SECURITY NATIONAL FINANCIAL CORP
Form 10-K
April 02, 2007

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, 2006, or

o 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 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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Exchange Act Rule 12b-2). Yes__ No x

Indicate by check mark whether the registrant is a shell company (as defined in the Exchange Act Rule 12b-2). Yes__ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of Registrant s most recently completed second fiscal quarter was $17,049,000, based upon the closing price on that date on the Nasdaq National Market.

As of March 31, 2007, there were 6,355,622 shares of Class A Common Stock, $2.00 par value per share, and 6,972,426 shares of Class C Common Stock, $.20 par value per share, outstanding.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the registrant s 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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 in the state of California and eight mortuaries in the state of Utah and four in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery 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 governmental and conventional lender that originates and underwrites residential and commercial loans for new construction and existing homes and real estate projects. The mortgage loan segment operates through 28 wholesale and retail offices in thirteen states, and is an approved mortgage lender in several 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 the insurance departments is high quality 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 of both life insurance companies and cemeteries and mortuaries. The Company s acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing 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 sale of life insurance and annuities and through the acquisition of other insurance companies, including the acquisitions of Capital Investors Life Insurance Company in 1994 and Civil Service Employees Life Insurance Company in 1995, a stock purchase transaction with Southern Security Life Insurance Company (Southern Security Life) in 1998 (involving the purchase of 57.4% of the outstanding common shares of Southern Security Life), an asset purchase transaction with Acadian Life Insurance Company (Acadian) in 2002, the acquisition of Paramount Security Life Insurance Company (Paramount), now Security National Life Insurance Company of Louisiana (Security National Life of Louisiana) in March 2004, a merger transaction involving the purchase of the remaining outstanding shares of Southern Security Life in January 2005, which resulted in Southern Security Life Insurance Company becoming a wholly-owned subsidiary of Security National Life, and the acquisition of Memorial Insurance Company of America (Memorial Insurance Company) in December 2005.

In December 2005, all of the remaining insurance business of Southern Security Life was transferred to Security National Life by a reinsurance agreement, except for the capital and surplus required to be maintained under Florida law. In December 2006, Southern Security Life was sold in a stock sales transaction. At the time of sale, Southern Security Life s assets consisted of a corporate charter, licenses and the required capital and surplus. The sale of Southern Security Life is conditioned upon the subsequent approval of the transaction by the Florida Office of Insurance Regulation and, if such approval is not obtained, Southern Security Life will be liquidated.

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies, including the acquisitions of Paradise Chapel Funeral Home, Inc. in 1989, Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. in 1991, Sunset Funeral Home in 1994, Greer-Wilson Funeral Home, Inc. in 1995 and Crystal Rose Funeral Home in 1997. In 1993, the Company formed SecurityNational Mortgage Company (SecurityNational Mortgage) to originate and refinance mortgage loans. Since 1993, SecurityNational Mortgage has opened 28 branches in thirteen states. See Notes to Consolidated Financial Statements for additional disclosure and discussion regarding segments of the business.

Life Insurance

Products

The Company, through its insurance subsidiaries, Security National Life, Security National Life of Louisiana and Memorial Insurance Company of America, issues and distributes selected lines of life insurance and annuities. The Company s life insurance business includes funeral plans, 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 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 since 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 funding division, the Company markets strategies for fund accumulations for college and repayment of student loans a child may have after college. Pursuant to those strategies the Company conducts scholarship searches and originates and funds government guaranteed student loans. The traditional whole life product marketed in conjunction with funding of higher education costs is a 10-Pay Whole Life Policy with an annuity rider. Both the paid-up aspect of the whole life policy and the savings aspect of the annuity rider are marketed as a tool for parents to help accumulate money to help fund college expenses or repay loans incurred during college. The product is 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, which the Company believes is not emphasized by most insurers. Funeral plan policies are sold primarily to persons who range in age from 45 to 75. 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 funding is for families that desire to prepare for their children s higher education needs. Such preparation can include searches for scholarships, grant applications, guaranteed student loan applications, and the purchase of life insurance and annuities. In 1965, the Higher Education Act created the guaranteed student loan programs participated in by the Company. Federal Family Education Loan (FFEL) Programs, which now comprise 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 FFEL s and the Federal Government reimburses 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 product has an annuity rider that can provide a way for families to save additional funds for their children s education. The Company has a student loan resource department, which is available to policyholders to help parents and students apply for various scholarships, grants and loans.

A majority of the Company s funeral plan premiums come from the states of Arizona, Arkansas, Colorado, Idaho, Kansas, Mississippi, Oklahoma, Texas and Utah. A majority of the Company s non-funeral plan life insurance premiums come from the states of Alabama, California, Florida, Georgia, Louisiana, Mississippi, Missouri, New Mexico, South Carolina 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 100% 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, 2006:

	2006	2005	2004	2003	2002
Life Insurance Policy/Cert. Count as of December 31	401,441	413,753(5)	357,767(3)	353,017(2)	341,909(1)
Insurance in force as of December 31 (omitted 000)	$ 2,620,694	$ 3,216,946(5)	$ 2,914,135(3)	$ 2,914,438(2)	$ 2,635,436(1)
Premiums Collected (omitted 000)	$ 31,619(4)	$ 27,275(5)	$ 30,560(3)	$ 28,598(1)(2)	$ 14,699

(1) Includes the purchase of assets from Acadian Life Insurance Company on December 23, 2002.

(2) Includes reinsurance assumed on October 1, 2003, under agreement with Guaranty Income Life Insurance Company. This agreement was cancelled on January 1, 2005.

(3) Includes the purchase of Paramount Security Life Insurance Company, now known as Security National Life Insurance Company of Louisiana, on March 16, 2004.

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

(5) Includes the termination of reinsurance assumed with Guaranty Income Life Insurance Company effective January 1, 2005.

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, 2006:

	2006	2005	2004	2003	2002
Annuities Policy/Cert. Count as of December 31	8,475	8,904(1)	7,365	7,206	7,711
Deposits Collected (omitted 000)	$ 3,977	$ 2,416	$ 1,972	$ 2,026	$ 3,215

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

Accident and Health

Products

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

Markets and Distribution

The Company currently markets its diver s policy through web marketing.

The following table summarizes the accident and health business for the five years ended December 31, 2006:

	2006	2005	2004	2003	2002
Accident and Health Policy/Cert. Count as of December 31	13,153	14,934	15,778	17,391	18,921
Premiums Collected (omitted 000)	$ 274	$ 285	$ 308	$ 352	$ 365

Reinsurance

When a given policy exceeds the Company s retention limits, the Company reinsures with other companies that portion of the individual life insurance and accident and health policies it has underwritten. 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 s policy is to retain no more than $75,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2006, reinsured by other companies aggregated $122,232,000, representing approximately 6.0% of the Company s life insurance in force on that date.

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.

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, brokerage sponsored money market funds as well as competing life insurance company products. While it is not the Company s policy to offer the highest yield in this 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 including high-yield issues, 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 cemeteries and 12 wholly owned mortuaries. The cemeteries are non-denominational. 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 grave spaces, 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 eight 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 also markets its mortuary and cemetery products on an at-need basis. 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.

The sales representatives of the Company s cemetery and mortuary operations are commissioned and receive no salary. The sales commissions range from 4% to 25% for cemetery products and services and 10% to 100% of first year premiums for funeral plan insurance. Potential customers are located via telephone sales prospecting, responses to letters mailed by the sales representatives, newspaper inserts, referrals, contacts made at funeral services, and door-to-door canvassing. The Company trains its sales representatives and generates leads for them. If a customer comes to one of the Company s cemeteries on an at-need basis, the sales representatives are compensated on a commission basis.

Mortgage Loans

Products

Beginning in 1993, the Company, through its subsidiary, SecurityNational Mortgage Company has been active in both the residential as well as commercial real estate markets. The Company has current approvals through HUD, Fannie Mae, Freddie Mac and other substantial secondary market investors, which enable it to originate a wide variety of residential mortgage loan products that are subsequently sold to investors. The Company uses internal funding sources as well as maintaining external warehouse lines of credit with unaffiliated financial institutions. The Company also originates residential construction loans.

Security National Capital, a subsidiary of SecurityNational Mortgage Company, originates commercial real estate loans both for internal investment as well as for sale to unaffiliated investors.

Markets and Distribution

The Company s residential mortgage lending services are marketed primarily to mortgage originators. SecurityNational Mortgage Company maintains a retail origination presence in the Salt Lake City market in addition to 28 wholesale and retail branch offices located in Arizona, California, Colorado, Florida, Hawaii, Kansas, Nevada, North Carolina, Oklahoma, Oregon, Texas, Utah and Virginia, with sales representatives in these and other states.

Recent Acquisitions and Other Business Activities

Southern Security Life Insurance Company

On December 31, 2005, Southern Security Life and Security National Life entered into a reinsurance agreement to reinsure the remaining in force business of Southern Security Life to Security National Life to the extent permitted by the Florida Office of Insurance Regulation. The assets and liabilities reinsured under the reinsurance agreement were deposited into a trust account, in which Zions First National Bank has agreed to act as trustee. Under the terms of the reinsurance agreement, in the event of the insolvency of Security National Life, Zions First National Bank will hold and administer the assets and liabilities of Security National Life in trust.

The Florida Office of Insurance Regulation approved the reinsurance agreement on December 28, 2005. As a result of the reinsurance agreement, all of the insurance business and operations of Southern Security Life, including its assets and liabilities, was transferred to Security National Life, as reinsurer, as of December 31, 2005, the effective date of the agreement, except for the capital and surplus which is required to be maintained under Florida law. Thus, $48,528,000 in assets and liabilities were transferred from Southern Security Life to Security National Life pursuant to the reinsurance agreement. In addition, on December 31, 2005, Southern Security Life declared a dividend to Security National Life in the amount of $7,181,000. Following the transfer of the assets and liabilities under the reinsurance agreement and the payment of the dividend, the remaining capital and surplus of Southern Security Life was $3,500,000, which was the amount required in order for Southern Security Life to remain qualified as an admitted insurer in good standing in the state of Florida.

On December 29, 2006, the Company, through its wholly owned subsidiary, Security National Life, completed the sale of Southern Security Life to American Network Insurance Company (American Network), a Pennsylvania corporation and wholly owned subsidiary of Penn Treaty America Corporation, a Pennsylvania corporation. Under the terms of the transaction, Security National Life received purchase consideration consisting of $400,000 plus an amount equal to the capital and surplus of Southern Security Life as of December 31, 2006, and American Network received all of the outstanding shares of Southern Security Life . The transaction is subject to and conditioned upon the subsequent approval of the transaction by the Florida Office of Insurance Regulation, the Florida Department of Financial Services, and the Pennsylvania Department of Insurance. American Network is required to make all necessary filings, including a Form A application with the Florida Office of Insurance Regulation, and provide all information and documentation that may reasonably be required by the regulatory authorities to obtain such approval.

At the closing of the transaction on December 29, 2006, Security National Life delivered to the law firm of Mackey Price Thompson & Ostler (Mackey Price), an escrow agent in the transaction, to be held and disposed of by such escrow agent pursuant to the terms of an Escrow Agreement, the following: (i) certificates representing all 2,105,235 shares of Southern Security Life s outstanding common stock; (ii) letters of resignation of the officers and directors of Southern Security Life; (iii) a copy of the Stock Purchase Agreement among American Network, Security National Life and Southern Security Life; (iv) cash in the amount of $503,302 equal to the statutory deposits of Southern Security Life pertaining to the states of Alabama, Michigan and Southern Carolina, which are statutorily required to be in the form of bonds; (v) an original executed Assignment dated December 29, 2006, in which Southern Security Life distributes, assigns and transfers to Security National Life all of Southern Security Life s capital and surplus accounts, and any other real and personal property that it may have inadvertently failed to previously distribute to Security National Life; and (vi) original executed Articles of Dissolution dated December 29, 2006. In addition, American Network placed in escrow, pursuant to an Escrow Agreement with Preferred Insurance Capital Consultants, LLC as escrow agent, the approximate purchase price of $4,209,132, consisting of $400,000 plus an amount equal to the capital and surplus of Southern Security Life as of September 30, 2006.

Under the terms of the Escrow Agreement with Mackey Price acting as escrow agent, upon receipt by Mackey Price of (a) a written notice from Security National Life and Southern Security Life stating that all governmental approvals of the transaction have been obtained by American Network and the approximate purchase price have been distributed to Security National Life pursuant to the Stock Purchase Agreement, and (b) a written notice from Security National Life confirming receipt of payment from American Network of the difference between the approximate purchase price and the actual purchase price (consisting of the difference between the amount of the capital and surplus of Southern Security Life as of September 30, 2006 as compared to the capital and surplus as of December 31, 2006), Mackey Price has agreed to deliver to American Network the certificates representing all of the shares of Southern Security Life, together with accompanying stock powers, duly endorsed for transfer, and destroy the Assignment and Articles of Dissolution by tearing such documents in half and delivering them to Security National Life, along with the copy of the Stock Purchase Agreement. In addition, under the terms of the Escrow Agreement with Preferred Insurance Capital Consultants, LLC acting as escrow agent, the approximate purchase price being held in escrow shall be wire transferred to Security National Life, with all investment income and interest earned thereon in the escrow account being wire transferred to American Network.

Furthermore, upon obtaining governmental approvals of the transaction, American Network has agreed to immediately deposit its own bonds with the states of Alabama, Michigan and South Carolina and to take necessary action to have Security National Life s bonds released and returned to Security National Life. Upon receipt of a written notice from American Network that it has deposited its own bonds with the states of Alabama, Michigan and South Carolina and a written notice from Security National Life that it has received the bonds that it had deposited with such states, Mackey Price, acting as escrow agent, has agreed to disburse to American Network the $503,302 in cash being held in escrow, which is an amount equal to the statutory deposits of Southern Security Life pertaining to the states of Alabama, Michigan and South Carolina.

In the event any of the regulatory authorities disapprove or fail to approve the transaction on or before June 30, 2007, Preferred Insurance Capital Consultants acting as escrow agent under the terms of the Escrow Agreement, has agreed to wire transfer to American Network the approximate purchase price and all investment income and interest earned thereon being held in the escrow account. In addition, Mackey Price, acting as escrow agent, has agreed to return to Security National Life the certificates representing all of the shares of Southern Security Life, together with accompanying stock power, duly endorsed for transfer, the $503,302 in cash delivered into escrow by Security National Life equal to the statutory deposits of Southern Security Life pertaining to the states of Alabama, Michigan and South Carolina, and the copy of the Stock Purchase Agreement.

Moreover, in the event the condition subsequent is not satisfied by virtue of any of the regulatory authorities not approving the transaction and the sale of Southern Security Life is, as a result, rescinded, the liquidation of Southern Security Life shall be deemed to be completed as of the closing date on December 29, 2006 by virtue of Mackey Price, as escrow agent under the terms of the Escrow Agreement, delivering to Security National Life the Assignment dated December 29, 2006 and mailing the signed Articles of Dissolution to the Amendment Section, Division of Corporations with the State of Florida to complete the liquidation of Southern Security Life. The liquidation of Southern Security Life would be in accordance with the terms of the Agreement and Plan of Complete Liquidation of Southern Security Life Insurance into Security National Life Insurance Company, which the Board of Directors of both the Company and Security National Life approved on December 12, 2005. Under the terms of this agreement, Southern Security Life would be liquidated into Security National Life in essentially 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.

Memorial Insurance Company of America

On December 29, 2005, Security National Life and Southern Security Life completed a stock purchase transaction with Memorial Insurance Company of America, an Arkansas domiciled insurance company (Memorial Insurance Company), to purchase all of the outstanding shares of common stock of Memorial Insurance Company. Under the terms of the transaction, the shareholders of Memorial Insurance Company received a total purchase consideration of $13,500,000 for all of the outstanding common shares of Memorial Insurance Company, with each shareholder having received a pro rata share of the total amount of the purchase consideration based upon the number of shares such shareholder owns.

The shareholders of Memorial Insurance Company received payment for their shares by means of distributions, with Security National Life and Southern Security Life simultaneously contributing sufficient capital and surplus to Memorial Insurance Company to maintain its status as an admitted insurer in good standing in the state of Arkansas. The transaction is to be treated, for federal and state tax purposes, as a part sale, part redemption of the Memorial Insurance Company stock. At the closing of the transaction, the shareholders of Memorial Insurance Company sold all of their shares of Memorial Insurance Company stock to Southern Security Life, such shares representing all of the issued and outstanding stock of Memorial Insurance Company. As a result, Memorial Insurance Company became a wholly owned subsidiary of Southern Security Life.

As of December 31, 2005, Memorial Insurance Company had 116,116 policies in force and approximately 50 agents. For the year ended December 31, 2005, Memorial Insurance Company had revenues of $3,659,000 and net income of $837,000. As of December 31, 2005, the assets and the capital and surplus of Memorial Insurance Company were $65,909,000 and $2,505,000, respectively.

Under the terms of the transaction, as set forth in the Stock Purchase Agreement dated September 23, 2005 among Security National Life, Southern Security Life, and Memorial Insurance Company, the shareholders agree, where applicable following the closing of the transaction, to maintain any existing policies from Memorial Insurance

Company that were previously sold through such shareholders funeral and mortuary businesses and to avoid replacing any of such policies with the policies of other insurance companies. The shareholders further agree to use their reasonable best efforts to support the business and operations of Memorial Insurance Company, including, where applicable, to maintain a business relationship with Memorial Insurance Company to the extent such a business relationship existed prior to such closing.

Moreover, Security National Life and Southern Security Life agree, pursuant to the terms of the Stock Purchase Agreement, to maintain the corporate offices of Memorial Insurance Company at its current location in Blytheville, Arkansas. Furthermore, Security National Life and Southern Security Life agree to use their best efforts, following the closing of the transaction, to assist Memorial Insurance Company in retaining the sales agents and brokers in its business and operations. The obligations to complete the transaction were contingent upon approval of the transaction by the Arkansas Insurance Department. A hearing was held on December 9, 2005 with the Commissioner of the Arkansas Insurance Department to consider the request to approve the transaction, and the Commissioner issued an order dated December 21, 2005 approving the transaction.

At the closing of the transaction, Security National Life and Memorial Insurance Company entered into a reinsurance agreement to reinsure the majority of the in force business of Memorial Insurance Company to Security National Life, as reinsurer, to the extent permitted by the Arkansas Insurance Department. The assets and liabilities to be reinsured under the reinsurance agreement were deposited into a trust account, in which Zions First National Bank agrees to act as trustee. Under the terms of the reinsurance agreement, in the event of the insolvency of Security National Life Insurance Company, Zions First National Bank agrees to hold the assets and liabilities in trust for purposes of the administration of the assets and liabilities with respect to such insolvency.

As a result of the execution of the reinsurance agreement, certain insurance business and operations of Memorial Insurance Company will be transferred to Security National Life, including all policies in force as of the effective date thereof, except for certain policies to be retained by Memorial Insurance Company. Any future insurance business by Memorial Insurance Company will be covered by this reinsurance agreement. All of the business and operations of Memorial Insurance Company was transferred to Security National Life under the terms of the reinsurance agreement, except for capital and surplus of approximately $1,000,000. Thus, $30,025,777 in assets and liabilities was transferred from Memorial Insurance Company to Security National Life pursuant to the reinsurance agreement.

At the closing of the stock purchase transaction, Memorial Insurance Company issued a $30,025,777 note to Security National Life payable, together with accrued interest, within 30 days from the date of issuance. The note is to be repaid in cash or in assets to be transferred to Security National Life. The note is secured by the assets owned by Memorial Insurance Company. In addition, Southern Security Life contributed $2,200,000 in cash to Memorial Insurance Company at closing in consideration for the surplus note. Memorial Insurance Company repaid the surplus note in early 2006 using the proceeds from the sale of the investments in common stock that it currently holds in its investment portfolio.

On December 31, 2005, Memorial Insurance Company entered into a reinsurance agreement with Security National Life for certain accident and health insurance policies of Security National Life. Under the terms of the reinsurance agreement, Memorial Insurance Company assumed 100% of the liabilities of these policies. In addition, pursuant to the agreement, Security National Life transferred $96,345 in statutory reserves and assets to Memorial Insurance Company as of December 31, 2005. There was no additional consideration paid for these policies under the agreement.

Regulation

The Company s insurance subsidiaries, Security National Life, Security National Life of Louisiana, and Memorial Insurance Company 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, Louisiana and Arkansas under insurance holding company legislation, and other states where applicable. Generally, intercorporate transfers of assets and dividend payments from its 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 are subject 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 loan 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 CPA 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, Security National Life of Louisiana and Memorial Insurance Company 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 stockholder s surplus account or a significant decrease in life reserves will result in taxable income.

Security National Life, Security National Life of Louisiana and Memorial Insurance Company may continue to receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined 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. To the extent that the net income limitation is exceeded, then 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, Security National Life of Louisiana and Memorial Insurance Company 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 the Salt Lake City, Phoenix and San Diego areas in which 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 that 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 loan industry is highly competitive with a number of mortgage companies and banks in the same geographic area in which the Company is operating. The mortgage market 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, 2006, the Company employed 530 full-time and 73 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.

Location	Function	Owned Leased	Approximate Square Footage
5300 So. 360 West Salt Lake City, Utah	Corporate Headquarters	Owned (1)	33,200
755 Rinehart Road Lake Mary, Florida	Insurance Operations/ Mortgage Sales	Owned (2)	27,000
3935 I-55 South, Frontage Road Jackson, Mississippi	Insurance Operations	Owned (3)	12,000
2800 Youree Drive Bldg. 1, Suite 207 Shreveport, Louisiana	Insurance Operations	Leased (4)	200
634 West Main Street Blytheville, Arkansas	Insurance Operations	Owned	3,000
410 North 44th Street, Suite 190 Phoenix, Arizona	Mortgage Sales	Leased (5)	1,800
12150 Tributary Point Dr., Suite160 Gold River, California	Mortgage Sales	Leased (6)	2,000
2101 Business Center Dr., Suite 214 Irvine, California	Mortgage Sales	Leased (7)	900
634 North Santa Cruz Ave. Los Gatos, California	Mortgage Sales	Leased (8)	1,600
7676 Hazard Center Drive, Suite 625 San Diego, California	Mortgage Sales	Leased (9)	1,300
27433 Tourney Road, Suite 220 Valencia, California	Mortgage Sales	Leased (10)	2,500
6208 Lehman Drive, Suite 318 Colorado Springs, Colorado	Mortgage Sales	Leased (11)	600
5690 DTC Blvd., Suite 230E Greenwood Village, Colorado	Mortgage Sales	Leased (12)	2,000
7785 Baymeadows Way, Suite 101 Jacksonville, Florida	Mortgage Sales	Leased (13)	1,800
1617 Santa Barbara Blvd. Cape Coral, Florida	Mortgage Sales	Leased (14)	700

Item 2. Properties (Continued)

Location	Function	Owned Leased	Approximate Square Footage
5620 Tara Blvd., Suite 103 Bradenton, Florida	Mortgage Sales	Leased (15)	1,200
970 No. Kalaheo, Suite C-201 Kailua, Hawaii	Mortgage Sales	Leased (16)	4,300
6900 College Blvd., Suite 950 Overland Park, Kansas	Mortgage Sales	Leased (17)	1,900
6655 W. Sahara, Suite B-110 Las Vegas, Nevada	Mortgage Sales	Leased (18)	1,400
4045 NW 6th Street, Suite 500 Oklahoma City, Oklahoma	Mortgage Sales	Leased (19)	3,500
505 Village Road Shallotte, North Carolina	Mortgage Sales	Leased (20)	1,000
999 Southwest Disk Drive, Suite 104 Bend, Oregon	Mortgage Sales	Leased (21)	1,800
4800 SW Griffith Drive, Suite 250 Beaverton, Oregon	Mortgage Sales	Leased (22)	2,700
12750 Merit Drive, Suite 1212 Dallas, Texas	Mortgage Sales	Leased (23)	2,600
820 Gessner, Suite 800 Houston, Texas	Mortgage Sales	Leased (24)	2,400
613 Northwest Loop 410, Suite 685 San Antonio, Texas	Mortgage Sales	Leased (25)	1,100
6975 South Union Park, Suite 150 Midvale, Utah	Mortgage Sales	Leased (26)	4,300
5247 Greenpine Drive Murray, Utah	Insurance Operations	Owned (27)	6,600
5278 Pinemont Dr., Suite A180 Murray, Utah	Peace Mausoleum	Owned	800
5251 Green Street, Suite 350 Salt Lake City, Utah	Mortgage Sales	Owned (28)	5,000

Item 2. Properties (Continued)

Location	**Function**	**Owned Leased**	**Approximate Square Footage**
970 East Murray-Holladay Rd., Suite 4A Salt Lake City, Utah	Mortgage Sales	Leased (29)	6,400
9149 So. Monroe, Suite A Sandy, Utah	Mortgage Sales	Leased (30)	1,300
474 West 800 North, Suite 102 Orem, Utah	Mortgage Sales	Leased (31)	2,000
6767 Forrest Hill Avenue, Third Floor Richmond, Virginia	Mortgage Sales	Leased (32)	500

(1) The Company leases an additional 5,376 square feet of the facility to unrelated third parties for approximately $84,200 per year, under leases expiring at various dates after 2006.

(2) The Company leases an additional 9,903 square feet of the facility to unrelated third parties for approximately $202,200 per year, under leases expiring at various dates after 2006.

(3) The building is located on 104 undeveloped acres.

(4) The Company leases this facility for $1,900 per year. The lease expires April 2007.

(5) The Company leases this facility for $35,300 per year. The lease expires in October 2009.

(6) The Company leases this facility for $47,600 per year. The lease expires in July 2009.

(7) The Company leases this facility for $47,700 per year, with a month-to-month lease.

(8) The Company leases this facility for $39,300 per year. The lease expires in November 2008

(9) The Company leases this facility for $45,300 per year. The lease expires in June 2008

(10) The Company leases this facility for $78,000 per year. The lease expires in February 2009.

(11) The Company leases this facility for $9,600 per year. The lease expires in June 2007.

(12) The Company leases this facility for $34,200 per year. The lease expires in September 2009.

(13) The Company leases this facility for $28,800 per year. The lease expires in September 2009.

(14) The Company leases this facility for $8,400 per year, with a month-to-month lease.

(15) The Company leases this facility for $20,300 per year. The lease expires in July 2009.

(16) The Company leases this facility for $21,300 per year. The lease expires in March 2008.

(17) The Company leases this facility for $38,100 per year. The lease expires in January 2010.

(18) The Company leases this facility for $49,100 per year, with a month-to-month lease.

(19) The Company leases this facility for $47,700 per year. The lease expires in March 2008.

(20) The Company leases this facility for $7,200 per year, with a month-to-month lease.

(21) The Company leases this facility for $37,400 per year. The lease expires in December 2008.

(22) The Company leases this facility for $43,000 per year. The lease expires in May 2007.

(23) The Company leases this facility for $40,500 per year. The lease expires in January 2009.

(24) The Company leases this facility for $51,300 per year. The lease expires in January 2011.

(25) The Company leases this facility for $7,200 per year with a month-to-month lease.

(26) The Company leases this facility for $98,000 per year. The lease expires in January 2010.

(27) The Company leases an additional 128,300 square feet of the facility to unrelated third parties for approximately $809,200 per year, under leases expiring at various dates after 2006.

(28) The Company leases an additional 25,000 square feet of the facility to unrelated third parties for approximately $368,000 per year, under leases expiring at various dates after 2006.

(29) The Company leases this facility for $81,900 per year. The lease expires in February 2007.

(30) The Company leases this facility for $15,900 per year. The lease expires in August 2007.

(31) The Company leases this facility for $31,000 per year. The lease expires in February 2007.

(32) The Company leases this facility for $19,200 per year. The lease expires in March 2007.

The Company believes the office facilities it occupies are in good operating condition, are adequate for current operations and has no plans to build or acquire additional office facilities. The Company believes its office facilities are adequate for handling its business in the foreseeable future. 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(3)	1640 East Lakeview Dr. Bountiful, Utah	1973	7	40	6	34
Mountain View Cemetery(3)	3115 East 7800 South Salt Lake City, Utah	1973	15	54	13	41
Redwood Cemetery(3)(5)	6500 South Redwood Rd. West Jordan, Utah	1973	27	78	27	51
Cottonwood Mortuary Inc. Deseret Memorial Inc. Lakehills Cemetery(4)	10055 So. State Street Sandy, Utah	1991	9	41	4	37
Holladay Memorial Park(4)(5)	4900 So. Memory Lane Holladay, Utah	1991	5	14	3	11
California Memorial Estates Singing Hills Memorial Park(6)	2800 Dehesa Road El Cajon, California	1995	8	35	3	32

(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, 2006, there were mortgages of approximately $6,000, collateralized by the property and facilities at Memorial Estates Lakeview, Mountain View and Redwood Cemeteries.

(4) As of December 31, 2006, there were mortgages of approximately $1,384,000, collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, Lakehills Cemetery and Colonial Mortuary.

(5) These cemeteries include two granite mausoleums.

(6) As of December 31, 2006, there was a mortgage of approximately $209,000, collateralized by the property

The following table summarizes the location, square footage and the number of viewing rooms and chapels of the twelve 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(3)	6500 South Redwood Rd. West Jordan, Utah	1973	2	1	10,000
Mountain View Mortuary(3)	3115 East 7800 South Salt Lake City, Utah	1973	2	1	16,000
Lakeview Mortuary(3)	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.:					
Colonial Mortuary(1)	2128 South State St. Salt Lake City, Utah	1991	1	1	14,500
Deseret Mortuary(1)	36 East 700 South Salt Lake City, Utah	1991	2	2	36,300
Lakehills Mortuary(3)	10055 South State St. Sandy, Utah	1991	2	1	18,000
Cottonwood Mortuary(1)(3)	4670 South Highland Dr. Holladay, Utah	1991	2	1	14,500
Greer-Wilson Funeral Home	5921 West Thomas Road Phoenix, Arizona	1995	2	2	25,000
Adobe Funeral Home(4)	218 North Central Avondale, Arizona	1995	1	1	1,850
Crystal Rose Funeral Home(2)	9155 W. VanBuren Tolleson, Arizona	1997	0	1	9,000

(1) As of December 31, 2006, there were mortgages of approximately $1,384,000, collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, Lakehills Cemetery and Colonial Mortuary.

(2) As of December 31, 2006, there was a mortgage of approximately $103,000, collateralized by the property and facilities of Crystal Rose Funeral Home.

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

(4) As of December 31, 2006, there was a mortgage of approximately $125,000, collateralized by the property and facilities of Adobe Chapel Funeral Home.

Item 3. Legal Proceedings

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

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

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

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

The Company disputes the terms of the proposed consent order. The Company is not aware of specific concerns that the Florida Office has with the New Success Life Program because it has received no administrative complaint from the Florida Office nor is it aware of any recent market conduct examination that the Florida Office has conducted relative to the program. The Company intends to vigorously oppose the proposed consent order. The Company is currently engaged in discussions with the Florida Office in an effort to settle the dispute concerning the proposed order. If the Company is unable to reach a satisfactory resolution with the Florida Office with respect to the terms of the proposed consent order and the Florida Office issues a similar order, the Company intends to take action necessary to protect its rights and interests, including requesting a hearing before an administrative law judge to oppose the order. The Company believes any potential liability would be limited to the assets of Southern Security Life, which are approximately $3,847,000.

Except for the proposed consent order from the Florida Office of Insurance Regulation, the Company is not a party to any material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 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, 2006.

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, 2007, the closing sales price of the Class A Common Stock was $4.79 per share. The following are the high and low market closing sales prices for the Class A Common Stock by quarter as reported by Nasdaq since January 1, 2005:

	Price Range	
Period (Calendar Year)	**High**	**Low**
2005		
First Quarter	$ 3.89	$ 2.71
Second Quarter	3.36	2.72
Third Quarter	3.00	2.79
Fourth Quarter	3.64	2.82
2006		
First Quarter	$ 4.56	$ 3.14
Second Quarter	4.73	3.81
Third Quarter	4.16	3.71
Fourth Quarter	5.43	3.93
2007		
First Quarter	5.95	4.65

The above 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 13 to the 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 2006.

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, 2001 through December 31, 2006. 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, 2001 and that all dividends were reinvested.

The comparison 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.

$0

$50

$100

$150

$200

$250

$300

$350

$400

12/31/01

12/31/02

12/31/03

12/31/04

12/31/05

12/31/06

SNFC

S & P 500

S & P Insurance

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
SNFC	100	268	326	145	174	265
S & P 500	100	77	97	106	109	124
S & P Insurance	100	78	94	99	112	122

The graph set forth above is required by the Securities & 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, 2006, there were 4,603 record holders of Class A Common Stock and 130 record holders of Class C Common Stock.

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

The following selected financial data for each of the five years in the period ended December 31, 2006, are derived from the audited consolidated financial statements. The data as of December 31, 2006 and 2005, and for the three years ended December 31, 2006, should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Consolidated Statement of Earnings Data:

	Year Ended December 31,				
	2006(1)	**2005**	**2004(2)**	**2003(3)**	**2002**
Revenue					
Premiums	$ 30,776,000	$ 27,170,000	$ 25,979,000	$ 23,295,000	$ 14,077,000
Net investment income	23,246,000	19,387,000	15,939,000	17,303,000	12,540,000
Net mortuary and cemetery sales	12,123,000	10,839,000	11,661,000	10,944,000	10,638,000
Realized (losses) gains on investments	891,000	74,000	74,000	(2,000)	1,021,000
Mortgage fee income	85,113,000	71,859,000	62,690,000	92,955,000	57,008,000
Other	381,000	621,000	855,000	550,000	479,000
Total revenue	152,530,000	129,950,000	117,198,000	145,045,000	95,763,000
Expenses					
Policyholder benefits	27,319,000	24,477,000	23,362,000	21,755,000	13,756,000
Amortization of deferred policy acquisition costs	4,125,000	3,031,000	4,602,000	4,929,000	3,994,000
Selling, general and administrative expenses	105,728,000	90,690,000	82,097,000	102,926,000	68,459,000
Interest expense	6,141,000	4,921,000	2,174,000	3,642,000	1,970,000
Cost of goods and services of the mortuaries and cemeteries	2,322,000	2,103,000	2,304,000	2,328,000	2,045,000
Total benefits and expenses	145,635,000	125,222,000	114,539,000	135,580,000	90,224,000
Income before income tax expense	6,895,000	4,728,000	2,659,000		