

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

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

Form 10-K

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

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

Commission file number 0-9341

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

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

5300 South 360 West, Suite 250 Salt Lake City, Utah 84123
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

Yes No

Indicate by check mark 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 (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

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

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

Documents Incorporated by Reference

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

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Item 1. Business

Security National Financial Corporation (the “Company”) operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment of the Company consists of five cemeteries in the state of Utah and one cemetery in the state of California, and seven mortuaries in the state of Utah and three mortuaries in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery, mortuary and cremation services through its Utah, Arizona and California operations. Many of the insurance agents also sell pre-need funeral, cemetery and cremation services. The mortgage loan segment is an approved government and conventional lender that originates and underwrites residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 32 wholesale and retail offices in eleven states, and is an approved mortgage lender in several other states.

The design and structure of the Company is that each business segment is related to the other business segments and contributes to the profitability of the other segments. Because of the Company’s cemetery and mortuary operations in Utah, California and Arizona, the Company enjoys a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. The Company’s insurance subsidiaries invest their assets (representing, in part, the pre-paid funerals) in investments authorized by the respective insurance departments of their states of domicile. One such investment authorized by insurance departments is mortgage loans. The Company funded relatively few subprime mortgage loans during 2007 and no longer funds such loans. Thus, while each business segment is a profit center on a stand-alone basis, this horizontal integration of each segment is planned to lead to improved profitability of the Company. The Company also pursues growth through acquisitions. The Company’s acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing the Company’s existing personnel, management, and technology while still providing quality service to customers and policyholders.

The Company was organized as a holding company in 1979, when Security National Life Insurance Company (“Security National Life”) became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has grown through the direct sales of life insurance and annuities and through the acquisition of other insurance companies. In 1994, Security National Life acquired Capital Investors Life Insurance Company. In 1995, Security National Life acquired Civil Service Employees Life Insurance Company. In 1998, Security National Life acquired Southern Security Life Insurance Company, a Florida domiciled insurance company (“Southern Security Life”), in a stock purchase transaction involving the purchase of 57.4% of the outstanding common shares of Southern Security Life.

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

Also in 2007, Southern Security Life (formerly a Florida domiciled insurance company) was liquidated and all the remaining insurance business and operations of Southern Security Life was transferred to Security National Life. In 2009, Security National Life Insurance Company of Louisiana was liquidated and all of the insurance business and

operations of Security National Life Insurance Company of Louisiana was transferred to Security National Life. Also in 2009, Capital Reserve Life Insurance Company was liquidated and all of the insurance business and operations of Capital Reserve Life Insurance Company, except for its corporate charter and the required capital and surplus to preserve its corporate existence in Missouri, was transferred to Security National Life.

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies. In 1989, the Company acquired Paradise Chapel Funeral Home, Inc. and, in 1991, it acquired Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. In 1994, the Company acquired Sunset Funeral Home. In 1995, the Company acquired Greer-Wilson Funeral Home, Inc. and, in 1997, it acquired Crystal Rose Funeral Home. In 1993, the Company formed SecurityNational Mortgage Company (“SecurityNational Mortgage”) to originate and refinance mortgage loans. Since the beginning of business in 1993, SecurityNational Mortgage has now grown to 32 branches in eleven states. See Notes to Consolidated Financial Statements for additional disclosure and discussion regarding segments of the business.

Life Insurance

Products

The Company, through Security National Life and its insurance subsidiaries, Security National Life of Louisiana, Memorial Insurance Company of America, Capital Reserve Life Insurance Company and Southern Security Life Insurance Company, issues and distributes selected lines of life insurance and annuities. The Company's life insurance business includes funeral plans, and interest-sensitive life insurance, as well as other traditional life and accident and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning and traditional whole life products sold in association with the costs of higher education.

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

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

Markets and Distribution

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

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

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

student's higher education experience.

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

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

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

In marketing funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs. The incentive for such businesses to share the costs is that these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2009:

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

(1) Includes the purchase of Memorial Insurance Company of America on December 29, 2005.

(2) Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.

(3) Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.

Underwriting

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

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

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

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

underwriting classes in which an applicant can be placed.

Annuities

Products

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

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

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

Markets and Distribution

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

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

	2009	2008	2007	2006	2005
Annuities Policy/Cert.					
Count as of December 31	12,366	11,411 (3)	11,175 (2)	8,475	8,904 (1)
	\$	\$	\$	\$	\$
Deposits Collected (omitted 000)	6,737	8,959 (2)(3)	4,080	3,977 (1)	2,416
(1)	Includes the purchase of Memorial Insurance Company of America on December 29, 2005.				
(2)	Includes the purchase of Capital Reserve Life Insurance Company on December 17, 2007.				
(3)	Includes the purchase of Southern Security Life Insurance Company on December 18, 2008.				

Accident and Health

Products

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

Markets and Distribution

The Company currently markets its accident policies through web marketing.

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

	2009	2008	2007	2006	2005
Accident and Health Policy/Cert. Count as of December 31	13,436				