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SECURITY NATIONAL FINANCIAL CORP
Form 10-Q/A
June 03, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

FORM 10-Q/A
Amendment No. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2005

Commission File Number: 0-9341

SECURITY NATIONAL FINANCIAL CORPORATION
Exact Name of Registrant.

UTAH

(State or other jurisdiction
of incorporation or organization

87-0345941

IRS Identification Number

5300 South 360 West, Salt Lake City, Utah

(Address of principal executive offices)

84123

(Zip Code)

Registrant's telephone number, including Area Code (801) 264-1060

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock, \$2.00 par value

5,441,710

Title of Class

Number of Shares Outstanding
as of March 31, 2005

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Class C Common Stock, \$.20 par value	6,380,197
-----	-----
Title of Class	Number of Shares Outstanding as of March 31, 2005

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED MARCH 31, 2005

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HANSEN, BARNETT & MAXWELL
A Professional Corporation

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CERTIFIED PUBLIC ACCOUNTANTS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Security National Financial Corporation

We have reviewed the accompanying condensed consolidated balance sheet of Security National Financial Corporation as of March 31, 2005, and the related condensed consolidated statements of earnings and cash flows for the three-month period then ended. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
June 3, 2005

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

Revenues:	Three Months Ended	
	March 31,	
-----	2005	2004
-----	----	----
Insurance premiums and other considerations	\$7,180,520	\$6,396,174
Net investment income	4,345,263	3,556,247
Net mortuary and cemetery sales	2,885,368	3,056,405
Realized gains on investments and other assets	23,690	5,323
Mortgage fee income	13,171,106	18,068,730
Other	216,737	190,038
	-----	-----
Total revenues	27,822,684	31,272,917
	-----	-----

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Benefits and expenses:		
Death benefits	3,515,928	3,772,951
Surrenders and other policy benefits	469,367	479,839
Increase in future policy benefits	2,628,190	1,868,732
Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired	832,202	1,199,275
General and administrative expenses:		
Commissions	10,596,864	14,207,056
Salaries	3,812,734	3,581,644
Other 4,516,123	4,692,879	
Interest expense	641,688	365,323
Cost of goods and services sold of the mortuaries and cemeteries	547,840	597,532
	-----	-----
Total benefits and expenses	27,560,936	30,765,231
	-----	-----
Earnings before income taxes	261,748	507,686
Income tax expense	18,160	(128,118)
Minority interest	--	22,014
	-----	-----
Net earnings	\$279,908	\$401,582
	=====	=====
Net earnings per common share	\$.05	\$.07
	=====	=====
Weighted average outstanding common shares	6,079,717	5,949,234
	=====	=====
Net earnings per common share-assuming dilution	\$.05	\$.07
	=====	=====
Weighted average outstanding common shares assuming-dilution	6,104,229	6,109,341
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2005	December 31, 2004
	-----	-----
Assets:		

Insurance-related investments:		
Fixed maturity securities		
held to maturity, at amortized cost	\$64,771,046	\$69,984,761
Fixed maturity securities available for sale, at market	10,866,975	11,066,025

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Equity securities available for sale, at market	3,928,995	4,166,769
Mortgage loans on real estate and construction loans, net of allowances for losses	62,503,891	65,831,586
Real estate, net of accumulated depreciation and allowances for losses	10,574,941	9,709,129
Policy, student and other loans	13,193,372	13,312,471
Short-term investments	5,160,492	4,628,999
	-----	-----
Total insurance-related investments	170,999,712	178,699,740
	-----	-----
Restricted assets of cemeteries and mortuaries	5,248,246	5,176,463
	-----	-----
Cash	12,950,795	15,333,668
	-----	-----
Receivables:		
Trade contracts	5,133,693	5,333,891
Mortgage loans sold to investors	57,623,871	47,167,150
Receivable from agents	1,499,865	1,416,211
Receivable from officers	--	1,540
Other	1,021,866	1,120,157
	-----	-----
Total receivables	65,279,295	55,038,949
Allowance for doubtful accounts	(1,223,409)	(1,302,368)
	-----	-----
Net receivables	64,055,886	53,736,581
	-----	-----
Policyholder accounts on deposit with reinsurer	6,643,914	6,689,422
Cemetery land and improvements held for sale	8,547,430	8,547,764
Accrued investment income	2,003,985	1,743,721
Deferred policy and pre-need contract acquisition costs	20,481,146	20,181,818
Property and equipment, net	10,488,734	10,520,665
Cost of insurance acquired	13,320,425	14,053,497
Excess of cost over net assets of acquired subsidiaries	683,191	683,191
Other	942,190	1,107,230
	-----	-----
Total assets	\$316,365,654	\$316,473,760
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2005	December 31, 2004
	-----	-----
Liabilities:		

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Future life, annuity, and other policy benefits	\$225,775,786	\$224,529,539
Unearned premium reserve	2,487,049	2,254,991
Bank loans payable	10,565,844	10,442,106
Notes and contracts payable	2,645,599	2,888,539
Deferred pre-need cemetery and funeral contract revenues	10,771,065	10,762,357
Accounts payable	1,128,676	1,064,269
Funds held under reinsurance treaties	1,176,262	1,184,463
Other liabilities and accrued expenses	8,585,610	6,371,343
Income taxes	11,484,867	11,497,967
	-----	-----
Total liabilities	274,620,758	270,995,574
	-----	-----
Commitments and contingencies	--	--
	-----	-----
Minority interest	--	3,813,346
	-----	-----
Stockholders' Equity:		
Common stock:		
Class A: \$2.00 par value, authorized 10,000,000 shares, issued 6,756,785 shares in 2005 and 6,755,870 shares in 2004	13,513,570	13,511,740
Class C: convertible, \$0.20 par value, authorized 7,500,000 shares, issued 6,459,300 shares in 2005 and 6,468,199 shares in 2004	1,291,860	1,293,641
	-----	-----
Total common stock	14,805,430	14,805,381
Additional paid-in capital	14,922,881	14,922,851
Accumulated other comprehensive (loss) and other items, net of deferred taxes	(211,204)	(11,352)
Retained earnings	15,645,088	15,365,259
Treasury stock at cost (1,315,075 Class A shares and 79,103 Class C shares in 2005; 1,315,075 Class A shares and 79,103 Class C shares in 2004 held by affiliated companies)	(3,417,299)	(3,417,299)
	-----	-----
Total stockholders' equity	41,744,896	41,664,840
	-----	-----
Total liabilities and stockholders' equity	\$316,365,654	\$316,473,760
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31, 2005	2004
	----	----
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ (7,897,876)	\$ 21,000,620
	-----	-----
Cash flows from investing activities:		
Securities held to maturity:		
Purchase - fixed maturity securities	(502,000)	(12,026,957)
Calls and maturities - fixed maturity securities	5,622,503	2,579,486
Securities available for sale:		
Sales - equity securities	(7,009)	--
Purchases of short-term investments	(5,414,701)	(8,762,251)
Sales of short-term investments	4,883,208	6,164,882
Purchases of restricted assets	(41,090)	(91,594)
Mortgage, policy, and other loans made	(15,663,719)	(22,714,986)
Payments received for mortgage, policy, and other loans	19,117,574	7,554,722
Purchases of property and equipment	(404,331)	(296,546)
Purchases of real estate	(1,887,950)	(488,312)
Cash paid for purchase of subsidiary	--	(297,994)
Sale of real estate	926,062	--
	-----	-----
Net cash (used in) provided by investing activities	6,628,547	(28,379,550)
	-----	-----
Cash flows from financing activities:		
Annuity and pre-need contract receipts	1,419,729	1,348,322
Annuity and pre-need contract withdrawals	(2,560,646)	(2,544,563)
Repayment of bank loans and notes and contracts payable	(242,940)	(640,173)
Proceeds from borrowing on notes and contracts	270,329	--
	-----	-----
Net cash (used in) provided by financing activities	(1,113,528)	(1,836,414)
	-----	-----
Net change in cash	(2,382,857)	(9,215,344)
Cash at beginning of period	15,333,668	19,704,358
	-----	-----
Cash at end of period	\$12,950,811	\$10,489,014
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2005 (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2004, included in the Company's Annual Report on Form 10-K (file number 0-9341).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

2. Comprehensive Income

For the three months ended March 31, 2005 and 2004, total comprehensive income amounted to \$80,056 and \$703,483, respectively.

3. Stock-Based Compensation

The Company accounts for stock-based compensation under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation". In accordance with the provisions of SFAS 123, the Company has elected to continue to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), and related interpretations in accounting for its stock option plans.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2005 (Unaudited)

1. Basis of Presentation (Continued)

In accordance with APB Opinion No. 25, no compensation cost has been recognized

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for these plans. Had compensation cost for these plans been determined based upon the fair value at the grant date consistent with the methodology prescribed under SFAS No. 123. Earnings per share amounts have been adjusted for the effect of annual stock dividends. Net earnings for the three months ended March 31, 2005 and 2004 would have been reduced by the following:

	Three Months Ended March 31, 2005	2004
	----	----
Net earnings as reported	\$279,908	\$401,582
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	--
	-----	-----
Pro forma net earnings	\$279,908 =====	\$401,582 =====
Net earnings per common share:		
Basic - as reported	\$.05 =====	\$.07 =====
Basic - pro forma	\$.05 =====	\$.07 =====
Diluted - as reported	\$.05 =====	\$.07 =====
Diluted - pro forma	\$.05 =====	\$.07 =====

4. Earnings Per Share

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

	Three Months Ended March 31, 2005	2004
	----	----
Numerator:		
Net income	\$ 279,908 =====	\$ 401,582 =====
Denominator:		
Denominator for basic earnings per share-weighted-average shares	6,079,717 -----	5,949,234 -----
Effect of dilutive securities:		
Employee stock options	23,971	158,241
Stock appreciation rights	541	1,866
	-----	-----
Dilutive potential common shares	24,512 -----	160,107 -----
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	6,104,229 =====	6,109,341 =====
Basic earnings per share	\$.05 =====	\$.07 =====

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Diluted earnings per share	\$.05 =====	\$.07 =====
----------------------------	-----------------	-----------------

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2005 (Unaudited)

1. Basis of Presentation (Continued)

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

5. Business Segment

	Life Insurance	Cemetery/ Mortuary	Mortgage	Receivables
For the Three Months Ended March 31, 2005				
Revenues from external customers	\$ 10,056,516	\$ 3,193,073	\$14,573,095	\$
Intersegment revenues	1,248,758	23,001	79,401	(1)
Segment profit (loss) before income taxes	637,839	354,198	(730,289)	
Identifiable assets	305,320,094	48,186,225	14,239,233	(51)
For the Three Months Ended March 31, 2004				
Revenues from external customers	\$ 8,357,223	\$3,226,386	\$19,689,308	\$
Intersegment revenues	2,373,013	--	57,304	(2)
Segment profit (loss) before income taxes	433,203	347,749	(273,266)	
Identifiable assets	305,088,724	44,736,652	15,971,494	(49)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2005, (Unaudited)

6. Merger Transaction

Effective January 1, 2005, Security National Life and SSLIC Holding Company, a wholly owned subsidiary of Security National Life, completed a merger transaction with Southern Security Life Insurance Company. Under the terms of the merger and pursuant to the Agreement and Plan of Reorganization, dated August 25, 2004, among Security National Life, SSLIC Holding Company and Southern Security Life Insurance Company, including the amendment thereto dated December 27, 2004, SSLIC Holding Company was merged with and into Southern Security Life Insurance Company, which resulted in (i) Southern Security Life Insurance Company becoming a wholly-owned subsidiary of Security National Life Insurance Company, and (ii) the unaffiliated stockholders of Southern Security Life Insurance Company, holding an aggregate of 490,816 shares of common stock, or 23.3% of the outstanding shares, becoming entitled to receive \$3.84 in cash for each issued and outstanding share of their common stock of Southern Security Life Insurance Company, or an aggregate of \$1,884,733.

As a result of the merger, the separate existence of SSLIC Holding Company ceased as Southern Security Life Insurance Company became the surviving corporation of the merger. Southern Security Life Insurance Company continues to be governed by the laws of the State of Florida, and its separate corporate existence continues unaffected by the merger. In addition, as a result of the merger, Security National Life owns all of the issued and outstanding common shares of Southern Security Life Insurance Company. Security National Financial Corporation, through its affiliates, Security National Life Insurance Company and SSLIC Holding Company, owned 76.7% of the Company's outstanding common shares prior to the merger.

The purpose of the merger is to terminate the registration of the common stock of Southern Security Life Insurance Company under the Securities Exchange Act of 1934 (by reducing the number of its stockholders of record to fewer than 300 stockholders) and the Nasdaq listing of the common stock, reduce expenses associated with such registration and listing, and provide the stockholders an opportunity to sell their shares in an illiquid trading market without incurring brokerage commissions. As a result of becoming a non-reporting company,

Southern Security Life Insurance Company is no longer required to file periodic reports with the SEC, including among other things, annual reports on Form 10-K and quarterly reports on Form 10-Q, and is no longer subject to the SEC's proxy rules. In addition, its common stock is no longer eligible for trading on the Nasdaq SmallCap Market.

7. Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51", and subsequently issued a revision to this Interpretation in December 2003. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies to those variable interest entities considered to be special-purpose entities no later than December 31, 2003. The Interpretation must also be applied to all other variable interest entities no later than March 31, 2005. The adoption of Interpretation No. 46 did not have a material impact on the Company's financial position or results of operations.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements March 31, 2005, (Unaudited)

7. Recent Accounting Pronouncements (Continued)

In December 2004, FASB revised SFAS 123 to Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) provides additional guidance on determining whether certain financial instruments awarded in share-based payment transactions are liabilities. SFAS 123(R) also requires that the cost of all share-based transactions be recorded in the financial statements. The revised pronouncement must be adopted by the Company by January 1, 2006. Implementation of SFAS 123(R) will not have a significant impact on the Company's consolidated financial statements in the period of implementation. However, any future stock options granted could have a significant impact on the Company's consolidated financial statements.

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

Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole-life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on historically lower interest rates by originating and refinancing mortgage loans.

During the three months ended March 31, 2005, Security National Mortgage Company ("SNMC") experienced a decrease in revenue and expenses due to the decrease in loan volume of its operations. SNMC is a mortgage lender incorporated under the laws of the State of Utah. SNMC is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SNMC obtains loans primarily from independent brokers and correspondents. SNMC funds the loans from internal cash flows and lines of credit from financial institutions. SNMC receives fees from the borrowers and other secondary fees from third party investors who purchase the loans from SNMC. SNMC primarily sells all of its loans to third party investors and does not retain servicing to these loans. SNMC pays the brokers and correspondents a commission for loans that are brokered through SNMC. SNMC originated and sold 2,072 (\$316,785,000) and 3,291 (\$496,307,000) loans, respectively, for the three months ended March 31, 2005 and 2004.

Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Total revenues decreased by \$3,450,000, or 11.0%, to \$27,823,000 for the three months ended March 31, 2005, from \$31,273,000 for the three months ended March 31, 2004. Contributing to this decrease in total revenues was a \$4,898,000 decrease in mortgage fee income, and a \$171,000 decrease in net mortuary sales.

Insurance premiums and other considerations increased by \$784,000, or 12.3%, to \$7,180,000 for the three months ended March 31, 2005, from \$6,396,000 for the comparable period in 2004. This increase was primarily due to the additional insurance premiums realized from new insurance sales.

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Net investment income increased by \$789,000, or 22.2%, to \$4,345,000 for the three months ended March 31, 2005, from \$3,556,000 for the comparable period in 2004. This increase was primarily attributable to additional borrower interest income from increased long-term bond purchases over the comparable period in 2004.

Net mortuary and cemetery sales decreased by \$171,000, or 5.6%, to \$2,885,000 for the three months ended March 31, 2005, from \$3,056,000 for the comparable period in 2004. This reduction in at-need mortuary sales was primarily due to the loss of sales from the Camelback Funeral Home as a result of the City of Phoenix having commenced condemnation proceedings in order to construct a light rail facility on the Camelback Funeral Home property.

Mortgage fee income decreased by \$4,898,000, or 27.1%, to \$13,171,000 for the three months ended March 31, 2005, from \$18,069,000 for the comparable period in 2004. This decrease was primarily attributable to a decrease in the number of loan originations during the first quarter of 2005 due to an increase in interest rates, which resulted in the refinancing of fewer mortgage loans.

Total benefits and expenses were \$27,561,000, or 99.1% of total revenues, for the three months ended March 31, 2005, as compared to \$30,765,000, or 98.4% of total revenues, for the comparable period in 2004. The lower margin in 2004 was due to fixed expenses, which did not decrease proportionally with the reduction in revenues.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$492,000, or 8.0%, to \$6,613,000 for the three months ended March 31, 2005, from \$6,121,000 for the comparable period in 2004. This increase was primarily the result of an increase in reserves for policyholders.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired decreased by \$367,000, or 30.6%, to \$832,000 for the three months ended March 31, 2005, from \$1,199,000 for the comparable period in 2004. This decrease was primarily due to recognition of improvements in persistency and expenses.

General and administrative expenses decreased by \$3,556,000, or 15.8%, to \$18,926,000 for the three months ended March 31, 2005, from \$22,482,000 for the comparable period in 2004. This decrease primarily resulted from a decrease in commissions due to fewer mortgage loan originations having been made by Security National Mortgage Company during the first quarter of 2005.

Interest expense increased by \$276,000, or 75.4%, to \$642,000 for the three months ended March 31, 2005, from \$366,000 for the comparable period in 2004. This increase was primarily due to increased warehouse lines of credit required for a greater number of warehoused mortgage loans by Security National Mortgage Company.

Cost of goods and services sold of the mortuaries and cemeteries decreased by \$50,000, or 8.3%, to \$548,000 for the three months ended March 31, 2005, from \$598,000 for the comparable period in 2004. This reduction in at-need mortuary sales was primarily due to the loss of sales from the Camelback Funeral Home as a result of the City of Phoenix having commenced condemnation proceedings in order to construct a light rail facility on the Camelback Funeral Home property.

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.

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held-to-maturity in the portfolio to help in this timing; however, to date, that has not been necessary. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

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 life insurance subsidiaries amounted to \$75,630,000 as of March 31, 2005, compared to \$81,051,000 as of December 31, 2004. This represents 44% and 45% of the total insurance-related investments as of March 31, 2005, and December 31, 2004, 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 March 31, 2005 and December 31, 2004, 2% (\$1,660,000) and 2% (\$1,659,000) of the Company's total investment in bonds were invested in bonds in rating categories three through six, which are considered non-investment grade.

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

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At March 31, 2005, and December 31, 2004, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity and bank debt and notes payable was \$54,956,000 as of March 31, 2005, as compared to \$54,995,000

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as of December 31, 2004. Stockholders' equity as a percent of total capitalization stayed the same at 76% as of March 31, 2005, when compared to December 31, 2004.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2004 was 9.0% as compared to a rate of 8.6% for 2003. The 2005 lapse rate to date has been approximately the same as 2004.

At March 31, 2005, \$29,135,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes since the annual report Form 10-K filed for the year ended December 31, 2004.

Item 4. Controls and Procedures

a) Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2005. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and adequately designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms. b) Changes in internal controls over financial reporting

During the quarter ended March 31, 2005, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information:

Item 1. Legal Proceedings

An action was brought against the Company in May 2001 by Glenna Brown Thomas, individually and as personal representative of the Estate of Lynn W. Brown, in the Third Judicial Court, Salt Lake County, Utah. The action asserts that Memorial Estates, Inc. delivered to Lynn W. Brown six stock certificates totaling 2,000 shares of its common stock in 1970 and 1971. Mr. Brown died in 1972. It is also asserted that at the time the 2,000 shares were issued and outstanding, the shares represented a 2% ownership of Memorial Estates. It is further alleged that Mr. Brown was entitled to preemptive rights and, after the issuance of the stock to Mr. Brown, there were further issuances of stock without providing written notice to Mr. Brown or his estate of his right to purchase more stock.

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It is further asserted that Thomas has the right to the transfer of Brown's shares on the books of Security National Financial Corporation as well as Memorial Estates, and to the restoration of Brown's proportion of share ownership in Memorial Estates at the time of his death by issuance and delivery to Thomas of sufficient shares of the Company's publicly traded and unrestricted stock in exchange for the 2,000 shares of Memorial Estates stock, including payment of all dividends from the date of Thomas's demand. The formal discovery cutoff was January 15, 2004. The Company has been verbally informed that Thomas will dismiss the case but such dismissal has not been communicated in writing. Until the case is actually dismissed, the Company intends to vigorously defend the matter, including the assertion that the statute of limitations bars the claims in their entirety.

The Company received a letter dated November 9, 2004 on behalf of Charles Hood, who worked at Singing Hills Memorial Park in El Cajon, California. He was hired in April 2003 as a groundskeeper with his work concluding on October 30, 2003. Mr. Hood claims that he wrote a letter to the Company outlining his concerns regarding the operation of the cemetery, and that the next day he was terminated. Even though he recognizes his relationship was as an at-will employee. Mr. Hood's claims against the Company also include, but are not limited to, violation of labor laws, whistleblower retaliation and infliction of emotional distress. The letter proposes a settlement in the amount of \$275,000.

No lawsuit has been filed in the matter. The Company has been engaged in a review of the claims made in the letter. Based on its investigation, the Company believes that Mr. Hood voluntarily quit and was not terminated. Counsel for the Company and counsel for Mr. Hood have been in discussion concerning the matter. At this stage of the investigation, the Company does not believe there is any justification for the claims being made. If a resolution of the dispute is not achieved and litigation ensues, the Company is prepared to vigorously defend the action.

The Company also received a letter dated November 29, 2004 on behalf of Roger Gornichec, who the Company recognizes as having been an independent contractor. The attorney who wrote the letter on behalf of Mr. Hood also wrote the letter on behalf of Mr. Gornichec. Mr. Gornichec concluded his services as an agent selling insurance in the spring of 2003 and his license to sell cemetery plots was not renewed in the summer of 2004. Mr. Gornichec asserts that he was an employee contrary to the Company's position.

The claims made on behalf of Mr. Gornichec include, but are not limited to, wrongful termination in violation of public policy, misrepresentation, age discrimination, whistle-blower retaliation, interference with economic advantage, breach of contract, breach of the covenant of good faith and fair dealing, and infliction of emotional distress. Mr. Gornichec also claims that he is owed a certain amount from a retirement plan. The letter proposes a settlement in the amount of \$420,000. Based on its investigation, the Company believes that Mr. Gornichec was an independent contractor, not an employee, and that the claims and the settlement amount sought are not justified. If the matter is not resolved and litigation ensues, the Company is prepared to vigorously defend the action.

The Company is a defendant in various other legal actions arising from the normal conduct of business. Management believes that none of the actions will have a material effect on the Company's financial position or results of operations. Based on management's assessment and legal counsel's representations concerning the likelihood of unfavorable outcomes, no amounts have been accrued

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for the above claims in the consolidated financial statements.

Item 2. Changes in Securities and Use of Proceeds

NONE

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 3.1 Articles of Restatement of Articles of Incorporation (7)
- 3.2 Amended Bylaws (10)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- 10.2 1993 Stock Option Plan (3)
- 10.3 2000 Director Stock Option Plan (4)
- 10.4 2003 Stock Option Plan (9)
- 10.5 Deferred Compensation Agreement with George R. Quist (2)
- 10.6 Promissory Note with George R. Quist (5)
- 10.7 Deferred Compensation Plan (6)
- 10.8 Coinsurance Agreement between Security National Life and Acadian (7)
- 10.9 Assumption Agreement among Acadian, Acadian Financial Group, Inc., Security National Life and the Company (7)
- 10.10 Asset Purchase Agreement between Acadian, Acadian Financial Group, Inc., Security National Life and the Company (7)
- 10.11 Promissory Note with Key Bank of Utah (8)
- 10.12 Loan and Security Agreement with Key Bank of Utah (8)
- 10.13 Stock Purchase and Sale Agreement with Ault Glazer & Co. Investment Management LLC (10)
- 10.14 Stock Purchase Agreement with Paramount Security Life Insurance Company (11)
- 10.15 Reinsurance Agreement between Security National Life Insurance Company and Guaranty Income Life Insurance Company (12)
- 10.16 Employment agreement with J. Lynn Beckstead, Jr. (12)
- 10.17 Employment agreement with Scott M. Quist (13)
- 10.18 Agreement and Plan of Reorganization among Security National Life Insurance Company, SSLIC Holding Company, and Southern Security Life Insurance Company (14)
- 10.19 Agreement and Plan of Merger, among Security National Life Insurance Company, SSLIC Holding Company, and Southern Security Life Insurance Company (15)

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- 10.20 Agreement to repay indebtedness and to convey option with Monument Title, LC. (15)
- 10.21 Subsidiaries of the Registrant
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on June 29, 1987
- (2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989
- (3) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1994
- (4) Incorporated by reference from Schedule 14A Definitive Proxy Statement, filed August 29, 2000, relating to the Company's Annual Meeting of Shareholders
- (5) Incorporated by reference from Annual Report on Form 10-K, as filed on April 16, 2001
- (6) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
- (7) Incorporated by reference from Report on Form 8-K/A as filed on January 8, 2003
- (8) Incorporated by reference from Annual Report on Form 10-K, as filed on April 15, 2003
- (9) Incorporated by reference from Schedule 14A Definitive Proxy Statement, Filed on June 5, 2003, relating to the Company's Annual Meeting of Shareholders
- (10) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
- (11) Incorporated by reference from Report on Form 8-K, as filed on March 30, 2004
- (12) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
- (13) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
- (14) Incorporated by reference from Report on Form 8-K, as filed on August 30, 2004
- (15) Incorporated by reference from Report on Form 10-K, as filed on April 15, 2005

(b) Reports on Form 8-K:

No reports were filed by the Company during the quarter ended March 31, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION
Registrant

DATED: June 3, 2005

By: George R. Quist,

Chairman of the Board and Chief
Executive Officer (Principal
Executive Officer)

DATED: June 3, 2005

By: Stephen M. Sill

Vice President, Treasurer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Exhibit 31.1

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

I, George R. Quist, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Security National Financial Corporation.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant to have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to

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us by others within those entities, particularly during the period covered in which this report is being prepared;

- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 3, 2005

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

Exhibit 31.2

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

I, Stephen M. Sill, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Security National Financial Corporation.
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this

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quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-d-15(e)) for the registrant to have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: June 3, 2005

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

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

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George R. Quist, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge

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and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: George R. Quist
Chairman of the Board
and Chief Executive Officer
June 3, 2005

EXHIBIT 32.2
CERTIFICATION PURSUANT TO
18 U.S.C. ss. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: Stephen M. Sill
Vice President, Treasurer and
Chief Financial Officer
June 3, 2005