caskets, including revenue and costs associated with the sales of pre-need funeral services and caskets, are deferred until the services are performed or the caskets are delivered.

Pre-need sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of accounting principles generally accepted in the United States (GAAP). Under GAAP, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of FASB Codification Topic 360-20, described above.

Pre-need sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sales of pre-need cemetery merchandise are deferred until the merchandise is delivered.

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer obtaining costs - costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of GAAP related to Financial Services - Insurance. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at-need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured and there are no significant obligations remaining.

Mortgage Operations

Mortgage fee income is generated through the origination and refinancing of mortgage loans and is realized in accordance with GAAP related to sales of financial assets.

The majority of loans originated are sold to third party investors. The amounts sold to investors are shown on the balance sheet as mortgage loans sold to investors, and include the fees due from the investors.

Use of Significant Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized which could have a material impact on the financial statements. The following is a summary of our significant accounting estimates, and critical issues that impact them:

Fixed Maturities and Equity Securities Available for Sale

Securities available for sale are carried at estimated fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income, which is included in stockholders' equity after adjustment for deferred income taxes and deferred acquisition costs related to universal life products.

When the value of a security declines and the decline is determined to be other than temporary, the carrying value of the investment is reduced to its fair value and a realized loss is recorded to the extent of the decline.

Deferred Acquisition Costs

Amortization of deferred policy acquisition costs for interest sensitive products is dependent upon estimates of current and future gross profits or margins on this business. Key assumptions used include the following: yield on investments supporting the liabilities, amount of interest or dividends credited to the policies, amount of policy fees and charges, amount of expenses necessary to maintain the policies, amount of death and surrender benefits, and the length of time the policies will stay in force.

For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued.

Value of Business Acquired

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred acquisition costs. The critical issues explained for deferred acquisition costs would also apply for value of business acquired.

Allowance for Doubtful Accounts

The Company accrues an estimate of potential losses for the collection of receivables. The significant receivables are the result of receivables due on mortgage loans sold to investors, cemetery and mortuary operations, mortgage loan operations and other receivables. The allowance is based upon the Company's experience. The critical issue that would impact recovery of the cemetery and mortuary receivables is the overall economy. The critical issues that would impact recovery of mortgage loan operations would be interest rate risk and loan underwriting.

Future Policy Benefits

Reserves for future policy benefits for traditional life insurance products requires the use of many assumptions, including the duration of the policies, mortality experience, expenses, investment yield, lapse rates, surrender rates, and dividend crediting rates.

These assumptions are made based upon historical experience, industry standards and a best estimate of future results and, for traditional life products, include a provision for adverse deviation. For traditional life insurance, once established for a particular series of products, these assumptions are generally held constant.

Unearned Revenue

The universal life products the Company sells have significant policy initiation fees (front-end load) that are deferred and amortized into revenues over the estimated expected gross profits from surrender charges and investment, mortality and expense margins. The same issues that impact deferred acquisition costs would apply to unearned revenue.

Deferred Pre-need Cemetery and Funeral Contracts Revenues and Estimated Future Cost of Pre-need Sales

The revenue and cost associated with the sales of pre-need cemetery merchandise and funeral services are deferred until the merchandise is delivered or the service is performed.

The Company, through its cemetery and mortuary operations, provides a guaranteed funeral arrangement wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy.

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Mortgage Allowance for Loan Loss and Loan Loss Reserve

The Company provides allowances for losses on its mortgage loans through an allowance for loan losses (a contra-asset account) and through the mortgage loan loss reserve (a liability account). The allowance for loan losses is an allowance for losses on the Company's 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 similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral.

When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real estate collateral. Once a loan is past due more than 90 days the Company does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed the carrying value will approximate its fair value and the amount will be classified as real estate owned. The Company carries the foreclosed property in Security National Life, Memorial Estates and SecurityNational Mortgage, its life, cemeteries and mortuaries and mortgage subsidiaries, and will rent the properties until it is deemed desirable to sell them. The Company is currently able to rent properties at a 2% to 6% gross return.

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 Company may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The Company accrues a monthly allowance for indemnification losses to investors based on total production. This estimate is based on the Company's historical experience. The amount accrued for and the charge to expense is included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

Deferred Compensation

The Company has deferred compensation agreements with several of its current and past executive officers. The deferred compensation is payable upon retirement or death of these individuals either in annual installments (ten years) or lump sum settlement, if approved by the Board of Directors. The Company has accrued the present value of these benefits based upon their future retirement dates and other factors, on its consolidated financial statements.

Depreciation

Depreciation is calculated principally on the straight-line-method over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Self-Insurance

The Company is self insured for certain casualty insurance, workers compensation and liability programs. Self–Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided independent third-party actuaries. Management reviews its assumptions with its independent third-party administrators and actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date.

Results of Consolidated Operations

2011 Compared to 2010

Total revenues decreased by $8,941,000, or 5.3%, to $159,589,000 for fiscal year 2011 from $168,530,000 for the fiscal year 2010. Contributing to this decrease in total revenues was a $19,737,000 decrease in mortgage fee income, a $759,000 decrease in net cemetery and mortuary sales, a $473,000 decrease in other revenue, and a $167,000 increase in other than temporary impairments. This decrease in total revenues was offset by a $9,951,000 increase in insurance premiums and other considerations, a $1,395,000 increase in net investment income, and an $849,000 increase in realized gains on investments and other assets.

Insurance premiums and other consideration increased by $9,951,000, or 25.8%, to $48,479,000 for 2011, from $38,528,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life that was completed in March 2011, an increase in renewal premiums, and an increase in first year premiums due to increased insurance sales.

Net investment income increased by $1,395,000, or 7.5%, to $20,011,000 for 2011, from $18,616,000 for the comparable period in 2010. This increase was primarily attributable to a $1,002,000 increase in fixed maturity securities income, a $930,000 increase in interest on mortgage loans on real estate, and a $552,000 decrease in investment expenses. This increase was partially offset by a $960,000 decrease in income from short-term investments and a $99,000 decrease in income from real estate.

Net cemetery and mortuary sales decreased by $759,000, or 6.6%, to $10,761,000 for 2011, from $11,520,000 for the comparable period in 2010. This reduction was primarily due to a decline in at-need sales of mortuary operations as a result of the sale of two Arizona funeral homes in 2011.

Realized gains on investments and other assets increased by $849,000, or 52.6%, to $2,464,000 in realized gains for 2011, from $1,615,000 in realized gains for the comparable period in 2010. This increase in realized gains on investments and other assets was primarily due to an $887,000 gain on the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home in 2011, which was partially offset by a decrease in realized gains on fixed maturity securities.

Other than temporary impairments on investments increased by $167,000, or 24.7%, to $841,000 for 2011 from $674,000 for the comparable period in 2010. This increase is due to impairments on other real estate owned held for investment offset by a decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by $19,737,000, or 20.3%, to $77,605,000 for 2011, from $97,342,000 for the comparable period in 2010. This decrease was primarily attributable to a decrease in secondary gains on mortgage loans sold to investors and a decrease in loan volume due to a reduced demand in the housing sector caused by the slow growth of the economy.

Other revenues decreased by $473,000, or 29.9%, to $1,108,000 for 2011 from $1,581,000 for the comparable period in 2010. This decrease was due to a reduction in miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were $158,353,000, or 99.2% of total revenues, for 2011, as compared to $169,619,000, or 100.6% of total revenues, for the comparable period in 2010.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $8,034,000 or 22.0%, to $44,486,000 for 2011, from $36,452,000 for the comparable period in 2010. This increase was primarily the result of increased future policy benefits, increased death benefits, and increased surrender and other policy benefits primarily due to the reinsurance transaction with North America Life Insurance Company.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by $1,564,000, or 26.3%, to $7,509,000 for 2011, from $5,945,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life Insurance Company and an increase in business in force.

Selling, general and administrative expenses decreased by an aggregate of $19,704,000, or 16.1%, to $102,514,000 for 2011, from $122,218,000 for the comparable period in 2010. This decrease was the result of a reduction in commission expenses of $10,925,000, from $58,440,000 in 2010 to $47,515,000 in 2011, due to a decrease in sales in the mortgage operations and the cemetery operations, which was partially offset by an increase in life insurance first year and renewal commissions during 2011. Salaries decreased by $2,875,000 from $26,406,000 in 2010 to $23,531,000 in 2011, primarily due to a reduction in the number of employee equivalents. Provision for loan losses decreased by $3,334,000 from $5,404,000 in 2010 to $2,070,000 in 2011, primarily due to a decrease in monthly loan origination volume and a reduction in investor demands due to previous settlements. Costs related to funding mortgage loans decreased by $1,804,000 from $6,044,000 in 2010 to $4,240,000 in 2011 due primarily to fewer loans funded as a result of reduced demand in the housing sector. Other expenses decreased by $766,000 from $25,923,000 in 2010 to $25,157,000 in 2011.

Interest expense decreased by $818,000, or 29.4%, to $1,961,000 for 2011, from $2,779,000 for the comparable period in 2010. This reduction was primarily due to decreased outstanding balances on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by $343,000, or 15.4%, to $1,883,000 for 2011, from $2,226,000 for the comparable period in 2010. This decrease was primarily due to decreased at-need cemetery sales and mortuary sales.

Comprehensive income for the years ended December 31, 2011 and December 31, 2010 amounted to a gain of $765,000 and a loss of $836,000, respectively. This increase of $1,601,000 in 2011 was primarily the result of a $1,729,000 increase in net income, a $1,122,000 decrease in unrealized gains in securities available for sale, and a gain of $994,000 in derivatives related to mortgage loans.

2010 Compared to 2009

Total revenues decreased by $48,359,000, or 22.3%, to $168,530,000 for fiscal year 2010 from $216,888,000 for the fiscal year 2009. Contributing to this decrease in total revenues was a $46,932,000 decrease in mortgage fee income, a $1,299,000 decrease in net investment income, a $453,000 decrease in net cemetery and mortuary sales, and a $348,000 increase in other than temporary impairments. This decrease in total revenues was partially offset by a $392,000 increase in realized gains on investments and other assets, a $115,000 increase in insurance premiums and other considerations, and a $166,000 increase in other revenue.

Insurance premiums and other considerations increased by $115,000, or 0.3%, to $38,528,000 for 2010, from $38,413,000 for the comparable period in 2009. This increase was primarily the result of an increase in renewal premiums offset by a decrease in insurance sales causing a decrease in first year premiums.

Net investment income decreased by $1,299,000, or 6.5%, to $18,616,000 for 2010, from $19,915,000 for the comparable period in 2009. This reduction was primarily attributable to a $701,000 increase in investment expenses, a $681,000 decrease in income from short-term investments primarily due to lower interest rates from mortgage loans sold to investors, a $556,000 decrease in equity securities income, and a $380,000 decrease in fixed maturity securities income. This decrease was offset by a $692,000 increase in interest on mortgage loans on real estate, and a $240,000 increase in income from real estate.

Net cemetery and mortuary sales decreased by $453,000, or 3.8%, to $11,520,000 for 2010, from $11,974,000 for the comparable period in 2009. This reduction was primarily due to a decline in pre-need land sales of burial spaces in the cemetery and mortuary operations, and a decline in at-need sales of mortuary operations.

Realized gains on investments and other assets increased by $392,000, or 32.1%, to $1,615,000 in realized gains for 2010, from $1,223,000 in realized gains for the comparable period in 2009. This increase in realized gains on investments was due to gains from the sale of fixed maturity securities.

Other than temporary impairments on investments increased by $348,000, or 106.7%, to $674,000 for 2010, from $326,000 for the comparable period in 2009. This increase is due to impairments on other real estate owned held for investment offset by a decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by $46,932,000, or 32.5%, to $97,342,000 for 2010, from $144,274,000 for the comparable period in 2009. This decrease was primarily attributable to a decrease in secondary gains on mortgage loans sold to investors, a decrease in loan volume due to a reduced demand in the housing sector, and fluctuating interest rates that adversely impacted the refinancing markets.

Other revenues increased by $166,000, or 11.8%, to $1,581,000 for 2010 from $1,415,000 for the comparable period in 2009. This increase was due to additional miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were $169,619,000, or 100.6% of total revenues, for 2010, as compared to $210,541,000, or 97.1% of total revenues, for the comparable period in 2009.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $532,000 or 1.5%, to $36,452,000 for 2010, from $35,920,000 for the comparable period in 2009. This increase was primarily the result of increased future policy benefits, and increased death benefits that were partially offset by decreases in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by $1,216,000, or 17.0%, to $5,945,000 for 2010, from $7,161,000 for the comparable period in 2009. This decrease was primarily due to a decrease in business in force.

Selling, general and administrative expenses decreased by $39,567,000, or 24.5%, to $122,218,000 for 2010, from $161,785,000 for the comparable period in 2009. This decrease was the result of a reduction in commission expenses of $21,070,000, from $79,510,000 in 2009 to $58,440,000 in 2010, due to a decrease in sales in the mortgage operations and the cemetery operations, and a decrease in life insurance first year and renewal commissions during 2010. Salaries decreased by $945,000 from $27,352,000 in 2009 to $26,406,000 in 2010, primarily due to a reduction in the number of employees. Provision for loan losses decreased by $14,143,000 from $19,547,000 in 2009 to $5,405,000 in 2010 due primarily to a decreased loan loss reserve and loan allowance balances at SecurityNational Mortgage. Costs related to funding mortgage loans decreased by $3,998,000 from $10,042,000 in 2009 to $6,044,000 in 2010 due primarily to a decrease in loans funded. Other expenses increased by $589,000 from $25,335,000 in 2009 to $25,923,000 in 2010 due to an increase in bank charges, rent, advertising, legal fees, insurance, and other fees and taxes other than income taxes offset by decreases in accounting fees, travel expenses, general supplies, and training and seminars.

Interest expense decreased by $547,000, or 16.5%, to $2,779,000 for 2010, from $3,326,000 for the comparable period in 2009. This reduction was primarily due to decreased borrowing rates on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by $123,000, or 5.3%, to $2,226,000 for 2010, from $2,349,000 for the comparable period in 2009. This decrease was primarily due to decreased at-need cemetery sales and mortuary sales.

Comprehensive income for the years ended December 31, 2010 and December 31, 2009 amounted to a loss of $836,000 and a gain of $4,950,000, respectively. This decrease of $5,786,000 in 2010 was primarily the result of a $4,204,000 decrease in net income, a $344,000 decrease in unrealized gains in securities available for sale, and a $1,237,000 loss in derivatives related to mortgage loans.

Risks

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

Legal and Regulatory Risks - The risk that changes in the legal or regulatory environment in which the Company operates will create additional expenses and/or risks not anticipated by the Company in developing and pricing its products. That is, regulatory initiatives designed to reduce insurer profits, new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the consolidated financial statements. In addition, changes in tax law with respect to mortgage interest deductions or other public policy or legislative changes may affect the Company’s mortgage sales. Also, the Company may be subject to further regulations in the cemetery/mortuary business. The Company mitigates these risks by offering a wide range of products and by diversifying its operations, thus reducing its exposure to any single product or jurisdiction, and also by employing underwriting practices which identify and minimize the adverse impact of such risks.

Mortgage Industry Risks - Developments in the mortgage industry and credit markets adversely affected the Company's ability to sell certain of its mortgage loans to investors, which impacted the Company's financial results by requiring it to assume the risk of holding and servicing many of these loans.

As a result of the volatile secondary market, for mortgage loans, SecurityNational Mortgage sold mortgage loans in 2007 and 2008 to certain third party investors, including Lehman Brothers-Aurora Loan Services and Bear Stearns-EMC Mortgage Corp. that experienced financial difficulties and were not able to settle the loans. The total amount of the loans was $52,556,000, of which $36,499,000 were loans in which the secondary market no longer exists. Due to these changes in circumstances, the Company regained control of the mortgages and, in accordance with generally accepted accounting principles, accounted for the loans retained in the same manner as a purchase of assets from former transferees in exchange for liabilities assumed.

At the time of repurchase, the loans were determined to be held for investment purposes, and the fair value of the loans was determined to approximate the unpaid principal balances adjusted for charge-offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The 2009, 2010 and 2011 financial statements reflect the transfer of the mortgage loans from "Mortgage Loans Sold to Investors" to "Mortgage Loans on Real Estate". The loan sale revenue recorded on the sale of the mortgage loans was reversed on the date the loans were repurchased.

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. SecurityNational Mortgage may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. SecurityNational Mortgage's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, SecurityNational Mortgage initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. SecurityNational Mortgage accrues a monthly allowance for indemnification losses to investors based on SecurityNational Mortgage's historical experience. The amounts accrued for loan losses in years ended December 31, 2011, 2010 and 2009 were $1,667,805, $4,534,231 and $17,306,471, respectively, and the charge to expense has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2011 and 2010, the balances were $2,337,875 and $5,899,027, respectively. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of December 31, 2011. However, there is a risk that future loan losses may exceed the loan loss reserves and allowances.

As of December 31, 2011, the Company's long term mortgage loan portfolio consisted of $19,880,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $13,016,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $19,880,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2011 and 2010, SecurityNational Mortgage increased its allowance for mortgage losses by $1,236,000 and $630,000, respectively, which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2011 and 2010 were $4,881,000 and $7,070,000, respectively.

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained 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.

As of December 31, 2011, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than $20,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2011. The Company has reserved and accrued $2,338,000 as of December 31, 2011 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was $17,351,000 on December 31, 2011, and its reserve for mortgage loan loss, which was $2,338,000 on December 31, 2011. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, 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.

Also at December 31, 2011, the Company had foreclosed on a total of $52,192,000 in long term mortgage loans, of which $9,228,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2011. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Interest Rate Risk - the risk that interest rates will change which may cause a decrease in the value of the Company's investments or impair the ability of the Company to market its mortgage and cemetery/mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and/or by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company might have to borrow funds or sell assets prior to maturity and potentially recognize a loss on the sale.

Mortality/Morbidity Risk - the risk that the Company's actuarial assumptions may differ from actual mortality/morbidity experience may cause the Company's products to be underpriced, may cause the Company to liquidate insurance or other claims earlier than anticipated and other potentially adverse consequences to the business. The Company minimizes this risk through sound underwriting practices, asset/liability duration matching, and sound actuarial practices.

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, construction loans, estimate of probable loan loss reserve, and other receivables, 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 adequate.

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 twelve months ended December 31, 2011, the Company's operations provided cash of $6,866,000, while cash totaling $14,251,000 was used by operations during the twelve months ended December 31, 2010. This was due primarily to a $15,145,000 increase in 2011 and an increase of $23,957,000 in 2010 in the balance of mortgage loans sold to investors.

The Company's liability for future life, annuity and other benefits is expected to be paid out over 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 market 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, 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 $127,579,000 as of December 31, 2011 compared to $98,048,000 as of December 31, 2010. This represents 38.3% and 35.5% of the total investments as of December 31, 2011, and December 31, 2010, 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 December 31, 2011, 4.1% (or $5,182,000) and at December 31, 2010, 6.2% (or $6,019,000) 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.

See note 2 of the Notes to Consolidated Financial Statements for the schedule of the maturity of fixed maturity securities and for the schedule of principal payments for mortgage loans on real estate and construction loans held for investment.

If market conditions were to cause interest rates to change, the market value of the fixed income portfolio (of approximately $256,213,000) could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

	-200 bps	-100 bps	+100 bps	+200 bps
Change in Market Value (in thousands)	$17,118	$8,522	$(10,967)	$(20,061)

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 December 31, 2011, and December 31, 2010, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable were $86,250,000 as of December 31, 2011, as compared to $66,994,000 as of December 31, 2010. Stockholders' equity as a percent of total capitalization was 71.0% and 89.5% as of December 31, 2011 and December 31, 2010, respectively. Bank debt and notes payable increased $17,953,000 for the twelve months ended December 31, 2011 when compared to December 31, 2010, thus decreasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2011 was 6.5% as compared to a rate of 8.0% for 2010.

At December 31, 2011, $26,923,000 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.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information about their businesses without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. The Company desires to take advantage of the "safe harbor" provisions of the act.

This Annual Report on Form 10-K contains forward-looking statements, together with related data and projections, about the Company's projected financial results and its future plans and strategies. However, actual results and needs of the Company may vary materially from forward-looking statements and projections made from time to time by the Company on the basis of management's then-current expectations. The business in which the Company is engaged involves changing and competitive markets, which may involve a high degree of risk, and there can be no assurance that forward-looking statements and projections will prove accurate.

Factors that may cause the Company’s actual results to differ materially from those contemplated or projected, forecast, estimated or budgeted in such forward looking statements include among others, the following possibilities: (i) heightened competition, including the intensification of price competition, the entry of new competitors, and the introduction of new products by new and existing competitors; (ii) adverse state and federal legislation or regulation, including decreases in rates, limitations on premium levels, increases in minimum capital and reserve requirements, benefit mandates and tax treatment of insurance products; (iii) fluctuations in interest rates causing a reduction of investment income or increase in interest expense and in the market value of interest rate sensitive investment; (iv) failure to obtain new customers, retain existing customers or reductions in policies in force by existing customers; (v) higher service, administrative, or general expense due to the need for additional advertising, marketing, administrative or management information systems expenditures; (vi) loss or retirement of key executives or employees; (vii) increases in medical costs; (viii) changes in the Company’s liquidity due to changes in asset and liability matching; (ix) restrictions on insurance underwriting based on genetic testing and other criteria; (x) adverse changes in the ratings obtained by independent rating agencies; (xi) failure to maintain adequate reinsurance; (xii) possible claims relating to sales practices for insurance products and claim denials and (xiii) adverse trends in mortality and morbidity; (xiv) deterioration of real estate markets and (xv) lawsuits in the ordinary course of business.

Off-Balance Sheet Agreements

At December 31, 2011, the Company was contingently liable under a standby letter of credit aggregating $383,114, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's self-insurance casualty program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2011, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating $1,250,000, to be used as collateral to cover any contingency related to claims filed in states where SecurityNational Mortgage is licensed. SecurityNational Mortgage does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The total amount available to originate loans under this agreement at December 31, 2011 was $65,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. Generally, when certain mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with an unaffiliated warehouse bank that expired on December 19, 2011.

As of December 31, 2011, there was $64,991,000 in mortgage loans in which settlements with third party investors were still pending.

The total of the Company unfunded residential construction loan commitments as of December 31, 2011 was $3,582,000.

Contractual Obligations

The Company's contractual obligations as of December 31, 2011 and the payments due by period are shown in the following table:

	Less than 1 year	1-3 years	4-5 years	over 5 years	Total
Non-cancelable operating leases	$1,315,512	$1,320,530	$37,155	$-	$2,673,197
Notes and contracts payable	18,018,145	6,680,693	173,190	147,091	25,019,119
	$19,333,657	$8,001,223	$210,345	$147,091	$27,692,316

Variable Interest Entities

In conjunction with the Company's casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. This entity meets the definition of a variable interest entity (VIE); however, under generally accepted accounting principles, "there is not a requirement to include this entity in the consolidated financial statements." The maximum exposure to loss related to the Company's involvement with this entity is limited to approximately $383,114, a majority of which is collateralized under a standby letter of credit issued on the insurance entity's behalf. See Note 9, "Reinsurance, Commitments and Contingencies," for additional discussion of commitments associated with the insurance program and Note 1, "Significant Accounting Policies", for further information on a standby letter of credit. As of December 31, 2011, there are no other entities that met the definition of a variable interest entity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company has no activities in derivative financial or commodity instruments other than those recorded and disclosed in the financial statements. See note 18 of the consolidated financial statements included elsewhere in this Form 10-K. The Company's exposure to market risks (i.e., interest rate risk, foreign currency exchange rate risk and equity price risk) through other financial instruments, including cash equivalents, accounts receivable and lines of credit, is not material.

Item 8. Financial Statements and Supplementary Data

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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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
Security National Financial Corporation

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and subsidiaries as of December 31, 2011 and 2010 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental Schedules II, IV and V, are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HANSEN, BARNETT & MAXWELL,
P.C.
Salt Lake City, Utah
March 30, 2012

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
Assets	2011	2010
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$127,579,087	$98,048,016
Equity securities, available for sale, at estimated fair value	6,299,392	6,784,643
Mortgage loans on real estate and construction loans held for investment, net of allowances for losses of $4,881,173 and $7,070,442 for 2011 and 2010	115,155,967	96,154,107
Real estate held for investment, net of accumulated depreciation of $4,189,641 and $3,849,695 for 2011 and 2010	3,786,780	3,996,777
Other real estate owned held for investment, net of accumulated depreciation of $1,810,238 and $1,090,532 for 2011 and 2010	46,398,095	44,422,829
Other real estate owned held for sale	5,793,900	5,086,400
Policy, student and other loans net of allowance for doubtful accounts of $427,136 and $380,506 for 2011 and 2010	18,463,277	17,044,897
Short-term investments	6,932,023	2,618,349
Accrued investment income	2,323,080	1,726,854
Total investments	332,731,601	275,882,872
Cash and cash equivalents	17,083,604	39,556,503
Mortgage loans sold to investors	77,339,445	63,226,686
Receivables, net	9,934,075	7,827,114
Restricted assets of cemeteries and mortuaries	3,392,497	3,066,379
Cemetery perpetual care trust investments	1,810,185	1,454,694
Receivable from reinsurers	7,484,466	4,476,237
Cemetery land and improvements	11,105,809	11,096,129
Deferred policy and pre-need contract acquisition costs	36,237,069	35,767,101
Property and equipment, net	9,300,185	11,111,059
Value of business acquired	11,020,834	9,017,696
Goodwill	677,039	1,075,039
Other	3,022,113	2,077,396
Total Assets	$521,138,922	$465,634,905

See accompanying notes to consolidated financial statements.

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

	December 31,	
Liabilities and Stockholders' Equity	2011	2010
Liabilities		
Future life, annuity, and other benefits	$381,595,568	$344,972,099
Unearned premium reserve	5,030,443	5,213,948
Bank and other loans payable	25,019,119	7,065,975
Deferred pre-need cemetery and mortuary contract revenues	13,140,483	13,192,499
Cemetery perpetual care obligation	2,983,077	2,853,727
Accounts payable	2,672,479	2,472,996
Other liabilities and accrued expenses	14,456,887	14,579,008
Income taxes	15,010,279	15,356,185
Total liabilities	459,908,335	405,706,437
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 9,638,798 shares in 2011 and 9,178,945 shares in 2010	19,277,596	18,357,890
Class B: non-voting common stock - $1.00 par value; 5,000,000shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - $0.20 par value; 15,000,000 shares authorized; issued 10,135,976 shares in 2011 and 9,660,152 shares in 2010	2,027,195	1,932,031
Additional paid-in capital	19,487,565	19,689,993
Accumulated other comprehensive income, net of taxes	654,443	1,188,246
Retained earnings	22,546,623	21,907,579
Treasury stock, at cost - 1,198,167 Class A shares and -0- Class C shares in 2011; 1,322,074 Class A shares and -0- Class C shares in 2010	(2,762,835)	(3,147,271)
Total stockholders' equity	61,230,587	59,928,468
Total Liabilities and Stockholders' Equity	$521,138,922	$465,634,905

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31,		
	2011	2010	2009
Revenues:			
Insurance premiums and other considerations	$48,479,519	$38,528,437	$38,413,329
Net investment income	20,010,704	18,615,984	19,915,072
Net mortuary and cemetery sales	10,761,469	11,520,369	11,973,676
Realized gains on investments and other assets	2,464,353	1,615,418	1,223,312
Other than temporary impairments	(840,735)	(673,981)	(326,000)
Mortgage fee income	77,605,105	97,342,215	144,274,227
Other	1,108,969	1,581,115	1,414,680
Total revenues	159,589,384	168,529,557	216,888,296
Benefits and expenses:			
Death benefits	22,184,112	19,350,176	19,003,933
Surrenders and other policy benefits	1,761,608	1,575,812	1,677,335
Increase in future policy benefits	20,540,375	15,525,542	15,238,380
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	7,509,328	5,944,859	7,160,488
Selling, general and administrative expenses:			
Commissions	47,514,804	58,439,664	79,509,946
Salaries	23,531,407	26,406,153	27,351,618
Provision for loan losses and loss reserve	2,070,399	5,404,645	19,547,162
Costs related to funding mortgage loans	4,240,377	6,044,020	10,041,731
Other	25,156,515	25,923,413	25,334,654
Interest expense	1,961,249	2,778,920	3,326,161
Cost of goods and services sold – mortuaries and cemeteries	1,882,657	2,225,773	2,349,230
Total benefits and expenses	158,352,831	169,618,977	210,540,638
Earnings (loss) before income taxes	1,236,553	(1,089,420)	6,347,658
Income tax benefit (expense)	62,205	658,796	(2,573,778)
Net earnings (loss)	$1,298,758	$(430,624)	$3,773,880
Net earnings (loss) per Class A equivalent common share (1)	$0.14	$(0.05)	$0.41
Net earnings (loss) per Class A equivalent common share -assuming dilution(1)	$0.14	$(0.05)	$0.41
Weighted average Class A equivalent common shares outstanding (1)	9,375,045	9,169,150	9,149,451

Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	9,477,852	9,169,150	9,151,937

(1) 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 or $0.01, $0.00 and $0.04 per share for 2011, 2010 and 2009, respectively, and $0.01, $0.00 and $0.04 per share-assuming dilution for 2011, 2010 and 2009, respectively.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2009, 2010 and 2011

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2009	$16,568,218	$1,782,463	$17,985,848	$417,101	$21,023,179	$(3,864,530)	$53,912,279
Comprehensive income:							
Net earnings	—	—	—	—	3,773,880	—	3,773,880
Unrealized gains (losses)	—	—	—	1,176,226	—	—	1,176,226
Total comprehensive income	—	—	—	—	—	—	4,950,106
Grant of stock options	—	—	485,986	—	—	—	485,986
Exercise stock options	32,962	—	(32,962)	—	—	—	—
Sale of treasury stock	—	—	54,271	—	—	402,799	457,070
Stock dividends	831,736	87,755	698,524	—	(1,618,015)	—	—
Odd lot purchase	160	—	(60)	—	(100)	—	—
Conversion Class C to Class A	27,377	(27,376)	(1)	—	—	—	—
Balance at December 31, 2009	17,460,454	1,842,842	19,191,606	1,593,327	23,178,944	(3,461,731)	59,805,442
Comprehensive income:							
Net loss	—	—	—	—	(430,624)	—	(430,624)
Unrealized gains (losses)	—	—	—	(405,081)	—	—	(405,081)
Total comprehensive income	—	—	—	—	—	—	(835,705)
Grant of stock options	—	—	520,457	—	—	—	520,457
Exercise of stock options	20,348	—	(20,348)	—	—	—	—
Sale of treasury stock	—	—	123,814	—	—	314,460	438,274
Stock dividends	874,276	92,002	(125,537)	—	(840,741)	—	—
Conversion Class C to Class A	2,812	(2,813)	1	—	—	—	—
Balance at December 31, 2010	18,357,890	1,932,031	19,689,993	1,188,246	21,907,579	(3,147,271)	59,928,468
Comprehensive income:							
Net earnings	—	—	—	—	1,298,758	—	1,298,758
Unrealized gains (losses)	—	—	—	(533,803)	—	—	(533,803)
Total comprehensive income	—	—	—	—	—	—	764,955
Grant of stock options	—	—	253,934	—	—	—	253,934
Exercise of stock options	—	—	—	—	—	—	—
Sale of treasury stock	—	—	(101,206)	—	—	384,436	283,230
Stock dividends	918,336	96,535	(355,157)	—	(659,714)	—	—
Conversion Class C to Class A	1,370	(1,371)	1	—	—	—	—
Balance at December 31, 2011	$19,277,596	$2,027,195	$19,487,565	$654,443	$22,546,623	$(2,762,835)	$61,230,587

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
Cash flows from operating activities:			
Net earnings (loss)	$1,298,758	$(430,624)	$3,773,880
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Realized gains on investments and other assets	(2,464,353)	(1,615,418)	(1,223,312)
Other than temporary impairments	840,735	673,981	326,000
Depreciation	2,814,585	2,917,513	2,801,417
Provision for losses on real estate accounts and loans receivable	1,644,171	(198,062)	2,804,620
Amortization of premiums and discounts	(539,896)	(19,505)	(740,124)
Provision for deferred and other income taxes	524,868	(1,197,023)	1,570,989
Policy and pre-need acquisition costs deferred	(6,806,486)	(6,956,154)	(7,754,706)
Policy and pre-need acquisition costs amortized	6,367,350	5,225,032	6,035,882
Value of business acquired amortized	1,141,978	719,827	1,124,606
Stock based compensation expense	253,934	520,457	485,986
Benefit plans funded with treasury stock	283,230	438,274	457,070
Change in assets and liabilities:			
Land and improvements held for sale	(9,680)	(108,296)	(361,537)
Future life and other benefits	20,522,528	16,843,261	15,423,587
Receivables for mortgage loans sold	(15,144,933)	(23,957,088)	(19,383,604)
Other operating assets and liabilities	(3,860,964)	(7,107,055)	11,831,350
Net cash provided by (used in) operating activities	6,865,825	(14,250,880)	17,172,104
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(50,566,004)	(8,251,365)	(12,897,225)
Calls and maturities - fixed maturity securities	21,631,908	27,878,797	22,610,141
Securities available for sale:			
Purchase - equity securities	(4,574,717)	(5,462,028)	(5,640,738)
Sales - equity securities	4,161,140	5,014,194	5,788,996
Purchases of short-term investments	(70,895,829)	(9,590,929)	(20,784,977)
Sales of short-term investments	66,582,155	14,115,870	18,923,574
Sales (purchases) of restricted assets	(338,310)	(441,441)	1,552,830
Change in assets for perpetual care trusts	(266,056)	(282,605)	(230,498)
Amount received for perpetual care trusts	129,350	97,553	108,190
Mortgage, policy, and other loans made	(127,867,064)	(102,328,203)	(89,298,195)
Payments received for mortgage, policy, and other loans	103,865,163	97,675,289	83,312,074
Purchases of property and equipment	(765,633)	(859,988)	(736,210)
Disposal of property and equipment	2,296,247	-	2,749
Purchases of real estate	(441,444)	(1,813,784)	(801,297)
Sale of real estate	2,605,454	6,424,961	1,965,740
Cash Received for Reinsurance with North American Life	12,990,444	-	-
Net cash provided by (used in) investing activities	(41,453,196)	22,176,321	3,875,154

See accompanying notes to consolidated financial statements

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

	Years Ended December 31,		
	2011	2010	2009
Cash flows from financing activities:			
Annuity contract receipts	$7,967,701	$8,428,798	$9,101,675
Annuity contract withdrawals	(13,910,925)	(14,372,244)	(13,920,526)
Repayment of bank loans and notes and contracts payable	(1,957,389)	(1,889,295)	(1,633,714)
Proceeds from bank borrowings	3,615,085	-	4,955,000
Change in line of credit borrowings	16,400,000	-	-
Net cash provided by (used in) financing activities	12,114,472	(7,832,741)	(1,497,565)
Net change in cash and cash equivalents	(22,472,899)	92,700	19,549,693
Cash and cash equivalents at beginning of year	39,556,503	39,463,803	19,914,110
Cash and cash equivalents at end of year	$17,083,604	$39,556,503	$39,463,803
Non Cash Investing and Financing Activities			
Mortgage loans foreclosed into real estate	$9,228,249	$12,985,041	$24,441,490

See accompanying notes to consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

1) Significant Accounting Policies

General Overview of Business

Security National Financial Corporation and its wholly owned subsidiaries (the "Company") operate in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance marketed primarily in the intermountain west, California and eleven southern states. The cemetery and mortuary segment of the Company consists of five cemeteries in Utah, one cemetery in California, seven mortuaries in Utah and one mortuary in Arizona. The mortgage loan segment is an approved government and conventional lender that originates and underwrites residential and commercial loans for new construction, existing homes and real estate projects primarily in California, Florida, Illinois, Kansas, Texas, and Utah.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of certain amounts in prior years has been reclassified to conform to the 2011 presentation.

Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Investments

The Company's management determines the appropriate classifications of investments in fixed maturity securities and equity securities at the acquisition date and re-evaluates the classifications at each balance sheet date.

Fixed maturity securities held to maturity are carried at cost, adjusted for amortization of premium or accretion of discount. Although the Company has the ability and intent to hold these investments to maturity, infrequent and unusual conditions could occur under which it would sell certain of these securities. Those conditions include unforeseen changes in asset quality, significant changes in tax laws, and changes in regulatory capital requirements or permissible investments.

Fixed maturity and equity securities available for sale are carried at estimated fair value. Changes in fair values net of income taxes are reported as unrealized appreciation or depreciation and recorded as an adjustment directly to stockholders' equity and, accordingly, have no effect on net income.

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

1) Significant Accounting Policies (Continued)

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

Other real estate owned held for sale are foreclosed properties which the Company intends to sell. These properties are carried at the lower of cost or fair value, less cost to sell.

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

Short-term investments are carried at cost and consist of certificates of deposit and commercial paper with maturities of up to one year.

Restricted assets of cemeteries and mortuaries are assets held in a trust account for future mortuary services and merchandise and consist of cash; participations in mortgage loans with Security National Life; mutual funds carried at cost; equity securities carried at fair market value; and a surplus note with Security National Life.

Cemetery and mortuary perpetual care trust business segment contains six wholly owned cemeteries. Of the six cemeteries owned by the Company, four cemeteries are endowment care properties. Under endowment care arrangements a portion of the price for each lot sold is withheld and invested in a portfolio of investments similar to those described in the prior paragraph. The earnings stream from the investments is designed to fund future maintenance and upkeep of the cemetery.

Realized gains and losses on investments arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If in management's judgment a decline in the value of an investment below cost is other-than-temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in judging whether an impairment is other-than-temporary include: the financial condition, business prospects and credit worthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of the decline, and the Company's ability and intent to hold the investment until the fair value recovers, which is not assured.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Cemetery Land and Improvements

The development of a cemetery involves not only the initial acquisition of raw land but the installation of roads, water lines, landscaping and other costs to establish a marketable cemetery lot. The costs of developing the cemetery are shown as an asset on the balance sheet. The amount on the balance sheet is reduced by the total cost assigned to the development of a particular lot when the criterion for recognizing a sale of that lot is met.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated principally on the straight-line method over the estimated useful lives of the assets which range from three to forty years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Recognition of Insurance Premiums and Other Considerations

Premiums for traditional life insurance products (which include those products with fixed and guaranteed premiums and benefits and consist principally of whole life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies) are recognized as revenues when due from policyholders. Revenues for interest-sensitive insurance policies (which include universal life policies, interest-sensitive life policies, deferred annuities, and annuities without life contingencies) are recognized when earned and consist of policy charges for the policy administration charges, and surrender charges assessed against policyholder account balances during the period.

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1) Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs and Value of Business Acquired

Commissions and other costs, net of commission and expense allowances for reinsurance ceded, that vary with and are primarily related to the production of new insurance business have been deferred. Deferred policy acquisition costs ("DAC") for traditional life insurance are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. For interest-sensitive insurance products, deferred policy acquisition costs are amortized generally in proportion to the present value of expected gross profits from surrender charges, investment, mortality and expense margins. This amortization is adjusted when estimates of current or future gross profits to be realized from a group of products are reevaluated. Deferred acquisition costs are written off when policies lapse or are surrendered.

The Company follows accounting principles generally accepted in the United States of America when accounting for DAC on internal replacements of insurance and investment contracts. An internal replacement is a modification in product benefits, features, rights or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract are accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract are written-off. Modifications that result in a contract that is substantially unchanged from the replaced contract are accounted for as a continuation of the replaced contract.

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred policy acquisition costs.

Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with FASB codification topic 450.

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

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in note 2 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company, does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed, the carrying value will approximate its fair value and the amount is classified as other real estate owned held for investment or sale. The Company will rent the properties until it is deemed desirable to sell them.

The allowance for losses on mortgage loans held for investment 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.

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.

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1) Significant Accounting Policies (Continued)

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

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

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

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

Additional information related to the Loan Loss Reserve is included in note 2.

Future Life, Annuity and Other Policy Benefits

Future policy benefit reserves for traditional life insurance are computed using a net level method, including assumptions as to investment yields, mortality, morbidity, withdrawals, and other assumptions based on the life insurance subsidiaries' experience, modified as necessary to give effect to anticipated trends and to include provisions for possible unfavorable deviations. Such liabilities are, for some plans, graded to equal statutory values or cash values at or prior to maturity. The range of assumed interest rates for all traditional life insurance policy reserves was 4.5% to 10%. Benefit reserves for traditional limited-payment life insurance policies include the deferred portion of the premiums received during the premium-paying period. Deferred premiums are recognized as income over the life of the policies. Policy benefit claims are charged to expense in the period the claims are incurred. Increases in future policy benefits are charged to expense.

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 3% to 6.5%.

Participating Insurance

Participating business constituted 2%, 2%, and 2% of insurance in force for 2011, 2010 and 2009, respectively. The provision for policyholders' dividends included in policyholder obligations is based on dividend scales anticipated by management. Amounts to be paid are determined by the Board of Directors.

Reinsurance

The Company follows the procedure of reinsuring risks in excess of $100,000 to provide for greater diversification of business to allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. The Company remains liable for amounts ceded in the event the reinsurers are unable to meet their obligations.

The Company entered into coinsurance agreements with unaffiliated insurance companies under which the Company assumed 100% of the risk for certain life insurance policies and certain other policy-related liabilities of the insurance company.

Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Expense allowances received in connection with reinsurance ceded are accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

Cemetery and Mortuary Operations

Pre-need contract sales of funeral services and caskets - revenue and costs associated with the sales of pre-need funeral services and caskets are deferred until the services are performed or the caskets are delivered.

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1) Significant Accounting Policies (Continued)

Sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sale of cemetery interment rights are recognized in accordance with the retail land sales provisions based on accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected.

Pre-need contract sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sale of pre-need cemetery merchandise is deferred until the merchandise is delivered. Pre-need contract sales of cemetery services (primarily merchandise delivery, installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer acquisition costs - costs incurred related to obtaining new pre-need contract cemetery and prearranged funeral services are accounted for under the guidance of the provisions based on accounting principles generally accepted in the United States of America. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral services, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at-need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured and there are no significant obligations remaining.

The Company, through its cemetery and mortuary operations, provides guaranteed funeral arrangements wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy. However, management believes that given current inflation rates and related price increases of goods and services, the risk of exposure is minimal.

Mortgage Fee Income

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of mortgage loans comply with the sales criteria for the transfer of financial assets, which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time a loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans, prior to warehouse banks purchasing the loans under the purchase commitments.

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

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

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1) Significant Accounting Policies (Continued)

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by SecurityNational Mortgage are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

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

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

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

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

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

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

The Company's current policy is to not lend more than 80% of the appraised market value at the time of funding unless third party mortgage insurance is obtained to insure the amount in excess of the 80% limitation. New appraisals are not obtained on mortgages in a current payment status.

Fair Value

The company provides an allowance for loan 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 similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired.

Commercial Loans

Each quarter, management reviews the current commercial loans and determines if an allowance is required based on the Company's actual experience of losses on impaired commercial loans. To date, the Company has not incurred any significant losses. As a result, management has determined that no allowance is required on current commercial loans in its portfolio. The carrying value of all commercial loans is supported by appraisals and cash flow analysis of revenue received. Also, the Company has not accrued any interest income or capitalized any of the foreclosure costs on the impaired commercial loans.

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1) Significant Accounting Policies (Continued)

Residential and Construction Loans

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 used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

Each quarter the Company also analyzes its current loan portfolio and determines the level of allowance needed for loans that are listed as current in the portfolio. The basis of the analysis places a higher weight on loans with high loan to value ratios, those that lack mortgage insurance, and certain loan types that have a higher percentage of default based on the Company's experience.

Each quarter the Company makes further analysis of the foreclosed properties to determine if any additional allowances are necessary by comparing national indexes of loan to value ratios by region to the Company's loan to value ratios. Base upon the above procedures, the Company's management believes that residential and construction loans are reflected in the Company's financial statements at the lower of cost or market in accordance with GAAP requirements.

Self Insurance

The Company is self insured for certain casualty insurance, workers compensation and liability programs. Self-Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. Management reviews its assumptions with its independent third-party administrators and actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date.

Goodwill

Previous acquisitions have been accounted for as purchases under which assets acquired and liabilities assumed were recorded at their fair values with the excess purchase price recognized as goodwill. The Company evaluates annually or when changes in circumstances warrant the recoverability of goodwill and if there is a decrease in value, the related impairment is recognized as a charge against income. No impairment of goodwill has been recognized in the accompanying financial statements.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. No impairment of long-lived assets has been recognized in the accompanying financial statements.

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1) Significant Accounting Policies (Continued)

Income Taxes

Income taxes include taxes currently payable plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the temporary differences in the financial reporting basis and tax basis of assets and liabilities and operating loss carry-forwards. Deferred tax assets are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled.

Liabilities are established for uncertain tax positions expected to be taken in income tax returns when such positions are judged to meet the “more-likely-than-not” threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax penalties are included as a component of other expenses.

Earnings Per Common Share

The Company computes earnings per share in accordance with accounting principles generally accepted in the United States of America which requires presentation of basic and diluted earnings per share. Basic earnings per equivalent Class A common share are computed by dividing net earnings by the weighted-average number of Class A common shares outstanding during each year presented, after the effect of the assumed conversion of Class C common stock to Class A common stock. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the year used to compute basic earnings per share plus dilutive potential incremental shares. Basic and diluted earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Options to purchase 1,611,470 shares of Common Stock were outstanding during 2011, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

Stock Based Compensation

The cost of employee services received in exchange for an award of equity instruments is recognized in the financial statements and is measured based on the fair value on the grant date of the award. The fair value of stock options is calculated using the Black Scholes method. Stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Advertising Expense

The Company expenses advertising costs as incurred. The total amount charged to advertising expense for 2011, 2010 and 2009 was $2,237,000, $2,122,000 and $1,532,000, respectively.

Recent Accounting Pronouncements

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

Goodwill Impairment Test – In September 2011, the FASB issued authoritative guidance that amends how goodwill is tested for impairment. The amendments provide an option to perform a qualitative assessment to determine whether it is necessary to perform the annual two-step quantitative goodwill impairment test. This guidance will be effective for annual and interim goodwill impairment tests for fiscal years beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company’s results of operations or financial position.

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1) Significant Accounting Policies (Continued)

Comprehensive Income – In June 2011, the FASB issued authoritative guidance regarding the presentation of comprehensive income. This guidance provides companies with the option to present the total of comprehensive income, components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The objective of the standard is to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS. The standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and should be applied retrospectively. Early adoption is permitted. The Company has not yet determined the effect, if any, the adoption this guidance will have on its consolidated financial statements.

Fair Value Measurements – In May 2011, the FASB issued authoritative guidance regarding fair value measurements. This guidance establishes common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. It also clarifies the FASB's intent on the application of existing fair value measurement requirements. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and should be applied prospectively. The Company has not yet determined the effect, if any, the adoption this guidance will have on its consolidated financial statements.

Reconsideration of Effective Control for Repurchase Agreements – In April 2011, the FASB issued authoritative guidance which amends the Transfers and Servicing topic of the FASB Codification to remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this update. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (2) the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and (3) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring – In April 2011, the FASB issued authoritative guidance to assist creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. Under this guidance, in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: 1) the restructuring constitutes a concession; and 2) the debtor is experiencing financial difficulties. A creditor may determine that a debtor is experiencing financial difficulties, even though the debtor is not currently in default, if the creditor determines it is probable that the debtor would default on its payments for any of its debts in the foreseeable future without the loan modification. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and must be applied retrospectively. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

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

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2) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S Government agencies	$2,820,159	$551,740	$-	$3,371,899
Obligations of states and political subdivisions	3,024,425	309,986	(13,156)	3,321,255
Corporate securities including public utilities	113,648,447	10,075,071	(2,268,146)	121,455,372
Mortgage-backed securities	6,575,178	354,286	(356,900)	6,572,564
Redeemable preferred stock	1,510,878	72,639	(129,200)	1,454,317
Total fixed maturity securities held to maturity	$127,579,087	$11,363,722	$(2,767,402)	$136,175,407

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2) Investments (Continued)

December 31, 2011:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$20,281	$-	$(1,843)	$18,438
Common stock:				
Industrial, miscellaneous and all other	7,250,991	363,387	(1,333,424)	6,280,954
Total equity securities available for sale at estimated fair value	$7,271,272	$363,387	$(1,335,267)	$6,299,392
Total securities available for sale carried at estimated fair value	$7,271,272	$363,387	$(1,335,267)	$6,299,392
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$54,344,327			
Residential construction	17,259,666			
Commercial	48,433,147			
Less: Allowance for loan losses	(4,881,173)			
Total mortgage loans on real estate and construction loans held for investment	$115,155,967			
Real estate held for investment - net of depreciation	$3,786,780			
Other real estate owned held for investment - net of depreciation	46,398,095			
Other real estate owned held for sale	5,793,900			
Total real estate	$55,978,775			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	$18,463,277			
Short-term investments at amortized cost	$6,932,023			

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2) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2010 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S Government agencies	$2,855,303	$325,935	$-	$3,181,238
Obligations of states and political subdivisions	1,773,904	122,565	(18,574)	1,877,895
Corporate securities including public utilities	85,354,245	6,626,582	(716,007)	91,264,820
Mortgage-backed securities	6,469,942	239,719	(654,959)	6,054,702
Redeemable preferred stock	1,594,622	27,158	(32,171)	1,589,609
Total fixed maturity securities held to maturity	$98,048,016	$7,341,959	$(1,421,711)	$103,968,264

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2) Investments (Continued)

December 31, 2010:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$20,282	$-	$(4,224)	$16,058
Common stock:				
Industrial, miscellaneous and all other	6,418,151	707,798	(357,364)	6,768,585
Total equity securities available for sale at estimated fair value	$6,438,433	$707,798	$(361,588)	$6,784,643
Total securities available for sale carried at estimated fair value	$6,438,433	$707,798	$(361,588)	$6,784,643
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$60,285,273			
Residential construction	18,436,495			
Commercial	24,502,781			
Less: Allowance for loan losses	(7,070,442)			
Total mortgage loans on real estate and construction loans held for investment	$96,154,107			
Real estate held for investment - net of depreciation	$3,996,777			
Other real estate owned held for investment - net of depreciation	44,422,829			
Other real estate owned held for sale	5,086,400			
Total real estate	$53,506,006			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	$17,044,897			
Short-term investments at amortized cost	$2,618,349			

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2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities, which are carried at amortized cost, at December 31, 2011 and 2010. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At December 31, 2011					
Redeemable Preferred Stock	$800	1	$128,400	1	$129,200
Obligations of States and Political Subdivisions	-	0	13,156	2	$13,156
Corporate Securities	1,544,224	47	723,922	12	$2,268,146
Mortgage and other asset-backed securities	161,300	3	195,599	1	356,899
Total unrealized losses	$1,706,324	51	$1,061,077	16	$2,767,401
Fair Value	$24,249,533		$3,762,892		$28,012,425
At December 31, 2010					
Redeemable Preferred Stock	$4,022	4	$28,149	1	$32,171
Obligations of States and Political Subdivisions	-	0	18,574	3	18,574
Corporate Securities	70,934	10	645,073	25	716,007
Mortgage and other asset-backed securities	8,971	2	645,988	3	654,959
Total unrealized losses	$83,927	16	$1,337,784	32	$1,421,711
Fair Value	$4,527,041		$10,037,150		$14,564,191

As of December 31, 2011, the average market value of the related fixed maturities was 91.0% of amortized cost and the average market value was 91.1% of amortized cost as of December 31, 2010. During 2011, 2010 and 2009, an other than temporary decline in market value resulted in the recognition of credit losses on fixed maturity securities of $125,129, $150,059 and $326,000, respectively.

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

No other than temporary impairment loss was considered to exist for these fixed maturities as of December 31, 2011.

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2) 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 December 31, 2011 and 2010. The unrealized losses were primarily the result of decreases in market 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 December 31, 2011					
Non-redeemable preferred stock	$-	-	$1,843	2	$1,843
Industrial, miscellaneous and all other	955,400	79	378,024	14	1,333,424
Total unrealized losses	$955,400	79	$379,867	16	$1,335,267
Fair Value	$2,857,082		$560,529		$3,417,611
At December 31, 2010					
Non-redeemable preferred stock	$-	-	$4,224	2	$4,224
Industrial, miscellaneous and all other	192,742	42	164,622	13	357,364
Total unrealized losses	$192,742	42	$168,846	15	$361,588