

WABASH NATIONAL CORP /DE

Form 10-K

February 19, 2008

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

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007**
- 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: 1-10883
WABASH NATIONAL CORPORATION**
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

52-1375208
*(IRS Employer
Identification Number)*

**1000 Sagamore Parkway South
Lafayette, Indiana**
(Address of Principal Executive Offices)

47905
(Zip Code)

Registrant's telephone number, including area code: (765) 771-5300

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 Par Value	New York Stock Exchange
Series D Preferred Share Purchase Rights	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2007 was \$439,528,168 based upon the closing price of the Company's common stock as quoted on the New York Stock Exchange composite tape on such date.

The number of shares outstanding of the registrant's common stock as of February 11, 2008 was 30,697,900.

Part III of this Form 10-K incorporates by reference certain portions of the registrant's Proxy Statement for its Annual Meeting of Stockholders to be filed within 120 days after December 31, 2007.

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FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Forward-looking statements may include the words may, will, estimate, intend, continue, believe, expect, plan or anticipate and other similar words. Forward-looking statements include, but are not limited to, statements regarding:

- our business plan;
- our expected revenues, income or loss and capital expenditures;
- plans for future operations;
- financing needs, plans and liquidity;
- our ability to achieve sustained profitability;
- reliance on certain customers and corporate relationships;
- availability and pricing of raw materials;
- availability of capital;
- dependence on industry trends;
- the outcome of any pending litigation;
- export sales and new markets;
- engineering and manufacturing capabilities and capacity;
- acceptance of new technology and products;
- government regulation; and
- assumptions relating to the foregoing.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in this Annual Report. Each forward-looking statement contained in this Annual Report reflects our management's view only as of the date on which that forward-looking statement was made. We are not obligated to update forward-looking statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.

Currently known risks and uncertainties that could cause actual results to differ materially from our expectations are described throughout this Annual Report, including in Item 1A. *Risk Factors*. We urge you to carefully review that section for a more complete discussion of the risks of an investment in our securities.

PART I

ITEM 1 BUSINESS

Wabash National Corporation (Wabash, Company, us, we or our) is one of North America s leaders in designin manufacturing and marketing standard and customized truck trailers and related transportation equipment. Founded in 1985 as a start-up, Wabash has had annual sales of over \$1 billion for each of the last four years. We believe our success has been the result of our longstanding relationships with our core customers, our demonstrated ability to attract new customers, our broad and innovative product lines, our technological leadership and our large distribution and service network. Our management team is focused on revenue growth through product innovation, expansion of our customer base and the low-cost production of quality trailers through continuous improvement, strategic sourcing opportunities and lean manufacturing initiatives.

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We seek to identify and produce proprietary products that offer exceptional value to customers with the potential to generate higher profit margins than those of standardized products. We believe that we have the engineering and manufacturing capability to produce these products efficiently. We introduced our proprietary composite product, DuraPlate®, in 1996. Composite trailers have achieved widespread industry acceptance accounting for approximately one out of every three dry van trailers sold in 2007. For the last four years, sales of our DuraPlate® trailers represented approximately 90% of our total new dry van trailer sales. We are also a competitive producer of standardized sheet and post and refrigerated trailer products and strive to become the low-cost producer of these products within our industry. In March 2006, we acquired Transcraft Corporation, a manufacturer of flatbed and dropdeck trailers, as part of our commitment to expand our customer base and extend our market leadership. We expect to continue a program of product development and selective acquisitions of quality proprietary products that further differentiate us from our competitors and increase shareholder value.

We market our transportation equipment under the Wabash®, DuraPlate®, DuraPlateHD®, FreightPro®, ArcticLite®, RoadRailer®, Transcraft®, Eagle®, Eagle II® and D-Eagle® trademarks directly to customers, through independent dealers and through our factory-owned retail branch network. Historically, we have focused on our longstanding core customers representing many of the largest companies in the trucking industry. Our relationships with our core customers have been central to our growth since inception. Beginning in 2003, we have actively pursued the diversification of our customer base by focusing on what we refer to as the mid-market. These carriers, which represent approximately 1,250 carriers, operate fleets of between 250 to 7,500 trailers, which we estimate in total account for approximately one million trailers.

Longstanding core customers include Averitt Express, Inc.; Crete Carrier Corporation; FedEx Corporation; Heartland Express, Inc.; J.B. Hunt Transport Services, Inc.; Interstate Distributor Co.; Knight Transportation, Inc.; Old Dominion Freight Lines, Inc.; SAIA Motor Freightlines, Inc.; Schneider National, Inc.; Swift Transportation Corporation; U.S. Xpress Enterprises, Inc.; Werner Enterprises, Inc.; and YRC Worldwide, Inc.

Mid-market customers include Alliance Shippers, Inc.; Aurora LLC; C&S Wholesale Grocers, Inc.; CR England, Inc.; Celadon Group, Inc.; Con-way Truckload (formerly CFI); Cowan Systems, LLC; Frozen Food Express Industries, Inc.; Gordon Trucking, Inc.; Landair Transport, Inc.; New Penn Motor Express, Inc.; Prime, Inc. Roehl Transport, Inc.; Star Transport, Inc.; USA Logistics; USF Corporation; and Xtra Lease, Inc.

Our 11 factory-owned full service retail branches provide additional opportunities to distribute our products and also offer nationwide services and support capabilities for our customers. In addition, we maintain four used fleet sales centers to focus on selling both large and small fleet trade packages to the wholesale market. The retail sale of new and used trailers, aftermarket parts and service through our retail branch network generally provides enhanced margin opportunities. We also utilize a network of approximately 25 independent dealers with approximately 50 locations throughout North America to distribute our van trailers. In addition, we distribute our flatbed and dropdeck trailers through a network of over 80 independent dealers with approximately 110 locations throughout North America.

Wabash was incorporated in Delaware in 1991 and is the successor by merger to a Maryland corporation organized in 1985. We operate in two reportable business segments: (1) manufacturing and (2) retail and distribution. Financial results by segment, including information about revenues from customers, measures of profit and loss, total assets, and financial information regarding geographic areas and export sales are discussed in Note 13, Segments and Related Information, of the accompanying Consolidated Financial Statements. Our internet website is www.wabashnational.com. We make our electronic filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available on our website free of charge as soon as practicable after we file or furnish them with the SEC. Information on the website is not part of this Form 10-K.

Strategy

We are committed to a corporate strategy that seeks to deliver strong profitability and maximizes shareholder value by executing on the core elements of our strategic plan:

Value Creation. We intend to continue our focus on improved earnings and cash flow.

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Operational Excellence. We are focused on reducing our cost structure by adhering to continuous improvement and lean manufacturing initiatives.

People. We recognize that in order to achieve our strategic goals we must continue to develop the organization's skills to advance our associates capabilities and to attract talented people.

Customer Focus. We have been successful in developing longstanding relationships with core customers and we intend to maintain these relationships while expanding new customer relationships through the offering of tailored transportation solutions to create new revenue opportunities.

Innovation. We intend to continue to be the technology leader by providing new differentiated products and services that generate enhanced profit margins.

Corporate Growth. We intend to expand our product offering and competitive advantage by entering new markets and acquiring strong brands to grow and diversify the Company.

Industry and Competition

Trucking in the United States (U.S.), according to the American Trucking Association (ATA), was estimated to be a \$646 billion industry in 2006 (the latest date such information is available), leading all other modes of transportation. ATA estimates that approximately 69% of all freight tonnage is carried by truck at some point during its shipment, accounting for approximately 84% of freight industry revenues. Trailer demand is a direct function of the amount of freight to be transported. As the economy improves, it is forecasted that truck carriers will need to both expand and replace their fleets, which typically results in increased trailer orders. According to A.C.T. Research Co., LLC (ACT), there are approximately 3.0 million trailers in use today and total trailer replacement demand is estimated at approximately 185,000 trailers per year.

Transportation, including trucking, is a cyclical industry in the U.S. Transportation has experienced three cycles over the last 20 years. Truck freight tonnage, according to ATA statistics, has been negative year-over-year since mid-2006. Recent data suggests that while freight tonnage is not increasing, it does not seem to be weakening. Three U.S. economic downturns have occurred during the last 20 years and in each instance the decline in freight tonnage preceded the general economic decline by approximately two and a half years and its recovery has generally preceded that of the economy as a whole. The trailer industry generally follows the transportation industry, experiencing cycles in the early and late 90's lasting approximately 58 and 67 months, respectively. The current cycle began in early 2001 and is believed to be at or approaching bottom. In our view, an upturn in the trailer industry will require improvements in general freight demand and a recovery of the housing market.

Wabash, Great Dane and Utility are generally viewed as the top three trailer manufacturers and have accounted for greater than 50% of new trailer market share in recent years, including approximately 56% in 2007. In 2007, our market share of total trailer production was approximately 21%. Trailer differentiation is made primarily through superior products, customer relationships, service availability and cost.

The table below sets forth new trailer production for Wabash, its largest competitors and for the trailer industry as a whole within North America. The data represents all segments of the market, except containers and chassis. Since 2002, we have primarily participated in the van segment of the market. Van production has grown from a low of approximately 96,000 units in 2002 to a high of approximately 198,000 units in 2006. In 2007, van trailer production amounted to 151,000 units. During this period, our market share for van trailers has been approximately 27%.

	2007	2006	2005	2004	2003	2002
Wabash⁽¹⁾	46,000	60,000⁽²⁾	52,000	48,000	36,000	27,000
Great Dane	48,000	60,000	55,000	55,000	41,000	33,000 ⁽⁵⁾
Utility	31,000	37,000	34,000	31,000	24,000	18,000
Hyundai Translead	13,000	14,000	12,000	9,000	9,000	5,000
Stoughton	11,000	19,000	17,000	15,000	9,900	10,000
Other principal producers	29,000	40,000	34,000	33,000	25,000	23,000
Total Industry	222,000	283,000 ⁽³⁾	245,000	228,000	174,000 ⁽⁴⁾	140,000

(1) Does not include approximately 700, 2,300, 1,500, 1,300 and 6,000 intermodal containers in 2006, 2005, 2004, 2003 and 2002, respectively.

(2) The 2006 production includes Transcraft volumes on a full-year pro forma basis.

(3) Data revised by publisher in 2007.

(4) Data revised by publisher in 2004.

(5) Data revised by publisher in 2005.

Sources: Individual manufacturer information, some of which is estimated, provided by *Trailer Body Builders Magazine*.

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Competitive Strengths

We believe our core competitive strengths include:

Long-Term Core Customer Relationships We are the leading provider of trailers to a significant number of top tier trucking companies, generating a revenue base that has helped to sustain us as one of the market leaders.

Innovative Product Offerings Our DuraPlate® proprietary technology offers what we believe to be a superior trailer, which commands premium pricing. A DuraPlate® trailer is a composite plate trailer using material that contains a high-density polyethylene core bonded between a high-strength steel skin. We believe that the competitive advantages of our DuraPlate® trailers compared to standard trailers include the following:

Extended Service Life operate three to five years longer;

Lower Total Cost of Ownership less costly to maintain;

Less Downtime higher utilization for fleets;

Extended Warranty warranty period for DuraPlate® panels is ten years; and

Improved Resale higher trade-in values.

We have been building DuraPlate® trailers for over 11 years, and have sold approximately 340,000 units. This proven experience, combined with ownership and knowledge of the DuraPlate® panel technology, will help ensure continued industry leadership in the future. We have also successfully introduced innovations in our ArcticLite® refrigerated trailers and other product lines. For example, we introduced the DuraPlateHD® trailer and the FreightPro® sheet and post trailer in 2003.

Significant Market Share and Brand Recognition We have been one of the two largest manufacturers of trailers in North America since 1994, with one of the most widely recognized brands in the industry. We believe we are currently one of the largest producers of van trailers in North America. Our Transcraft subsidiary, acquired in March 2006, has been the second leading producer of platform trailers over this time period.

Committed Focus on Operational Excellence Safety, quality, on-time delivery, productivity and cost reduction are the core elements of our program of continuous improvement. We currently maintain an ISO 14001 registration of our Environmental Management System.

Technology We are recognized by the trucking industry as a leader in developing technology to reduce trailer maintenance. During 2007, we introduced to our customers fuel saving technologies on DuraPlate® trailers with the Smartway® certification, as approved by the U.S. Environmental Protection Agency. In 2006, we introduced a high performance liner for our refrigerated trailers, which helps reduce interior damage and associated maintenance costs. Also in 2006, we introduced a DuraPlate® trailer built on our new semi-automated Alpha production line. This technology has changed the way that trailers are traditionally manufactured and increases both efficiency of manufacturing and the quality of finished products.

Corporate Culture We benefit from a value driven management team and dedicated workforce.

Extensive Distribution Network Our 15 factory-owned retail branch locations extend our sales network throughout North America, diversifying our factory direct sales, providing an outlet for used trailer sales and supporting our national service contracts. Additionally, we utilize a network of approximately 25 independent dealers with approximately 50 locations throughout North America to distribute our van

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trailers, and our Transcraft distribution network consists of over 80 independent dealers with approximately 110 locations throughout North America.

Regulation

Truck trailer length, height, width, maximum weight capacity and other specifications are regulated by individual states. The federal government also regulates certain safety features incorporated in the design of truck trailers, including regulations that require anti-lock braking systems (ABS) and that define rear-impact guard standards. Manufacturing operations are subject to environmental laws enforced by federal, state and local agencies (see Environmental Matters).

Products

Since our inception, we have expanded our product offerings from a single truck trailer product to a broad range of trailer-related transportation equipment. Our manufacturing segment specializes in the development of innovative proprietary products for our key markets. Manufacturing segment sales represented approximately 86%, 85% and 80% of consolidated Wabash net sales in 2007, 2006 and 2005, respectively. Our current transportation equipment products primarily include the following:

DuraPlate® Trailers. DuraPlate® trailers utilize a proprietary technology that consists of a composite plate wall for increased durability and greater strength. Our DuraPlate® trailers include our DuraPlateHD®, a heavy duty version of our regular DuraPlate® trailers.

Smooth Aluminum Trailers. Smooth aluminum trailers, commonly known as sheet and post trailers, are the commodity trailer product purchased by the trucking industry. Starting in 2003, we began to market our FreightPro® trailer to provide a competitive offering for this market segment.

Platform Trailers. In March 2006, we acquired Transcraft Corporation, one of the leading manufacturers and brands in the platform trailer segment. These trailers are sold under Transcraft® and Eagle® trademarks. Platform trailers consist of a trailer chassis with a flat or drop loading deck without permanent sides or a roof. These trailers are primarily utilized to haul steel coils, construction materials and large-size equipment.

Refrigerated Trailers. Refrigerated trailers have insulating foam in the walls, roof and floor, which improves both the insulation capabilities and durability of the trailers. Our refrigerated trailers use our proprietary SolarGuard® technology, coupled with our novel foaming process, which we believe enables customers to achieve lower costs through reduced operating hours of refrigeration equipment and therefore reduced fuel consumption.

RoadRailer® Equipment. The RoadRailer® intermodal system is a patented bimodal technology consisting of a truck trailer and a detachable rail bogie that permits a trailer to run both over the highway and directly on railroad lines.

Our retail and distribution segment focuses on the sale of new and used trailers and on providing parts and service as described below:

We sell new trailers produced by the manufacturing segment. Additionally, we sell specialty trailers including tank trailers and dump trailers produced by third parties, which are purchased in smaller quantities for local or regional transportation needs. The sale of new transportation equipment through the retail branch network represented 6.5%, 7.0% and 11.3% of net sales during 2007, 2006 and 2005, respectively.

We provide replacement parts and accessories and maintenance service for our own and competitors' trailers and related equipment. Sales of these products and service represented less than 5% of net sales during 2007, 2006 and 2005.

We sell used transportation equipment including units taken in trade from our customers upon the sale of new trailers. The ability to remarket used equipment promotes new sales by permitting trade-in allowances and

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offering customers an outlet for the disposal of used equipment. The sale of used trailers represented less than 5% of net sales during 2007, 2006 and 2005, respectively.

Customers

Our customer base has historically included many of the nation's largest truckload common carriers, leasing companies, private fleet carriers, less-than-truckload (LTL) common carriers and package carriers. We successfully diversified our customer base from 61% of total units sold to large core customers in 2002 to 28% in 2007 by expanding our customer base and by acquiring Transcraft. This has been accomplished while maintaining our relationships with our core customers. Our five largest customers together accounted for 20%, 20% and 22% of our aggregate net sales in 2007, 2006 and 2005, respectively, and no single customer represented 10% or greater of net sales. International sales, primarily to Canadian customers, accounted for less than 10% of net sales for each of the last three years.

We have established relationships as a supplier to many large customers in the transportation industry, including the following:

Truckload Carriers: Averitt Express, Inc.; Crete Carrier Corporation; Heartland Express, Inc.; J.B. Hunt Transport Services, Inc.; Interstate Distributor Co.; Knight Transportation, Inc.; Schneider National, Inc.; Swift Transportation Corporation; U.S. Xpress Enterprises, Inc.; and Werner Enterprises, Inc.

Leasing Companies: Aurora LLC.; GE Trailer Fleet Services; Transport Services, Inc.; and Xtra Lease, Inc.

Private Fleets: C&S Wholesale Grocers, Inc.; Dillard's, Inc.; The Kroger Co.; and Safeway, Inc.

Less-Than-Truckload Carriers: FedEx Corporation; Old Dominion Freight Lines, Inc.; SAIA Motor Freightlines, Inc.; Vitran Express, Inc.; and YRC Worldwide, Inc.

Marketing and Distribution

We market and distribute our products through the following channels:

factory direct accounts;

factory-owned distribution network; and

independent dealerships.

Factory direct accounts are generally large fleets, with over 7,500 trailers, that are high volume purchasers. Historically, we have focused on the factory direct market in which customers are highly knowledgeable of the life-cycle costs of trailer equipment and, therefore, are best equipped to appreciate the design and value-added features of our products. Since late 2003, we have actively pursued the diversification of our customer base focusing on what we refer to as the mid-market. These approximately 1,250 carriers operate fleets of between 250 to 7,500 trailers, which we estimate in total account for approximately one million trailers. Since implementing our mid-market sales strategy, we have added over 260 new mid-market customers accounting for over 18,500 new trailer orders.

Our factory-owned distribution network generates retail sales of trailers to smaller fleets and independent operators located in geographic regions where our branches are located. This branch network enables us to provide maintenance and other services to customers. The branch network and our used trailer centers provide an outlet for used trailers

taken in trade upon the sale of new trailers, which is a common practice with fleet customers.

We also sell our van trailers through a network of approximately 25 independent dealers with over 50 locations throughout North America. Our platform trailers are sold through over 80 independent dealers with approximately 110 locations throughout North America. The dealers primarily serve mid-market and smaller sized carriers and private fleets in the geographic region where the dealer is located and occasionally may sell to large fleets. The dealers may also perform service work for their customers.

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Raw Materials

We utilize a variety of raw materials and components including steel, plastic, aluminum, lumber, tires and suspensions, which we purchase from a limited number of suppliers. Significant price fluctuations or shortages in raw materials or finished components may adversely affect our results of operations. In 2008 and for the foreseeable future, we expect that the raw materials used in the greatest quantity will be the steel, aluminum, plastic and wood. Our component suppliers have advised us that they have adequate capacity to meet our current and expected demands in 2008. Continued price increases for our primary commodity raw materials aluminum, steel and plastic are expected throughout 2008. Effective March 1, 2008, due to federally mandated phase-outs of certain ozone depleting gases, we will experience a cost increase associated with our purchases of foam products which will impact our refrigerated van trailers. Increases in plastic pricing will also have an impact on our DuraPlate® van trailer products. Our Harrison, Arkansas laminated hardwood floor facility provides the majority of our requirements for trailer floors.

Backlog

Orders that have been confirmed by the customer in writing and can be produced during the next 18 months are included in our backlog. Orders that comprise backlog may be subject to changes in quantities, delivery, specifications and terms. Our backlog of orders at December 31, 2007 and 2006 was approximately \$336 million and \$512 million, respectively. We expect to complete the majority of our backlog orders within the next 12 months.

Patents and Intellectual Property

We hold or have applied for 64 patents in the U.S. on various components and techniques utilized in our manufacture of truck trailers. In addition, we hold or have applied for 68 patents in two foreign countries. Our patents include intellectual property related to the manufacture of trailers using our proprietary DuraPlate® product, which we believe offers us a significant competitive advantage. The patents in our DuraPlate® portfolio have expiration dates ranging from 2009 to 2024. In our view there are no meaningful patents having an expiration date prior to 2016.

We also hold or have applied for 34 trademarks in the U.S., as well as 23 trademarks in foreign countries. These trademarks include the Wabash®, Wabash National® and Transcraft® brand names as well as trademarks associated with our proprietary products such as the DuraPlate® trailer, the RoadRailer® trailer and the Eagle® trailer. We believe these trademarks are important for the identification of our products and the associated customer goodwill; however, our business is not materially dependent on such trademarks.

Research and Development

Research and development expenses are charged to earnings as incurred and were \$3.4 million, \$4.3 million and \$2.6 million in 2007, 2006 and 2005, respectively.

Environmental Matters

Our facilities are subject to various environmental laws and regulations, including those relating to air emissions, wastewater discharges, the handling and disposal of solid and hazardous wastes, and occupational safety and health. Our operations and facilities have been and in the future may become the subject of enforcement actions or proceedings for non-compliance with such laws or for remediation of company-related releases of substances into the environment. Resolution of such matters with regulators can result in commitments to compliance abatement or remediation programs, and in some cases the payment of penalties (see Item 3 Legal Proceedings).

We believe that our facilities are in substantial compliance with applicable environmental laws and regulations. Our facilities have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with these laws and regulations in both the U.S. and abroad. However, we currently do not anticipate that the future costs of environmental compliance will have a material adverse effect on our business, financial condition or results of operations.

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As of December 31, 2007 and 2006, we had approximately 3,100 and 4,100 full-time associates, respectively. At December 31, 2007, all of our active associates were non-union. During 2007, approximately 10% of our total production workforce included temporary associates. We place a strong emphasis on employee relations through educational programs and quality improvement teams. We believe our employee relations are good.

Executive Officers of Wabash National Corporation

The following are the executive officers of the Company:

Name	Age	Position
Richard J. Giromini	54	President and Chief Executive Officer, Director
Lawrence M. Cuculic	51	Senior Vice President General Counsel and Secretary
Rodney P. Ehrlich	61	Senior Vice President Chief Technology Officer
Bruce N. Ewald	56	Senior Vice President Sales and Marketing
Timothy J. Monahan	55	Senior Vice President Human Resources
Robert J. Smith	61	Senior Vice President Chief Financial Officer
Joseph M. Zachman	47	Senior Vice President Manufacturing

Richard J. Giromini. Mr. Giromini was promoted to President and Chief Executive Officer on January 1, 2007. He had been Executive Vice President and Chief Operating Officer from February 28, 2005 until December 2005 when he was appointed President and a Director of the Company. He had been Senior Vice President Chief Operating Officer since joining the Company on July 15, 2002. Most recently, Mr. Giromini was with Accuride Corporation from April 1998 to July 2002, where he served in capacities as Senior Vice President Technology and Continuous Improvement; Senior Vice President and General Manager Light Vehicle Operations; and President and CEO of AKW LP. Previously, Mr. Giromini was employed by ITT Automotive, Inc. from 1996 to 1998 serving as the Director of Manufacturing. Mr. Giromini also serves on the board of directors of The Wabash Center, a non-profit company dedicated to serving individuals with disabilities and special needs.

Lawrence M. Cuculic. Mr. Cuculic was named Senior Vice President General Counsel and Secretary in January 2008. Most recently, from August 2006 through December 2007, Mr. Cuculic was Vice President Legal and Secretary of American Commercial Lines Inc., a diversified marine transportation and service company. Mr. Cuculic served as Corporate Counsel for Wabash National Corporation from September 2002 to August 2006. Prior to that date he was engaged in private practice serving as outside counsel for the Company. Mr. Cuculic retired as a Lieutenant Colonel from the United States Army after 20 years, holding various legal positions of increasing responsibility, including appointment as a Circuit Judge.

Rodney P. Ehrlich. Mr. Ehrlich has been Senior Vice President Chief Technology Officer of the Company since January 2004. From 2001 to 2003, Mr. Ehrlich was Senior Vice President of Product Development. Mr. Ehrlich has been in charge of the Company's engineering operations since the Company's founding.

Bruce N. Ewald. Mr. Ewald's original appointment was Vice President and General Manager of Wabash National Trailer Centers, Inc. when he joined the Company in March 2005. In October 2005, he was promoted to Senior Vice President Sales and Marketing. Mr. Ewald has nearly 25 years experience in the transportation industry. Most recently, Mr. Ewald was with PACCAR from 1991 to February 2005 where he served in a number of executive-level positions. Prior to PACCAR, Mr. Ewald spent 10 years with Genuine Parts Co. where he served in several positions,

including President and General Manager, Napa Auto Parts/Genuine Parts Co.

Timothy J. Monahan. Mr. Monahan has been Senior Vice President – Human Resources since joining the Company on October 15, 2003. Prior to that, Mr. Monahan was with Textron Fastening Systems from 1999 to October 2003 where he served as Vice President – Human Resources. Previously, Mr. Monahan served as Vice President – Human Resources at Beloit Corporation. Mr. Monahan serves on the board of directors of North American Tool Corporation.

Robert J. Smith. Mr. Smith was appointed Senior Vice President – Chief Financial Officer in October 2004, after serving as our Acting Chief Financial Officer since June 2004, and our Vice President and Controller since joining us in March 2003. Before joining us, Mr. Smith served from 2000 to 2001 as Director of Finance for KPMG

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Consulting, Inc., now BearingPoint, Inc.; from 1993 to 2000 with Great Lakes Chemical Corp. (serving from 1998 to 2000 as vice president and controller); and from 1983 to 1993 with Olin Corporation, including as chief financial officer for several of its divisions.

Joseph M. Zachman. Mr. Zachman joined the Company in May 2005 as Vice President of Manufacturing and in June 2006 he was promoted to Senior Vice President – Manufacturing. Prior to joining Wabash National in May 2005 as Vice President of Manufacturing, Mr. Zachman was with TTM Technologies in Chippewa Falls, Wisconsin, where he served as Vice President and General Manager from December 2002 until December 2004. Previously, Mr. Zachman served as President of CDR Corporation from September 2001 until December 2002; Director of Operations of Sanmina Corporation from September 1997 until September 2001; and worked at Delco Electronics Corporation from January 1984 until September 1997 where he served in numerous positions of increasing responsibility in engineering and manufacturing management.

ITEM 1A RISK FACTORS

You should carefully consider the risks described below in addition to other information contained or incorporated by reference in this Annual Report before investing in our securities. Realization of any of the following risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

Risks Related to Our Business, Strategy and Operations

Our business is highly cyclical, which could adversely affect our sales and results of operations.

The truck trailer manufacturing industry historically has been and is expected to continue to be cyclical, as well as affected by overall economic conditions. Customers historically have replaced trailers in cycles that run from five to 12 years, depending on service and trailer type. Poor economic conditions can adversely affect demand for new trailers and in the past have led to an overall aging of trailer fleets beyond this typical replacement cycle. Customers buying patterns can also reflect regulatory changes, such as the federal

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

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

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

verify compliance under these regulations. In addition to the government regulations, the Company must meet loan requirements of various investors who purchase the loans.

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Income Taxes

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

Security National Life, Memorial Insurance Company, Southern Security and Trans-Western may not receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined tax assets of the Company must be less than \$500,000,000 and the taxable income of the life insurance companies must be less than \$3,000,000 on a tax accounting basis. To the extent that the net income limitation is exceeded, the small life insurance company deduction is phased out over the next \$12,000,000 of life insurance company taxable income. The combined tax assets of the Company exceeded \$500,000,000 as of December 31, 2012.

Since 1990 Security National Life, Memorial Insurance Company, Southern Security and Trans-Western 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 under the Tax Reform Act of 1986.

Competition

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

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

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

interest rates and the refinancing market is particularly vulnerable to changes in interest rates.

Employees

As of December 31, 2012, the Company had 933 full-time and 299 part-time employees.

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Item 2. Properties

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

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount	Expiration
5300 South 360 West	Salt Lake City	UT	Corporate Headquarters	Owned	30,317	\$356,760/	yr month to month
755 Rinehart Road	Lake Mary	FL	Mortgage Sales	Owned	9,348	\$121,151/	yr month to month
3935 I-55 South, Frontage Road	Jackson	MS	Insurance Operations	Owned	12,000	\$84,000/	yr month to month
5247 Greenpine Drive	Murray	UT	Cemetery & Insurance Sales	Owned	1,700	\$3,106/	mo month to month
497-A Sutton Bridge Road	Rainbow City	AL	Fast Funding Operations	Leased	5,500	\$26,400/	yr 06/30/14
5701 Talavi Blvd. #155	Glendale	AZ	Mortgage Sales	Leased	2,214	\$45,500/	yr 05/06/15
5100 Birch Street Suite 200	Newport Beach	CA	Mortgage Sales	Leased	112	\$500/	mo month to month
27433 Tourney Road Suite 220	San Clarita	CA	Mortgage Sales	Leased	3,407	\$72,000/	yr 07/31/15
421 S. Cataract	San Dimas	CA	Mortgage Sales	Leased	6,200	\$74,400/	yr 03/31/13
4380 S. Syracuse Street	Denver	CO	Mortgage Sales	Leased	95,965	\$1,513/	mo 08/31/13
400 Inverness Parkway Suite #238	Englewood	CO	Mortgage Sales	Leased	235	\$1,400/	mo month to month
8191 College Parkway Suite 201	Ft Myers	FL	Mortgage Sales	Leased	1,704	\$16,188/	yr 10/31/14
2435 US Highway 19 North Suite #208	Holiday	FL	Mortgage Sales	Leased	305	\$250/	mo month to month
905 Lee Road	Orlando	FL	Mortgage Sales	Leased	201	\$300/	mo month to month
200 9th Avenue N, Ste 200	Safety Harbor,	FL	Mortgage Sales	Leased	3,591	\$57,065/	yr 05/31/15
970 No. Kalaheo Ave, Suite A-214	Kailua	HI	Mortgage Sales	Leased	665	\$19,094/	yr month to month
1540 W North Ave. #2	Chicago	IL	Mortgage Sales	Leased	1,000	\$19,800/	yr month to month
1016 W Jackson Blvd Suites 503&505	Chicago	IL	Mortgage Sales	Leased	1,000	\$3,000/	mo month to month
7227 West Madison Street Suite F	Forest Park	IL	Mortgage Sales	Leased	1,800	\$8,400/	yr month to month
1200 Jorie Blvd #220	Oak Brook	IL	Mortgage Sales	Leased	4,763	\$84,940/	yr 10/31/14
16744 Oak Park Ave	Tinley Park	IL	Mortgage Sales	Leased	500	\$499/	mo month to month
6813 Hobson Valley Drive #104	Woodridge	IL	Mortgage Sales	Leased	1,000	\$3,000/	yr month to month
		KS	Mortgage Sales	Leased	2,800	\$55,100/	yr 01/31/13

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6900 College Blvd., Suite 950	Overland Park								
6900 Houston Rd. #21 & 22	Florence	KY	Mortgage Sales	Leased	1,700	\$1,900/	mo	month to month	
4401 N. I-10 Service Rd. Suite 104	Metairie	LA	Mortgage Sales	Leased	507	\$7,200/	yr	09/30/13	
150 A Andover Street	Danvers	MA	Mortgage Sales	Leased	2,138	\$28,863/	yr	05/30/13	
12977 North Forty Drive Ste 203	St. Louis	MO	Mortgage Sales	Leased	2,933	\$50,881/	yr	11/30/14	
1400 Battleground Ave #202-A	Greensboro	NC	Mortgage Sales	Leased	260	\$238/	mo	07/31/13	
8601 Six Forks Rd.	Raleigh	NC	Mortgage Sales	Leased	160	\$799/	mo	09/30/13	
127 Village Rd	Shallotte	NC	Mortgage Sales	Leased	500	\$3,000/	yr	05/31/13	
142 Main Street	Nashua	NH	Mortgage Sales	Leased	500	\$9,000/	yr	01/31/13	
60 Main Street Suite 322	Nashua	NH	Mortgage Sales	Leased	1,000	\$14,256/	yr	07/01/14	
212 West Route 38 #200	Moorestown	NJ	Mortgage Sales	Leased	500	\$5,100/	yr	08/14/13	
6540 South Pecos Road, Building A, Suite 104	Clark County	NV	Mortgage Sales	Leased	2,802	\$2,662/	mo	10/31/14	
375 N Stephanie #2311	Henderson	NV	Mortgage Sales	Leased	3,938	\$47,256/	yr	08/31/14	
2370 Corporate Circle, Suite 200	Henderson	NV	Mortgage Sales	Leased	7,741	\$169,063/	yr	12/01/17	
3285 North Fort Apache Road	Las Vegas	NV	Mortgage Sales	Leased	1,000	\$11,500/	mo	month to month	
3275 N Fort Apache Rd, Suite #150	Las Vegas	NV	Mortgage Sales	Leased	2,000	\$2,448/	mo	06/15/13	
3406 S Durango Dr #100	Las Vegas	NV	Mortgage Sales	Leased	3,165	\$34,182/	yr	07/31/15	
9330 W. Sahara Ave #270	Las Vegas	NV	Mortgage Sales	Leased	3,000	\$3,351/	mo	07/01/16	
800 s Meadows Pkwy #600	Reno	NV	Mortgage Sales	Leased	1,346	\$20,190/	yr	05/31/14	
26341 Curtiss Wright Pkwy Ste 101	Richmond Heights	OH	Mortgage Sales	Leased	3,600	\$2,025/	mo	month to month	
5000 Rockside Road #100	Independence	OH	Mortgage Sales	Leased	1,000	\$19,025/	yr	month to month	
2649 N. High Street, Suite A	Columbus	OH	Mortgage Sales	Subleased	1,500	\$500/	mo	month to month	
1205 West Abrams Street	Arlington	TX	Mortgage Sales	Leased	463	\$84,000/	yr	month to month	
2900 South Congress #101	Austin	TX	Mortgage Sales	Leased	916	\$2,005/	mo	month to month	
8700 Manchca Road #603	Austin	TX	Mortgage Sales	Leased	1,000	\$300/	mo	month to month	
9737 Great Hills Trail, Suite 150	Austin	TX	Mortgage Sales	Leased	3,667	\$54,088/	yr	02/28/17	
9737 Great Hills Trail, Suite 200	Austin	TX	Mortgage Sales	Leased	8,000	\$11,333/	mo	12/31/13	
1213 East Alton Gloor Blvd Suite H	Brownsville	TX	Mortgage Sales	Leased	1,000	\$13,200/	yr	month to month	
255 Elk Drive Suite D	Burleson	TX	Mortgage Sales	Leased	1,182	\$19,503/	yr	01/31/14	
12201 Merit Drive, Suite 400	Dallas	TX	Mortgage Sales	Leased	4,613	\$83,034/	yr	month to month	
4144 North Central Expressway Suite 600	Dallas	TX	Mortgage Sales	Leased	420	\$10,320/	yr	07/31/13	

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223 North Cedar Ridge	Duncanville	TX	Mortgage Sales	Leased	1,000	\$9,600/	yr	month to month
5211 South McColl Road Suite G	Edinburg	TX	Mortgage Sales	Leased	1,000	\$450/	mo	month to month
11601 Pellicano Suite A-14&15	El Paso	TX	Mortgage Sales	Leased	2,160	\$30,000/	yr	01/30/15
4936 Collinwood Sutie 110	Fort Worth	TX	Mortgage Sales	Leased	750	\$13,500/	yr	08/31/14
17000 El Camino Real #103D	Houston	TX	Mortgage Sales	Leased	750	\$750/	mo	month to month

Item 2. Properties (Continued)

Street	City	State	Function	Owned Leased	Approximate Square Footage	Lease Amount	Expiration
6420 Richmond #208	Houston	TX	Mortgage Sales	Leased	700	\$9,100/	yr month to month
17347 Village Green Drive-102A	Houston	TX	Mortgage Sales	Leased	3,000	\$4,495/	mo month to month
5353 W. Sam Houston Parkway N., Suite 170	Houston	TX	Mortgage Sales	Leased	5,442	\$69,756/	yr 04/30/13
7410 Westview	Houston	TX	Mortgage Sales	Leased	1,000	\$18,000/	yr 03/31/15
4600 Hwy 6 North, Ste 220	Houston	TX	Mortgage Sales	Leased	463	\$7,030/	yr 03/31/15
2825 Wilcrest Drive, Ste 220	Houston	TX	Mortgage Sales	Leased	120	\$400/	mo month to month
545 E John Carpenter, Ste 300	Irving	TX	Mortgage Sales	Leased	1,081	\$3,629/	mo month to month
201 Kingwood Medical Drive A400	Kingwood	TX	Mortgage Sales	Leased	1,850	\$4,420/	mo month to month
1310 RR 620 S #C15	Lakeway	TX	Mortgage Sales	Leased	2,472	\$3,060/	mo month to month
201 W Del Mar Blvd # 5B	Laredo	TX	Mortgage Sales	Leased	500	\$1,627/	mo month to month
1901 East Palm Valley Blvd	Round Rock	TX	Mortgage Sales	Leased	1,100	\$13,200/	yr 07/31/13
1354 North Loop 1604 East	San Antonio	TX	Mortgage Sales	Leased	3,622	\$56,684/	yr 03/18/13
1110 South Alamo	San Antonio	TX	Mortgage Sales	Leased	1,016	\$1,300/	mo 12/31/15
1036 South Alamo	San Antonio	TX	Mortgage Sales	Leased	575	\$11,700/	yr 03/31/13
19901 Southwest Freeway #108	Sugarland	TX	Mortgage Sales	Leased	500	\$500/	mo month to month
206 FM 1237	Troy	TX	Mortgage Sales	Leased	200	\$275/	mo month to month
3334 WSW Loo 323 # 121	Tyler	TX	Mortgage Sales	Leased	180	\$235/	mo 09/30/13
602 S Main St #300	Weatherford	TX	Mortgage Sales	Leased	1,000	\$1,800/	mo month to month
13961 Minuteman Drive Suite 125	Draper	UT	Mortgage Sales	Leased	2,807	\$4,795/	mo 09/30/17
13997 Minuteman Drive Suite 100	Draper	UT	Mortgage Sales	Leased	5,492	\$2,975/	mo 09/30/17
497 South Main	Ephraim	UT	Mortgage Sales	Leased	500	\$765/	mo 09/30/15
1558 N Woodland Park Drive #400	Layton	UT	Mortgage Sales	Leased	1,000	\$2,500/	mo month to month
6965 South Union Park, Suites #300, #460, #470, & #480	Midvale	UT	Mortgage Sales	Leased	29,184	\$44,703/	mo 02/28/18
7651 South Main Street	Midvale	UT	Mortgage Sales	Leased	665	\$12,768/	mo month to month
1245 Deer Valley Drive #3A	Park City	UT	Mortgage Sales	Leased	2,183	\$43,660/	yr 12/31/14
1864 West 12600 South	Riverton	UT	Mortgage Sales	Leased	277	\$6,911/	yr month to month
		UT	Mortgage Sales	Leased	6,357	\$47,722/	yr 01/31/13

970 East Murray-Holladay Rd., Suite 603	Salt Lake City								
307 West 200 South, Ste 2001	Salt Lake City	UT	Mortgage Sales	Leased	500	\$500/	mo	month to month	
9815 S. Monroe Street	Sandy	UT	Mortgage Sales	Leased	2,819	\$59,988/	yr	03/31/16	
1099 West South Jordan Parkway	South Jordan	UT	Mortgage Sales	Leased	3,329	\$60,311/	yr	10/31/14	
70 South Main Street	Tooele	UT	Mortgage Sales	Leased	1,230	\$25,200/	yr	04/19/14	
8831 South Redwood Rd	West Jordan	UT	Mortgage Sales	Leased	1,000	\$97,248/	yr	month to month	
1604 Hewitt Ave, Suite 703	Everett	WA	Mortgage Sales	Leased	2,038	\$4,650/	mo	month to month	
720 South 333rd St#102	Federal Way	WA	Mortgage Sales	Leased	2,000	\$6,253/	mo	month to month	
11335 NE 122nd Way, Suite #138 & #115	Kirkland	WA	Mortgage Sales	Leased	230	\$1,475/	mo	month to month	
5400 Carillon Point	Kirkland	WA	Mortgage Sales	Leased	500	\$5,089/	mo	month to month	
803 Vandercook Way #6E	Longview	WA	Mortgage Sales	Leased	500	\$995/	mo	month to month	
424 29th Ave NE, Suite A	Puyallup	WA	Mortgage Sales	Leased	2,782	\$4,869/	mo	05/31/15	
110 East Stewart Ave	Puyallup	WA	Mortgage Sales	Leased	3,400	\$4,000/	mo	month to month	
5909 6th Avenue A	Kenosha	WI	Mortgage Sales	Leased	1,000	\$950/	mo	month to month	

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

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

Name of Cemetery	Location	Date Acquired	Developed Acreage (1)	Total Acreage (1)	Net Saleable Acreage	
					Acres Sold as Cemetery Spaces (2)	Total Available Acreage (1)
Memorial Estates, Inc.						
Lakeview Cemetery	1640 East Lakeview Drive Bountiful, Utah	1973	7	40	6	34
Mountain View Cemetery (5)	3115 East 7800 South Salt Lake City, Utah	1973	16	54	15	39
Redwood Cemetery (4) (5)	6500 South Redwood Road West Jordan, Utah	1973	34	78	29	49

Cottonwood Mortuary, Inc.						
Deseret Memorial Inc.	10055 South State					
Lake Hills Cemetery	Street					
(3)	Sandy, Utah	1991	9	41	4	37
4900 South Memory						
Holladay Memorial	Lane					
Park (3)(4)	Holladay, Utah	1991	5	14	4	10
California Memorial Estates						
Singing Hills Memorial	2800 Dehesa Road					
Park	El Cajon, California	1995	8	35	4	31

- (1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries.
- (2) Includes spaces sold for cash and installment contract sales.
- (3) As of December 31, 2012, there were mortgages of approximately \$749,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, and Lake Hills Cemetery.
- (4) These cemeteries include two granite mausoleums.
- (5) The Company is planning to develop additional acreage at both Mountain View Cemetery and Redwood Cemetery in 2013.

Item 2. Properties (Continued)

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

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

(1) As of December 31, 2012, there were mortgages of approximately \$749,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park and Lake Hills Cemetery.

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

Item 3. Legal Proceedings

Lehman Brothers – Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain mortgage

loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

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

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

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan

losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage's motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage's September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. SecurityNational Mortgage's motion in the Lehman Holdings case is presently set for hearing on May 30, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

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

No matters were submitted to a vote of the Company's shareholders during the quarter ended December 31, 2012.

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 27, 2013, the closing sales price of the Class A Common Stock was \$6.77 per share. The following were the high and low market closing sales prices for the Class A Common Stock by quarter as reported by Nasdaq since January 1, 2011:

Period (Calendar Year)	Price Range (1)	
	High	Low
2011		
First Quarter	\$ 1.84	\$ 1.50
Second Quarter	\$ 1.63	\$ 1.23
Third Quarter	\$ 1.43	\$ 1.06
Fourth Quarter	\$ 1.48	\$ 1.00
2012		
First Quarter	\$ 1.62	\$ 1.19
Second Quarter	\$ 2.32	\$ 1.39
Third Quarter	\$ 4.43	\$ 2.19
Fourth Quarter	\$ 9.98	\$ 4.11
2013		
First Quarter (through March 27, 2013)	\$ 14.43	\$ 6.77

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

The Class C Common Stock is not traded. See Note 11 of the Notes to Consolidated Financial Statements.

The Company has never paid a cash dividend on its Class A or Class C Common Stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C Common Stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C Common Stock has been paid each year from 1990 through 2012.

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, 2008 through December 31, 2012. 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, 2008 and that all dividends were reinvested.

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

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
SNFC	100	216	127	98	529
S & P 500	100	123	139	139	158
S & P Insurance	100	111	127	115	146

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

The following selected financial data is for each of the five years ended December 31, 2012, and is derived from the audited consolidated financial statements. The data as of December 31, 2012 and 2011, and for the three years ended December 31, 2012, should be read in conjunction with the consolidated financial statements, related notes and other financial information.

Consolidated Statement of Earnings Data:

	Year Ended December 31				
	2012(3)	2011(2)	2010	2009	2008(1)
Revenue					
Premiums	\$ 48,216,000	\$ 48,457,000	\$ 38,509,000	\$ 38,394,000	\$ 35,963,000
Net investment income	23,250,000	20,011,000	18,616,000	19,915,000	28,201,000
Net mortuary and cemetery sales	10,865,000	10,761,000	11,520,000	11,974,000	12,726,000
Realized gains on investments	1,425,000	2,464,000	1,615,000	1,223,000	1,018,000
Other than temporary impairments	(1,208,000)	(841,000)	(674,000)	(326,000)	(2,752,000)
Mortgage fee income	150,553,000	77,605,000	97,343,000	144,275,000	143,259,000
Other	1,159,000	1,110,000	1,582,000	1,415,000	1,015,000
Total revenues	234,260,000	159,567,000	168,511,000	216,870,000	219,430,000
Expenses					
Policyholder benefits	45,681,000	46,204,000	37,947,000	37,369,000	34,325,000
Amortization of deferred policy acquisition costs	5,450,000	5,769,000	4,431,000	5,693,000	4,571,000
Selling, general and administrative expenses	156,310,000	102,513,000	122,217,000	161,785,000	169,917,000
Interest expense	3,744,000	1,961,000	2,779,000	3,326,000	7,449,000
Cost of goods and services of the mortuaries and cemeteries	1,724,000	1,883,000	2,226,000	2,349,000	2,437,000
Total benefits and expenses	212,909,000	158,330,000	169,600,000	210,522,000	218,699,000
Earnings (loss) before income taxes	21,351,000	1,237,000	(1,089,000)	6,348,000	731,000
Income tax benefit (expense)	(4,639,000)	62,000	658,000	(2,574,000)	(156,000)
Net earnings (loss)	\$ 16,712,000	\$ 1,299,000	\$ (431,000)	\$ 3,774,000	\$ 575,000
Net earnings (loss) per common share (4)					
	\$ 1.65	\$ 0.13	\$ (0.04)	\$ 0.39	\$ 0.06
Weighted average outstanding common shares (4)					
	10,135,000	9,894,000	9,688,000	9,668,000	10,074,000
	\$ 1.57	\$ 0.13	\$ (0.04)	\$ 0.39	\$ 0.06

Net earnings (loss) per common share-assuming dilution (4)					
Weighted average outstanding common shares-assuming dilution (4)	10,678,000	10,002,000	9,688,000	9,671,000	10,074,000

Balance Sheet Data:

	2012(3)	2011(2)	December 31 2010	2009	2008(1)
Assets					
Investments and restricted assets	\$ 351,034,000	\$ 336,124,000	\$ 278,949,000	\$ 302,915,000	\$ 309,142,000
Cash	38,906,000	17,084,000	39,557,000	39,464,000	19,914,000
Receivables	111,157,000	87,252,000	71,035,000	50,125,000	33,003,000
Other assets	96,120,000	82,591,000	77,471,000	79,523,000	81,167,000
Total assets	\$ 597,217,000	\$ 523,051,000	\$ 467,012,000	\$ 472,027,000	\$ 443,226,000
Liabilities					
Policyholder benefits	\$ 443,388,000	\$ 388,538,000	\$ 351,563,000	\$ 342,574,000	\$ 331,954,000
Bank & other loans payable	11,910,000	25,019,000	7,066,000	8,940,000	6,640,000
Cemetery & mortuary liabilities	13,412,000	13,140,000	13,192,000	13,382,000	13,467,000
Cemetery perpetual care obligation	3,153,000	2,983,000	2,854,000	2,756,000	2,648,000
Other liabilities	45,542,000	32,140,000	32,408,000	44,570,000	34,605,000
Total liabilities	517,405,000	461,820,000	407,083,000	412,222,000	389,314,000
Stockholders' equity	79,812,000	61,231,000	59,929,000	59,805,000	53,912,000
Total liabilities and stockholders' equity	\$ 597,217,000	\$ 523,051,000	\$ 467,012,000	\$ 472,027,000	\$ 443,226,000

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

(2) Includes the assumption reinsurance of North America Life Insurance Company on March 30, 2011.

(3) Includes the coinsurance with Mothe Life Insurance Company and DLE Life Insurance Company on November 1, 2012.

(4) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

Insurance Operations

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

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person's death. On a per thousand dollar cost of insurance basis these policies can be more expensive to the policy holder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the financial results for the Company's insurance operations for the years ended December 31, 2012, 2011 and 2010. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2012	2011	2012 vs 2011 % Increase (Decrease)	2010	2011 vs 2010 % Increase (Decrease)
Revenues from e x t e r n a l customers					
Insurance premiums	\$ 48,216	\$ 48,457	0 %	\$ 38,509	26 %
Net investment income	17,951	17,296	4 %	14,738	17 %
Other	690	1,468	(53 %)	2,008	(27 %)
Total	\$ 66,857	\$ 67,221	(1 %)	\$ 55,255	22 %
Intersegment revenue	\$ 7,571	\$ 5,833	30 %	\$ 6,817	(14 %)
Earnings before income taxes	\$ 4,591	\$ 2,698	70 %	\$ 1,860	45 %

Intersegment revenues for the Company's insurance operations are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2012 has improved due to increases in net investment income, increases in intersegment revenues and decreases in expenses.

Life Insurance Acquisitions, Mergers and Reinsurance

Reinsurance with Mothe Life Insurance Company and DLE Life Insurance Company

On December 19, 2012, the Company, through its wholly owned subsidiary, Security National Life, entered into a Coinsurance Agreement with Mothe Life Insurance Company, a Louisiana domiciled insurance company, and a subsidiary, DLE Life Insurance Company, also a Louisiana domiciled life insurance company (collectively referred to as "Mothe Life"). The effective date of the Coinsurance Agreement was November 1, 2012. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of Mothe Life in exchange for the settlement amount of \$34,485,000. In addition, the Coinsurance Agreement provided that effective November 1, 2012, Mothe Life ceded and transferred to Security National Life, and Security National Life accepted and coinsured all of Mothe Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. On December 18, 2012, the Louisiana Department of Insurance approved the Coinsurance Agreement.

The Coinsurance Agreement further provided that on and after the effective date of November 1, 2012, Security National Life was entitled to exercise all contractual rights of Mothe Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of December 19, 2012, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a Service Agreement between Security National Life and Mothe Life. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to Mothe Life in the amount of \$4,684,000. As a result of the ceding commission, Mothe Life transferred \$34,485,000 in assets and \$39,169,000 in statutory reserves, or liabilities, to Security National Life.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,000. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

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

Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,526,000. In addition, North America Life transferred \$15,703,000 in assets and \$19,230,000 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,000 in assets included \$12,990,000 in cash, \$9,000 in policy loans, and \$2,704,000 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

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

On August 31, 2011, the Company entered into a Stock Purchase Agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company (“Trans-Western”), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. The Company completed the Stock Purchase Agreement on May 2, 2012. The purchase consideration paid was \$494,000, which was equal to the capital and surplus of Trans-Western on May 2, 2012. On March 20, 2012, the Texas Insurance Department approved the Stock Purchase Agreement, and all of Trans-Western’s insurance business was ceded to North America Life, of which approximately 47% of the insurance in force was assumed by the Company under the Coinsurance Agreement as described in Note 9 of the Notes to Consolidated Statements. As part of the stock purchase transaction, the Company recaptured the 47% of insurance in force.

Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah and one mortuary in Phoenix, Arizona. The Company also sells cemetery products and services through its five cemeteries in Salt Lake City, Utah and one cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

On May 10, 2011, the Company and its subsidiary, Greer-Wilson Funeral Home, Inc., completed an asset sales transaction with SCI Arizona Funeral Services, Inc. (“SCI”), an Arizona corporation, to sell substantially all of the operating assets of Greer-Wilson Funeral Home and Crystal Rose Funeral Home to SCI. Under the terms of the asset purchase agreement among Greer-Wilson Funeral Home, Crystal Rose Funeral Home and SCI, SCI paid \$2,225,000 at closing to the Company and Greer-Wilson. The agreement also granted a three year right of first refusal to SCI to purchase Paradise Chapel Funeral Home. If the Company elects to sell Paradise Chapel Funeral Home within the three year period, the Company must provide a bona fide third party offer to SCI after which SCI has ten business days to exercise its right to purchase Paradise for the offer amount.

The following table shows the condensed financial results for the Company’s cemetery and mortuary operations for the years ended December 31, 2012, 2011 and 2010. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2012	2011	2012 vs 2011 % Increase (Decrease)	2010	2011 vs 2010 % Increase (Decrease)
Revenues from e x t e r n a l customers					
Mortuary revenues	\$ 4,567	\$ 4,864	(6 %)	\$ 6,211	(22 %)
Cemetery revenues	6,297	5,897	7 %	5,309	11 %
Realized gains (losses)	9	868	(99 %)	(27)	(3315 %)

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Other	470	308	53 %	321	(4 %)
Total	\$ 11,343	\$ 11,937	(5 %)	\$ 11,814	1 %
E a r n i n g s					
(Losses) before income taxes	\$ 219	\$ 461	(52 %)	\$ (986)	(147 %)

The realized gain in the Company's cemetery and mortuary operations in 2011 was due to the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home. Included in other revenue was rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income was offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates recorded depreciation on these properties of \$1,029,000 and \$1,025,000 for the twelve months ended December 31, 2012 and 2011, respectively.

Mortgage Operations

Approximately 67% of the Company's revenues and expenses for the fiscal year 2012 were through its wholly owned subsidiary, SecurityNational Mortgage Company ("SecurityNational Mortgage"). SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life Insurance Company ("Security National Life"), and with unaffiliated financial institutions.

SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and retains servicing on some of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the twelve months ended December 31, 2012, 2011 and 2010, SecurityNational Mortgage originated and sold 13,392 loans (\$2,451,843,000 total volume), 8,100 loans (\$1,407,212,000 total volume), and 11,251 loans (\$2,094,738,000 total volume), respectively.

SecurityNational Mortgage originates mortgage loans funded by the warehouse banks and immediately sells them to third party investors. Generally, when mortgage loans are sold to the warehouse banks, SecurityNational Mortgage is no longer obligated to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date the loans are sold to warehouse banks and the settlement date with the third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30-day LIBOR rate.

The mortgage loan volume in 2012 was higher than in 2011 primarily due to an increase in market share. The increase in market share was attributed to an expansion of the retail loan operations of SecurityNational Mortgage. SecurityNational Mortgage anticipates the loan volume for 2013 to be approximately \$125,000,000 to \$240,000,000 per month range which was comparable to the per month range in 2012.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks. On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to \$55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$55,000,000 to \$75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. ("UBS") entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to \$30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$30,000,000 to \$40,000,000.

The following table shows the condensed financial results for the Company's mortgage operations for the years 2012, 2011 and 2010. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)		
	2012	2011	2010

			2012 vs 2011 % Increase (Decrease)		2011 vs 2010 % Increase (Decrease)
Revenues from external customers					
Revenues from loan originations	\$ 120,749	\$ 64,415	87 %	\$ 78,450	(18 %)
Secondary gains from investors	29,804	13,190	126 %	18,892	(30 %)
Total	\$ 150,553	\$ 77,605	94 %	\$ 97,342	(20 %)
Earnings (Losses) before income taxes	\$ 16,542	\$ (1,922)	961 %	\$ (1,964)	(2 %)

The increase in earnings for the Company's mortgage operations for the twelve months ended December 31, 2012 as compared to December 31, 2011 was due to higher loan volume and higher secondary gains from investors.

Mortgage Accounting Policy

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

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of December 31, 2012, there was \$201,681,000 in mortgage loans in which settlements with third party investors were still pending.

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

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

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage's historical data shows that 99% of all loans originated are generally settled by the investors as agreed within 20 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

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

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

· Commit to secondary investors.

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

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

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

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

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

As of December 31, 2012, the Company's long term mortgage loan portfolio consisted of \$11,679,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$6,039,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$11,679,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2012 and 2011, the Company increased its allowance for mortgage losses by \$434,000 and \$1,236,000, respectively, which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2012 and 2011 were \$4,240,000 and \$4,881,000, respectively.

Also at December 31, 2012, the Company had foreclosed on a total of \$60,710,000 in long term mortgage loans, of which \$17,020,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2012. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2012 and 2011 were \$4,053,000 and \$1,668,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2012 and 2011, the balances were \$6,035,000 and \$2,338,000, respectively.

Settlement with Wells Fargo

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

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. The amounts deducted by Wells Fargo for years ended December 31, 2012 and 2011 were \$2,674,269 and \$928,075, respectively, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period.

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells Fargo. The amounts deducted by Wells Fargo for the years ended December 31, 2012 and 2011 were \$617,740 and \$80,554, respectively, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period.

Finally, SecurityNational Mortgage is required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value of \$5,404,900 as of December 31, 2012. Thus far, none of these real estate properties have been sold, liquidated or transferred.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009.

Mortgage Loan Loss Demands

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of December 31, 2012, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than \$25,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2012. The Company has reserved and accrued \$6,035,000 as of December 31, 2012 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$26,835,000 on December 31, 2012, and its reserve for mortgage loan loss, which was \$6,035,000 on December 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, relating to mortgage loans that EMC Mortgage, LLC (“EMC Mortgage”) allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase

& Co. (“JP Morgan Chase”) on behalf of EMC Mortgage. According to the notice, the alleged indemnification claim relates to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claim from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery. A copy of the complaint and the amended complaint was provided to the Company by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage’s assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans in which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter dated February 7, 2012, from JP Morgan Chase that accompanied a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

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

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

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

payments into the reserve account in excess of \$125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

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

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

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage’s motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage’s September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. SecurityNational Mortgage's motion in the Lehman Holdings case is presently set for hearing on May 30, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

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

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

Mortgage Operations

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

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

Use of Significant Accounting Estimates

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

Fixed Maturities and Equity Securities Available for Sale

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

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

Deferred Acquisition Costs

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

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

Value of Business Acquired

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

Allowance for Doubtful Accounts

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

Future Policy Benefits

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

Significant Accounting Policies

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

Insurance Operations

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

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

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

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

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

Cemetery and Mortuary Operations

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

Pre-need sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of accounting principles generally accepted in the United States (GAAP). Under GAAP, recognition of revenue and associated costs

from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of FASB Codification Topic 360-20, described above.

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

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

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

Unearned Revenue

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

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

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

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

Mortgage Servicing Rights

Mortgage Service Rights (MSR) arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on the loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of REO and property dispositions. The Company initially accounts for MSRs at fair value and subsequently accounts for them using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated nine year life. The Company periodically assesses MSRs accounted for using the amortization method for impairment.

Mortgage Allowance for Loan Loss and Loan Loss Reserve

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

When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real

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

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

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

Deferred Compensation

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

Depreciation

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

Self-Insurance

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

Results of Consolidated Operations

2012 Compared to 2011

Total revenues increased by \$74,693,000, or 46.8%, to \$234,260,000 for fiscal year 2012 from \$159,567,000 for the fiscal year 2011. Contributing to this increase in total revenues was a \$72,948,000 increase in mortgage fee income, a \$3,239,000 increase in net investment income, a \$103,000 increase in net cemetery and mortuary sales, and a \$50,000 increase in other revenue. This increase in total revenues was partially offset by a \$1,039,000 decrease in realized gains on investments and other assets, a \$367,000 increase in other than temporary impairments, and a \$241,000 decrease in insurance premiums and other considerations.

Insurance premiums and other consideration decreased by \$241,000, or 0.5%, to \$48,216,000 for 2012, from \$48,457,000 for the comparable period in 2011. This decrease was primarily due to a decrease in renewal premiums due to the decline of older blocks of business, which was offset by an increase in first year premiums due to increased insurance sales.

Net investment income increased by \$3,239,000, or 16.2%, to \$23,250,000 for 2012, from \$20,011,000 for the comparable period in 2011. This increase was primarily attributable to a \$2,461,000 increase in income from short-term investments, a \$1,186,000 increase in income from real estate, a \$378,000 decrease in investment expenses, and a \$15,000 increase in interest on mortgage loans on real estate. This increase was partially offset by a \$32,000 decrease in fixed maturity securities income, an \$8,000 decrease in equity securities income, and a \$5,000 decrease in policy loans income.

Net cemetery and mortuary sales increased by \$103,000, or 1.0%, to \$10,864,000 for 2012, from \$10,761,000 for the comparable period in 2011. This increase was primarily due to a \$400,000 increase in cemetery pre-need and at-need sales, which was offset by a \$297,000 decrease in mortuary at-need sales.

Realized gains on investments and other assets decreased by \$1,039,000, or 42.2%, to \$1,425,000 in realized gains for 2012, from \$2,464,000 in realized gains for the comparable period in 2011. This decrease in realized gains and losses on investments and other assets is primarily due to the one-time gain of \$887,000 on the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home that occurred in 2011, a \$310,000 decrease in gains and losses on fixed maturity securities held to maturity, and an \$85,000 decrease in gains and losses on securities available for sale.

Other than temporary impairments on investments increased by \$367,000, or 43.6%, to \$1,208,000 for 2012 from \$841,000 for the comparable period in 2011. This increase was due a \$195,000 increase in impairments on securities available for sale, a \$95,000 increase in impairments on mortgage loans on real estate, a \$40,000 increase in impairments on fixed maturity securities held to maturity, and a \$37,000 increase in impairments on other real estate owned held for investment.

Mortgage fee income increased by \$72,948,000, or 94.0%, to \$150,553,000 for 2012, from \$77,605,000 for the comparable period in 2011. This increase was primarily attributable to an increase in secondary gains on mortgage loans sold to investors and an increase in loan volume due to the expansion of the retail loan operations of SecurityNational Mortgage.

Other revenues increased by \$50,000, or 4.5%, to \$1,159,000 for 2012 from \$1,109,000 for the comparable period in 2011. This increase was due to an increase in miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$212,909,000, or 90.9% of total revenues, for 2012, as compared to \$158,331,000, or 99.2% of total revenues, for the comparable period in 2011.

Death benefits, surrenders and other policy benefits, and future policy benefits decreased by an aggregate of \$523,000 or 1.1%, to \$45,681,000 for 2012, from \$46,204,000 for the comparable period in 2011. This increase was primarily the result of a \$93,000 increase in death benefits, a \$207,000 increase in surrender and other policy benefits offset by a \$823,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$320,000, or 5.5%, to \$5,449,000 for 2012, from \$5,769,000 for the comparable period in 2011. This decrease was primarily due to improved persistency in the traditional life and universal life lines of business.

Selling, general and administrative expenses increased by an aggregate of \$53,796,000, or 52.5%, to \$156,310,000 for 2012, from \$102,514,000 for the comparable period in 2011. This increase was the result of an increase in commission expenses of \$36,325,000, from \$47,515,000 in 2011 to \$83,840,000 in 2012, due to an increase in sales in the mortgage operations, life operations and the cemetery operations. Other expenses increased by \$7,253,000 from \$25,157,000 in 2011 to \$32,410,000 in 2012 primarily due to an increase in loan volume by the mortgage operations. Salaries increased by \$5,358,000 from \$23,531,000 in 2011 to \$28,889,000 in 2012, primarily due to an increase in the number of employees. Costs related to funding mortgage loans increased by \$2,691,000 from \$4,240,000 in 2011 to \$6,931,000 in 2012 due primarily to more loans funded as a result of increased demand in the housing sector. Provision for loan losses increased by \$2,169,000 from \$2,070,000 in 2011 to \$4,239,000 in 2012, primarily due to an increase in monthly loan origination volume.

Interest expense increased by \$1,783,000, or 90.9%, to \$3,744,000 for 2012, from \$1,961,000 for the comparable period in 2011. This increase was primarily due to increased outstanding balances on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$159,000, or 8.4%, to \$1,724,000 for 2012, from \$1,883,000 for the comparable period in 2011. This decrease was primarily due to a decrease in mortuary at-need sales, which was offset by an increase in cemetery pre-need and at-need sales.

Other comprehensive income for the years ended December 31, 2012 and December 31, 2011 amounted to gains of \$1,280,000 and a loss of \$534,000, respectively. This increase of \$1,814,000 in 2012 was primarily the result a \$1,503,000 increase in unrealized gains in securities available for sale, and a gain of \$311,000 in derivatives related to mortgage loans.

2011 Compared to 2010

Total revenues decreased by \$8,943,000, or 5.3%, to \$159,567,000 for fiscal year 2011 from \$168,510,000 for the fiscal year 2010. Contributing to this decrease in total revenues was a \$19,737,000 decrease in mortgage fee income, a \$759,000 decrease in net cemetery and mortuary sales, a \$472,000 decrease in other revenue, and a \$167,000 increase in other than temporary impairments. This decrease in total revenues was partially offset by a \$9,948,000 increase in insurance premiums and other considerations, a \$1,395,000 increase in net investment income, and an \$849,000 increase in realized gains on investments and other assets.

Insurance premiums and other consideration increased by \$9,948,000, or 25.8%, to \$48,457,000 for 2011, from \$38,509,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life that was completed in March 2011, an increase in renewal premiums, and an increase in first year premiums due to increased insurance sales.

Net investment income increased by \$1,395,000, or 7.5%, to \$20,011,000 for 2011, from \$18,616,000 for the comparable period in 2010. This increase was primarily attributable to a \$1,002,000 increase in fixed maturity securities income, a \$708,000 increase in interest on mortgage loans on real estate, a \$700,000 increase in income from real estate, a \$33,000 increase in income in equity securities, and a \$26,000 decrease in investment expenses. This increase was partially offset by a \$960,000 decrease in income from short-term investments, and by a \$62,000 decrease in policy loan income.

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

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

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

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

Other revenues decreased by \$472,000, or 29.9%, to \$1,109,000 for 2011 from \$1,581,000 for the comparable period in 2010. This decrease was due to a reduction in miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$158,331,000, or 99.2% of total revenues, for 2011, as compared to \$169,600,000, or 100.6% of total revenues, for the comparable period in 2010.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$8,258,000 or 21.8%, to \$46,204,000 for 2011, from \$37,946,000 for the comparable period in 2010. This increase was primarily the result of increased future policy benefits, increased death benefits, and increased surrender and other

policy benefits primarily due to the reinsurance transaction with North America Life Insurance Company.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$1,338,000, or 30.2%, to \$5,769,000 for 2011, from \$4,431,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life Insurance Company and an increase in business in force.

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

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

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

Other comprehensive income for the years ended December 31, 2011 and December 31, 2010 amounted to losses of \$534,000 and \$405,000, respectively. This decrease of \$129,000 in 2011 was primarily the result of a \$1,123,000 decrease in unrealized gains in securities available for sale, and a gain of \$994,000 in derivatives related to mortgage loans.

Risks

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

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

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

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. SecurityNational Mortgage may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. SecurityNational Mortgage's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, SecurityNational Mortgage initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. SecurityNational Mortgage accrues a monthly allowance for indemnification losses to investors based on SecurityNational Mortgage's historical experience. The amounts accrued for loan losses in years ended December 31, 2012, 2011 and 2010 were \$4,053,000, \$1,668,000 and \$4,534,000, respectively, and the charge to expense has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2012 and 2011, the balances were \$6,035,000 and \$2,338,000, respectively. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of December 31, 2012. However, there is a risk that future loan losses may exceed the loan loss reserves and allowances.

As of December 31, 2012, the Company's long term mortgage loan portfolio consisted of \$11,679,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$6,039,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$11,679,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2012 and 2011, SecurityNational Mortgage increased its allowance for mortgage losses by \$434,000 and \$1,236,000, respectively, which was charged to loan loss expense and is included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2012 and 2011 were \$4,240,000 and \$4,881,000, respectively.

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$26,835,000 on December 31, 2012, and its reserve for mortgage loan loss, which was \$6,035,000 on December 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Also at December 31, 2012, the Company had foreclosed on a total of \$60,710,000 in long term mortgage loans, of which \$17,020,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2012. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

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

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

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

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate, construction loans, estimate of probable loan loss reserve, and other receivables, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts

provided are adequate.

Liquidity and Capital Resources

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

During the twelve months ended December 31, 2012 and 2011, the Company's operations provided cash of \$22,416,000 and \$6,866,000, respectively. This was due primarily to an \$18,808,000 increase in 2012 and an increase of \$15,145,000 in 2011 in the balance of mortgage loans sold to investors and a \$12,086,000 increase in 2012 and an \$830,000 decrease in 2011 in other liabilities.

The Company's liability for future life, annuity and other benefits is expected to be paid out over long-term due to the Company's market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities the Company is able to hold to maturity its bonds, real estate and mortgage loans thus reducing the risk of liquidating these long-term investments as a result of any sudden changes in market values.

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held to maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

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

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$127,939,000 as of December 31, 2012 compared to \$126,068,000 as of December 31, 2011. This represents 36.9% and 37.9% of the total investments as of December 31, 2012, and December 31, 2011, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At December 31, 2012, 3.4% (or \$4,392,000) and at December 31, 2011, 4.1% (or \$5,182,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

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

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

If market conditions were to cause interest rates to change, the market value of the fixed income portfolio (of approximately \$234,919,000) could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

	-200 bps	-100 bps	+100 bps	+200 bps
Change in Market Value (in thousands) \$	\$ 18,360	\$ 9,617	\$ (12,945)	\$ (23,179)

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At December 31, 2012, and December 31, 2011, the life insurance subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable were \$91,722,000 as of December 31, 2012, as compared to \$86,250,000 as of December 31, 2011. Stockholders' equity as a percent of total capitalization was 87.0% and 71.0% as of December 31, 2012 and December 31, 2011, respectively. Bank debt and notes payable decreased \$13,109,000 for the twelve months ended December 31, 2012 when compared to December 31, 2011, thus increasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2012 was 6.0% as compared to a rate of 6.5% for 2011.

At December 31, 2012, \$32,992,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

Forward-Looking Statements

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

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

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

Off-Balance Sheet Agreements

At December 31, 2012, the Company was contingently liable under a standby letter of credit aggregating \$458,224, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's self-insurance casualty program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2012, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency related to claims filed in states where SecurityNational Mortgage is licensed. SecurityNational Mortgage does not expect any material losses to result from the issuance of the

standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks. On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. (“Wells Fargo”) entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to \$55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$55,000,000 to \$75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. (“UBS”) entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to \$30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$30,000,000 to \$40,000,000.

As of December 31, 2012, there was \$201,681,000 in mortgage loans in which settlements with third party investors were still pending.

The total of the Company unfunded residential construction loan commitments as of December 31, 2012 was \$431,000.

Contractual Obligations

The Company’s contractual obligations as of December 31, 2012 and the payments due by period are shown in the following table:

	Less than 1 year	1-3 years	4-5 years	over 5 years	Total
Non-cancelable operating leases	\$ 2,242,899	\$ 4,013,867	\$ 957,931	\$ 13,797	\$ 7,228,494
Notes and contracts payable	6,266,765	5,435,939	161,704	45,935	11,910,343
	\$ 8,509,664	\$ 9,449,806	\$ 1,119,635	\$ 59,732	\$ 19,138,837

Variable Interest Entities

In conjunction with the Company’s casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. This entity meets the definition of a variable interest entity (VIE); however, under generally accepted accounting principles, “there is not a requirement to include this entity in the consolidated financial statements.” The maximum exposure to loss related to the Company’s involvement with this entity is limited to approximately \$458,224, a majority of which is collateralized under a standby letter of credit issued on the insurance entity’s behalf. See Note 9, “Reinsurance, Commitments and Contingencies,” for additional discussion of commitments associated with the insurance program and Note 1, “Significant Accounting Policies”, for further information on a standby letter of credit. As of December 31, 2012, there are no other entities that met the definition of a variable interest entity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

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All other schedules to the Consolidated Financial Statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and subsidiaries as of December 31, 2012 and 2011 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

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

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 29, 2013

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets	December 31	
	2012	2011
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 129,449,410	\$ 127,579,087
Equity securities, available for sale, at estimated fair value	5,405,112	6,299,392
Mortgage loans on real estate and construction loans held for investment, net of allowances for losses of \$4,239,861 and \$4,881,173 for 2012 and 2011	84,462,205	115,155,967
Real estate held for investment, net of accumulated depreciation of \$4,499,705 and \$4,189,641 for 2012 and 2011	3,543,751	3,786,780
Other real estate owned held for investment, net of accumulated depreciation of \$2,941,713 and \$1,810,238 for 2012 and 2011	55,027,669	46,398,095
Other real estate owned held for sale	5,682,610	5,793,900
Policy, student and other loans net of allowance for doubtful accounts of \$505,030 and \$427,136 for 2012 and 2011	20,188,516	18,463,277
Short-term investments	40,925,390	6,932,023
Accrued investment income	2,393,941	2,323,080
Total investments	347,078,604	332,731,601
Cash and cash equivalents	38,906,115	17,083,604
Mortgage loans sold to investors	94,597,969	77,339,445
Receivables, net	16,559,277	9,911,961
Restricted assets of cemeteries and mortuaries	3,955,127	3,392,497
Cemetery perpetual care trust investments	2,090,111	1,810,185
Receivable from reinsurers	14,529,144	7,678,119
Cemetery land and improvements	11,079,755	11,105,809
Deferred policy and pre-need contract acquisition costs	39,913,465	38,001,833
Mortgage servicing rights	2,797,470	-
Property and equipment, net	11,033,957	9,300,185
Value of business acquired	9,829,082	10,996,050
Goodwill	677,039	677,039
Other	4,169,508	3,022,113
Total Assets	\$ 597,216,623	\$ 523,050,441

See accompanying notes to consolidated financial statements.

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

	December 31	
	2012	2011
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$438,003,813	\$383,507,087
Unearned premium reserve	5,383,800	5,030,443
Bank and other loans payable	11,910,343	25,019,119
Deferred pre-need cemetery and mortuary contract revenues	13,412,339	13,140,483
Cemetery perpetual care obligation	3,153,001	2,983,077
Accounts payable	2,715,834	2,672,479
Other liabilities and accrued expenses	24,902,086	14,456,887
Income taxes	17,923,298	15,010,279
Total liabilities	517,404,514	461,819,854
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 10,843,576 shares in 2012 and 9,638,798 shares in 2011	21,687,152	19,277,596
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$0.20 par value; 15,000,000 shares authorized; issued 10,974,101 shares in 2012 and 10,135,976 shares in 2011	2,194,820	2,027,195
Additional paid-in capital	21,262,140	19,487,565
Accumulated other comprehensive income, net of taxes	1,934,359	654,443
Retained earnings	35,114,072	22,546,623
Treasury stock, at cost - 1,097,416 Class A shares and -0- Class C shares in 2012; 1,198,167 Class A shares and -0- Class C shares in 2011	(2,380,434)	(2,762,835)
Total stockholders' equity	79,812,109	61,230,587
Total Liabilities and Stockholders' Equity	\$597,216,623	\$523,050,441

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31		
	2012	2011	2010
Revenues:			
Insurance premiums and other considerations	\$48,216,327	\$48,457,405	\$38,509,198
Net investment income	23,250,154	20,010,704	18,615,984
Net mortuary and cemetery sales	10,864,497	10,761,469	11,520,369
Realized gains on investments and other assets	1,424,510	2,464,353	1,615,418
Other than temporary impairments	(1,207,632)	(840,735)	(673,981)
Mortgage fee income	150,553,261	77,605,105	97,342,215
Other	1,159,052	1,108,969	1,581,115
Total revenues	234,260,169	159,567,270	168,510,318
Benefits and expenses:			
Death benefits	22,277,037	22,184,112	19,350,176
Surrenders and other policy benefits	1,969,051	1,761,608	1,575,812
Increase in future policy benefits	21,435,191	22,258,241	17,020,086
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	5,449,429	5,769,348	4,431,076
Selling, general and administrative expenses:			
Commissions	83,840,427	47,514,804	58,439,664
Salaries	28,889,112	23,531,407	26,406,153
Provision for loan losses and loss reserve	4,239,418	2,070,399	5,404,645
Costs related to funding mortgage loans	6,931,045	4,240,377	6,044,020
Other	32,409,918	25,156,515	25,923,413
Interest expense	3,744,293	1,961,249	2,778,920
Cost of goods and services sold – mortuaries and cemeteries	1,723,955	1,882,657	2,225,773
Total benefits and expenses	212,908,876	158,330,717	169,599,738
Earnings (loss) before income taxes	21,351,293	1,236,553	(1,089,420)
Income tax benefit (expense)	(4,638,775)	62,205	658,796
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Net earnings (loss) per Class A equivalent common share (1)	\$1.65	\$0.13	\$(0.04)
Net earnings (loss) per Class A equivalent common share - assuming dilution(1)	\$1.57	\$0.13	\$(0.04)
Weighted average Class A equivalent common shares outstanding (1)	10,134,728	9,893,962	9,688,067
Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	10,678,294	10,001,909	9,688,067

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock basis. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is equal to one-tenth (1/10) of such amount or \$0.16, \$0.01 and \$0.00 per share for 2012, 2011 and 2010, respectively, and \$0.15, \$0.01 and \$0.00 per share-assuming dilution for 2012, 2011 and 2010, respectively.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Other comprehensive income:			
Changes in:			
Net unrealized gains (losses) on derivative instruments	852,168	541,335	(452,430)
Net unrealized gains (losses) on available for sale securities	427,748	(1,075,138)	47,349
Other comprehensive gain (loss)	1,279,916	(533,803)	(405,081)
Comprehensive income (loss)	\$17,992,434	\$764,955	\$(835,705)

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2012, 2011 and 2010

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2010	\$17,460,454	\$1,842,842	\$19,191,606	\$1,593,327	\$23,178,944	\$(3,461,731)	\$59,805,442
Net loss	-	-	-	-	(430,624)	-	(430,624)
Other comprehensive loss	-	-	-	(405,081)	-	-	(405,081)
Grant of stock options	-	-	520,457	-	-	-	520,457
Exercise stock options	20,348	-	(20,348)	-	-	-	-
Sale of treasury stock	-	-	123,814	-	-	314,460	438,274
Stock dividends	874,276	92,002	(125,537)	-	(840,741)	-	-
Conversion Class C to Class A	2,812	(2,813)	1	-	-	-	-
Balance at December 31, 2010	18,357,890	1,932,031	19,689,993	1,188,246	21,907,579	(3,147,271)	59,928,468
Net earnings	-	-	-	-	1,298,758	-	1,298,758
Other comprehensive loss	-	-	-	(533,803)	-	-	(533,803)
Grant of stock options	-	-	253,934	-	-	-	253,934
Exercise of stock options	-	-	-	-	-	-	-
Sale of treasury stock	-	-	(101,206)	-	-	384,436	283,230
Stock dividends	918,336	96,535	(355,157)	-	(659,714)	-	-
Conversion Class C to Class A	1,370	(1,371)	1	-	-	-	-
Balance at December 31, 2011	19,277,596	2,027,195	19,487,565	654,443	22,546,623	(2,762,835)	61,230,587

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Net earnings	-	-	-	-	16,712,518	-	16,712,518
Other comprehensive income	-	-	-	1,279,916	-	-	1,279,916
Grant of stock options	-	-	251,031	-	-	-	251,031
Exercise of stock options	1,371,506	63,782	(1,416,982)	-	-	-	18,306
Sale of treasury stock	-	-	(62,650)	-	-	382,401	319,751
Stock dividends	1,037,404	104,488	3,003,177	-	(4,145,069)	-	-
Conversion Class C to Class A	646	(645)	(1)	-	-	-	-
Balance at December 31, 2012	\$21,687,152	\$2,194,820	\$21,262,140	\$1,934,359	\$35,114,072	\$(2,380,434)	\$79,812,109

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
Cash flows from operating activities:			
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Realized gains on investments and other assets	(1,424,510)	(2,464,353)	(1,615,418)
Other than temporary impairments	1,207,632	840,735	673,981
Depreciation and amortization	2,877,743	2,814,585	2,917,513
Provision for losses on real estate accounts and loans receivable	(963,169)	1,644,171	(198,062)
Amortization of premiums and discounts	(762,301)	(539,896)	(19,505)
Provision for deferred and other income taxes	953,394	524,868	(1,197,023)
Policy and pre-need acquisition costs deferred	(7,885,882)	(6,806,486)	(6,956,154)
Policy and pre-need acquisition costs amortized	4,234,271	4,624,148	3,710,602
Value of business acquired amortized	1,215,158	1,145,200	720,474
Servicing asset at amortized cost, additions	(2,797,470)	-	-
Stock based compensation expense	251,031	253,934	520,457
Benefit plans funded with treasury stock	319,751	283,230	438,274
Change in assets and liabilities:			
Land and improvements held for sale	26,054	(9,680)	(108,296)
Future life and other benefits	20,508,725	22,262,508	18,357,044
Receivables for mortgage loans sold	(18,807,956)	(15,144,933)	(23,957,088)
Other operating assets and liabilities	6,751,217	(3,860,964)	(7,107,055)
Net cash provided by (used in) operating activities	22,416,206	6,865,825	(14,250,880)
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(11,365,269)	(50,566,004)	(8,251,365)
Calls and maturities - fixed maturity securities	9,601,320	21,631,908	27,878,797
Securities available for sale:			
Purchase - equity securities	(1,685,983)	(4,574,717)	(5,462,028)
Sales - equity securities	3,028,509	4,161,140	5,014,194
Purchases of short-term investments	(51,823,941)	(70,895,829)	(9,590,929)
Sales of short-term investments	17,830,574	66,582,155	14,115,870
Sales (purchases) of restricted assets	(525,978)	(338,310)	(441,441)
Change in assets for perpetual care trusts	(265,435)	(266,056)	(282,605)
Amount received for perpetual care trusts	169,924	129,350	97,553
Mortgage, policy, and other loans made	(117,135,836)	(127,867,064)	(102,328,203)
Payments received for mortgage, policy, and other loans	131,565,100	103,865,163	97,675,289
Purchases of property and equipment	(3,022,393)	(765,633)	(859,988)
Disposal of property and equipment	30,524	2,296,247	-
Purchases of real estate	(143,278)	(441,444)	(1,813,784)
Sale of real estate	6,886,821	2,605,454	6,424,961
Cash received from reinsurance	34,485,224	12,990,444	-
Cash paid for purchase of subsidiaries, net of cash acquired	(180,591)	-	-

Net cash provided by (used in) investing activities	17,449,292	(41,453,196)	22,176,321
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See accompanying notes to consolidated financial statements

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

	Years Ended December 31		
	2012	2011	2010
Cash flows from financing activities:			
Annuity contract receipts	\$8,939,017	\$7,967,701	\$8,428,798
Annuity contract withdrawals	(13,915,777)	(13,910,925)	(14,372,244)
Proceeds from stock options exercised	18,306	-	-
Repayment of bank loans and notes and contracts payable	(1,534,612)	(1,957,389)	(1,889,295)
Proceeds from bank borrowings	241,875	3,615,085	-
Change in line of credit borrowings	(11,791,796)	16,400,000	-
Net cash provided by (used in) financing activities	(18,042,987)	12,114,472	(7,832,741)
Net change in cash and cash equivalents	21,822,511	(22,472,899)	92,700
Cash and cash equivalents at beginning of year	17,083,604	39,556,503	39,463,803
Cash and cash equivalents at end of year	\$38,906,115	\$17,083,604	\$39,556,503
Non Cash Investing and Financing Activities			
Mortgage loans foreclosed into real estate	\$17,019,870	\$9,228,249	\$12,985,041

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies

General Overview of Business

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of certain amounts in prior years has been reclassified to conform to the 2012 presentation.

Principles of Consolidation

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

Investments

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

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

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

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Cemetery Land and Improvements

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

Property and Equipment

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

Recognition of Insurance Premiums and Other Considerations

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs and Value of Business Acquired

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

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

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

Mortgage Servicing Rights

Mortgage Service Rights (MSR) arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of REO and property dispositions.

The total residential mortgage loans serviced for others consist primarily of agency conforming fixed-rate mortgage loans. The value of MSRs is derived from the net cash flows associated with the servicing contracts. The Company receives a servicing fee of generally about 0.250% annually on the remaining outstanding principal balances of the loans. Based on the result of the cash flow analysis, an asset or liability is recorded for mortgage servicing rights. The servicing fees are collected from the monthly payments made by the mortgagors. The Company generally receives other remuneration including rights to various mortgagor-contracted fees such as late charges, and collateral reconveyance charges and the Company is generally entitled to retain the interest earned on funds held pending remittance of mortgagor principal, interest, tax and insurance payments.

The Company's subsequent accounting for MSR is based on the class of MSR. The Company has identified two classes of MSR: MSR backed by mortgage loans with initial term of 30 years and MSR backed by mortgage loans with initial term of 15 years. The Company distinguishes between these classes of MSR due to their differing sensitivities to change in value as the result of changes in market. After being initially recorded at fair value, MSR backed by mortgage loans are accounted for using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated nine year life.

The Company periodically assesses MSR for impairment. Impairment occurs when the current fair value of the MSR falls below the asset's carrying value (carrying value is the amortized cost reduced by any related valuation allowance). If MSR are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSR is adjusted through a valuation allowance.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

Management periodically reviews the various loan strata to determine whether the value of the MSRs in a given stratum is impaired and likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

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

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

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

The allowance for losses on mortgage loans held for investment could change based on changes in the value of the underlying collateral, the performance status of the loans, or the Company's actual collection experience. The actual losses could change, in the near term, from the established allowance, based upon the occurrence or non-occurrence of these events.

Loan Loss Reserve

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors.

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

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

Future Life, Annuity and Other Policy Benefits

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

Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 3% to 6.5%.

Participating Insurance

Participating business constituted 2%, 2%, and 2% of insurance in force for 2012, 2011 and 2010, respectively. The provision for policyholders' dividends included in policyholder obligations is based on dividend scales anticipated by management. Amounts to be paid are determined by the Board of Directors.

Reinsurance

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

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

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

Cemetery and Mortuary Operations

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

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

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

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

Mortgage Fee Income

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

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

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

Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by SecurityNational Mortgage are generally settled by the investors as agreed within 20 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

The Company provides an allowance for loan losses on its mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired.

Commercial Loans

Each quarter, management reviews the current commercial loans and determines if an allowance is required based on the Company's actual experience of losses on impaired commercial loans. To date, the Company has not incurred any

significant losses. As a result, management has determined that no allowance is required on current commercial loans in its portfolio. The carrying value of all commercial loans is supported by appraisals and cash flow analysis of revenue received. Also, the Company has not accrued any interest income or capitalized any of the foreclosure costs on the impaired commercial loans.

Residential and Construction Loans

The Company believes that in an orderly market fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

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

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

Self-Insurance

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

Goodwill

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

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be

held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. No impairment of long-lived assets has been recognized in the accompanying financial statements.

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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

1) Significant Accounting Policies (Continued)

Income Taxes

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

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

Earnings Per Common Share

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

Stock Based Compensation

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

Concentration of Credit Risk

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

Advertising Expense

The Company expenses advertising costs as incurred. The total amount charged to advertising expense for 2012, 2011 and 2010 was \$4,065,000, \$2,237,000 and \$2,122,000, respectively.

Recent Accounting Pronouncements

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,602,589	\$ 514,572	\$ -	\$ 3,117,161
Obligations of states and political subdivisions	2,040,277	285,241	(3,982)	2,321,536
Corporate securities including public utilities	118,285,147	16,230,468	(607,322)	133,908,293
Mortgage-backed securities	5,010,519	327,871	(76,056)	5,262,334
Redeemable preferred stock	1,510,878	98,087	(1,200)	1,607,765
Total fixed maturity securities held to maturity	\$ 129,449,410	\$ 17,456,239	\$ (688,560)	\$ 146,217,089

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2) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$ 20,281	\$ -	\$ (1,486)	\$ 18,795
Common stock:				
Industrial, miscellaneous and all other	6,047,474	309,752	(970,909)	5,386,317
Total equity securities available for sale at estimated fair value	\$ 6,067,755	\$ 309,752	\$ (972,395)	\$ 5,405,112
Total securities available for sale carried at estimated fair value	\$ 6,067,755	\$ 309,752	\$ (972,395)	\$ 5,405,112
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 50,584,923			
Residential construction	3,161,112			
Commercial	34,956,031			
Less: Allowance for loan losses	(4,239,861)			
Total mortgage loans on real estate and construction loans held for investment	\$ 84,462,205			
Real estate held for investment - net of depreciation	\$ 3,543,751			

Other real estate owned held for investment - net of depreciation	55,027,669
Other real estate owned held for sale	5,682,610
Total real estate	\$ 64,254,030
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	\$ 20,188,516
Short-term investments at amortized cost	\$ 40,925,390

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S Government agencies	\$ 2,820,159	\$ 551,740	\$ -	\$ 3,371,899
Obligations of states and political subdivisions	3,024,425	309,986	(13,156)	3,321,255
Corporate securities including public utilities	113,648,447	10,075,071	(2,268,146)	121,455,372
Mortgage-backed securities	6,575,178	354,286	(356,899)	6,572,565
Redeemable preferred stock	1,510,878	72,639	(129,200)	1,454,317
Total fixed maturity securities held to maturity	\$ 127,579,087	\$ 11,363,722	\$ (2,767,401)	\$ 136,175,408

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

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

Other real estate owned held for investment - net of depreciation	46,398,095
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Other real estate owned held for sale	5,793,900
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Total real estate	\$ 55,978,775
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Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	\$ 18,463,277
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Short-term investments at amortized cost	\$ 6,932,023
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SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities, which are carried at amortized cost, at December 31, 2012 and 2011. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At December 31, 2012					
Redeemable Preferred Stock	\$ 1,200	1	\$ -	0	\$ 1,200
Obligations of States and Political Subdivisions	-	0	3,982	2	3,982
Corporate Securities	191,662	16	415,660	9	607,322
Mortgage and other asset-backed securities	-	0	76,056	3	76,056
Total unrealized losses	\$ 192,862	17	\$ 495,698	14	\$ 688,560
Fair Value	\$ 4,609,268		\$ 3,972,091		\$ 8,581,359
At December 31, 2011					
Redeemable Preferred Stock	\$ 800	1	\$ 128,400	1	\$ 129,200
Obligations of States and Political Subdivisions	-	0	13,156	2	13,156
Corporate Securities	1,544,224	47	723,922	12	2,268,146
Mortgage and other asset-backed securities	161,300	3	195,599	1	356,899

Total unrealized losses	\$ 1,706,324	51	\$ 1,061,077	16	\$ 2,767,401
Fair Value	\$ 24,249,533		\$ 3,762,892		\$ 28,012,425

As of December 31, 2012, the average market value of the related fixed maturities was 92.6% of amortized cost and the average market value was 91.0% of amortized cost as of December 31, 2011. During 2012, 2011 and 2010, an other than temporary decline in market value resulted in the recognition of credit losses on fixed maturity securities of \$165,000, \$125,129 and \$150,059, respectively.

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

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Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at December 31, 2012 and 2011. The unrealized losses were primarily the result of decreases in market value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At December 31, 2012					
Non-redeemable preferred stock	\$ 686	1	\$ 800	1	\$ 1,486
Industrial, miscellaneous and all other	236,293	39	734,616	44	970,909
Total unrealized losses	\$ 236,979	40	\$ 735,416	45	\$ 972,395
Fair Value	\$ 1,422,436		\$ 1,493,538		\$ 2,915,974
At December 31, 2011					
Non-redeemable preferred stock	\$ -	-	\$ 1,843	2	\$ 1,843
Industrial, miscellaneous and all other	955,400	79	378,024	14	1,333,424
Total unrealized losses	\$ 955,400	79	\$ 379,868	16	\$ 1,335,266
Fair Value	\$ 2,857,082		\$ 560,529		\$ 3,417,611

As of December 31, 2012, the average market value of the equity securities available for sale was 75.0% of the original investment and the average market value was 71.9% of the original investment as of December 31, 2011. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During 2012, 2011, and 2010, an other than temporary decline in the market value resulted in the recognition of an impairment loss on equity

securities of \$247,317, \$52,775 and \$23,922, respectively.

On a quarterly basis, the Company reviews its investment in industrial, miscellaneous and all other equity securities that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios, projected earnings and revenue growth rates. Based on the analysis a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments. The fair values for equity securities are based on quoted market prices.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2013	\$ 1,700,455	\$ 1,768,905
Due in 2014 through 2017	20,923,480	23,120,438
Due in 2018 through 2022	45,399,136	51,113,794
Due after 2022	54,904,942	63,343,853
Mortgage-backed securities	5,010,519	5,262,334
Redeemable preferred stock	1,510,878	1,607,765
Total held to maturity	\$ 129,449,410	\$ 146,217,089

The amortized cost and estimated fair value of available for sale securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in 2013	\$ -	\$ -
Due in 2014 through 2017	-	-
Due in 2018 through 2022	-	-
Due after 2022	-	-
Non-redeemable preferred stock	20,281	18,795
Common stock	6,047,474	5,386,317
Total available for sale	\$ 6,067,755	\$ 5,405,112

The Company's realized gains and losses and other than temporary impairments from investments and other assets are summarized as follows:

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AND SUBSIDIARIES

Notes to Consolidated Financial Statements
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2) Investments (Continued)

	2012	2011	2010
Fixed maturity securities held to maturity:			
Gross realized gains	\$ 470,874	\$ 939,672	\$ 1,300,187
Gross realized losses	(3,875)	(162,716)	(494,678)
Other than temporary impairments	(165,000)	(125,129)	(150,059)
Securities available for sale:			
Gross realized gains	392,033	590,455	686,788
Gross realized losses	(5,705)	(118,417)	(61,530)
Other than temporary impairments	(247,317)	(52,775)	(23,922)
Other assets:			
Gross realized gains	794,346	1,295,217	393,943
Gross realized losses	(223,163)	(79,858)	(209,292)
Other than temporary impairments	(795,315)	(662,831)	(500,000)
Total	\$ 216,878	\$ 1,623,618	\$ 941,437

The net carrying amount for sales of securities classified as held to maturity was \$2,174,300, \$12,341,156 and \$16,220,943, for the years ended December 31, 2012, 2011 and 2010, respectively. The net realized gain related to these sales was \$271,364, \$530,637 and \$346,225, for the years ended December 31, 2012, 2011 and 2010, respectively. Certain circumstances lead to these decisions to sell. In 2012, 2011 and 2010, the Company sold certain held to maturity bonds in gain positions to reduce its risk in certain industries or companies.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available-for-sale securities) at December 31, 2012, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	2012	2011	2010
Fixed maturity securities	\$ 7,731,051	\$ 7,762,894	\$ 6,761,254
Equity securities	264,063	272,011	238,929
Mortgage loans on real estate	6,878,354	6,863,026	6,154,760
Real estate	4,927,128	3,741,263	3,040,864
Policy, student and other loans	830,683	835,312	897,945
Short-term investments, principally gains on sale of mortgage loans	8,716,257	6,255,581	7,215,927
Gross investment income	29,347,536	25,730,087	24,309,679
Investment expenses	(6,097,382)	(5,719,383)	(5,693,695)
Net investment income	\$ 23,250,154	\$ 20,010,704	\$ 18,615,984

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of \$643,283, \$626,688 and \$635,652 for 2012, 2011 and 2010, respectively.

Net investment income on real estate consists primarily of rental revenue received under short-term leases.

Investment expenses consist primarily of depreciation, property taxes, operating expenses of real estate and an estimated portion of administrative expenses relating to investment activities.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

Securities on deposit for regulatory authorities as required by law amounted to \$9,190,012 at December 31, 2012 and \$9,593,318 at December 31, 2011. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 10.5%, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At December 31, 2012, the Company has 26%, 19%, 12% and 12% of its mortgage loans from borrowers located in the states of Utah, California, Florida and Texas, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$4,239,861 and \$4,881,173 at December 31, 2012 and 2011, respectively.

The Company establishes a valuation allowance for credit losses in its portfolio.

The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

Allowance for Credit Losses and Recorded Investment in Mortgage Loans
For the Years Ended December 31, 2012, and 2011

	Commercial	Residential	Residential Construction	Total
2012				
Allowance for credit losses:				
Beginning balance	\$ -	\$ 4,338,805	\$ 542,368	\$ 4,881,173
Charge-offs	-	(560,699)	(514,442)	(1,075,141)
Provision	-	415,568	18,261	433,829
Ending balance	\$ -	\$ 4,193,674	\$ 46,187	\$ 4,239,861
Ending balance: individually evaluated for impairment				
	\$ -	\$ 692,199	\$ -	\$ 692,199
Ending balance: collectively evaluated for impairment				
	\$ -	\$ 3,501,475	\$ 46,187	\$ 3,547,662
Ending balance: loans acquired with deteriorated credit quality				
	\$ -	\$ -	\$ -	\$ -
Mortgage loans:				
Ending balance	\$ 34,956,031	\$ 50,584,923	\$ 3,161,112	\$ 88,702,066
Ending balance: individually evaluated for impairment				
	\$ -	\$ 4,692,517	\$ 1,346,126	\$ 6,038,643
Ending balance: collectively evaluated for impairment				
	\$ 34,956,031	\$ 45,892,406	\$ 1,814,986	\$ 82,663,423
	\$ -	\$ -	\$ -	\$ -

Ending balance: loans acquired with deteriorated credit quality				
2011				
Allowance for credit losses:				
Beginning balance	\$ -	\$ 6,212,072	\$ 858,370	\$ 7,070,442
Charge-offs	-	(2,994,715)	(430,274)	(3,424,989)
Provision	-	1,121,448	114,272	1,235,720
Ending balance	\$ -	\$ 4,338,805	\$ 542,368	\$ 4,881,173
Ending balance: individually evaluated for impairment				
	\$ -	\$ 738,975	\$ 250,524	\$ 989,499
Ending balance: collectively evaluated for impairment				
	\$ -	\$ 3,599,830	\$ 291,844	\$ 3,891,674
Ending balance: loans acquired with deteriorated credit quality				
	\$ -	\$ -	\$ -	\$ -
Mortgage loans:				
Ending balance	\$ 48,433,147	\$ 54,344,327	\$ 17,259,666	\$ 120,037,140
Ending balance: individually evaluated for impairment				
	\$ 2,758,235	\$ 4,611,995	\$ 5,645,865	\$ 13,016,095
Ending balance: collectively evaluated for impairment				
	\$ 45,674,912	\$ 49,732,332	\$ 11,613,801	\$ 107,021,045
Ending balance: loans acquired with deteriorated credit quality				
	\$ -	\$ -	\$ -	\$ -

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

The following is a summary of the aging of mortgage loans for the periods presented.

Age Analysis of Past Due Mortgage Loans
Years Ended December 31, 2012 and 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days 1)	In Foreclosure 1)	Total Past Due	Current	Total Mortgage Loans
2012							
Commercial	\$581,984	\$-	\$143,252	\$-	\$725,236	\$34,230,795	\$34,956,031
Residential	2,963,259	1,345,247	5,208,742	4,692,517	14,209,765	36,375,158	50,584,923
Residential Construction	-	-	288,468	1,346,126	1,634,594	1,526,518	3,161,112
Total	\$3,545,243	\$1,345,247	\$5,640,462	\$6,038,643	\$16,569,595	\$72,132,471	\$88,702,066
2011							
Commercial	\$-	\$-	\$1,053,500	\$2,758,235	\$3,811,735	\$44,621,412	\$48,433,147
Residential	2,478,084	2,058,261	5,500,340	4,611,995	14,648,680	39,695,647	54,344,327
Residential Construction	859,651	682,532	309,651	5,645,865	7,497,699	9,761,967	17,259,666
Total	\$3,337,735	\$2,740,793	\$6,863,491	\$13,016,095	\$25,958,114	\$94,079,026	\$120,037,140

1) There was not any interest income recognized on loans past due greater than 90 days or in foreclosure.

Impaired Mortgage Loans

Impaired mortgage loans include loans with a related specific valuation allowance or loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary. The recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, for each reporting period and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

Impaired Loans

For the Years Ended December 31, 2012, and 2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2012					
With no related allowance recorded:					
Commercial	\$ 143,252	\$ 143,252	\$ -	\$ 143,252	\$ -
Residential	5,208,742	5,208,742	-	5,208,742	-
Residential construction	1,634,594	1,634,594	-	1,634,594	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	4,692,517	4,692,517	692,199	4,692,517	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ 143,252	\$ 143,252	\$ -	\$ 143,252	\$ -
Residential	9,901,259	9,901,259	692,199	9,901,259	-
Residential construction	1,634,594	1,634,594	-	1,634,594	-
2011					
With no related allowance recorded:					
Commercial	\$ 3,811,735	\$ 3,811,735	\$ -	\$ 3,811,735	\$ -
Residential	5,500,340	5,500,340	-	5,500,340	-
Residential construction	309,651	309,651	-	309,651	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -

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Residential	4,611,995	4,611,995	738,975	4,611,995	-
Residential construction	5,645,865	5,645,865	250,524	5,645,865	-
Total:					
Commercial	\$ 3,811,735	\$ 3,811,735	\$ -	\$ 3,811,735	\$ -
Residential	10,112,335	10,112,335	738,975	10,112,335	-
Residential construction	5,955,516	5,955,516	250,524	5,955,516	-

Credit Risk Profile Based on Performance Status

The Company's mortgage loan portfolio is monitored based on performance of the loans. Monitoring a mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. The Company defines non-performing mortgage loans as loans 90 days or greater delinquent or on non-accrual status.

The Company's performing and non-performing mortgage loans were as follows:

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity
As of December 31, 2012, and 2011

	Commercial		Residential		Residential Construction		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Performing	\$34,812,779	\$44,621,412	\$40,683,664	\$44,231,992	\$1,526,518	\$11,304,150	\$77,022,961	\$100,157,623
Nonperforming	143,252	3,811,735	9,901,259	10,112,335	1,634,594	5,955,516	11,679,105	19,879,535
Total	\$34,956,031	\$48,433,147	\$50,584,923	\$54,344,327	\$3,161,112	\$17,259,666	\$88,702,066	\$120,037,158

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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals \$1,925,000 and \$2,023,000 as of December 31, 2012 and 2011, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

Mortgage Loans on Nonaccrual Status
As of December 31, 2012, and 2011

	2012	2011
Commercial	\$ 143,252	\$ 3,811,735
Residential	9,901,259	10,112,335
Residential construction	1,634,594	5,955,516
Total	\$ 11,679,105	\$ 19,879,586

Principal Amounts Due

The amortized cost and contractual payments on mortgage loans on real estate and construction loans held for investment by category as of December 31, 2012 are shown below. Expected principal payments may differ from contractual obligations because certain borrowers may elect to pay off mortgage obligations with or without early payment penalties.

	Total	Principal Amounts Due in 2013	Principal Amounts Due in 2014-2017	Principal Amounts Due Thereafter
Residential	\$ 50,584,923	\$ 2,247,732	\$ 6,699,546	\$ 41,637,645
Residential Construction	3,161,112	3,161,112	-	-
Commercial	34,956,031	22,612,642	7,214,630	5,128,758
Total	\$ 88,702,066	\$ 28,021,486	\$ 13,914,176	\$ 46,766,403

Loan Loss Reserve

When a repurchase demand is received from a third party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand. In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third party

investor without having to make any payments to the investor.

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Notes to Consolidated Financial Statements
Years Ended December 31, 2012, 2011, and 2010

2) Investments (Continued)

The following is a summary of the loan loss reserve which is included in other liabilities and accrued expenses:

	Years Ended December 31	
	2012	2011
Balance, beginning of period	\$ 2,337,875	\$ 5,899,025
Provisions for losses	4,053,051	1,667,805
Charge-offs	(355,631)	(5,228,955)
Balance, at December 31	\$ 6,035,295	\$ 2,337,875

The Company believes the loan loss reserve represents probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims asserted by third party investors. Actual loan loss experience could change, in the near-term, from the established reserve based upon claims asserted by third party investors. If SecurityNational Mortgage is unable to negotiate acceptable terms with the third party investors, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

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3) Receivables

Receivables consist of the following:

	December 31	
	2012	2011
Trade contracts	\$ 14,968,859	\$ 8,409,206
Receivables from sales agents	649,739	1,623,025
Held in Escrow – Southern Security	342,377	369,968
Other	1,788,894	1,788,731
Total receivables	17,749,869	12,190,930
Allowance for doubtful accounts	(1,190,592)	(2,278,969)
Net receivables	\$ 16,559,277	\$ 9,911,961

4) Value of Business Acquired

Information with regard to value of business acquired is as follows:

	December 31		
	2012	2011	2010
Balance at beginning of year	\$ 10,996,050	\$ 8,996,134	\$ 10,231,755
Value of business acquired	48,190	3,145,116	(515,147)
Imputed interest at 7%	728,880	701,349	674,463
Amortization	(1,944,038)	(1,846,549)	(1,394,937)
Net amortization charged to income	(1,215,158)	(1,145,200)	(720,474)
Balance at end of year	\$ 9,829,082	\$ 10,996,050	\$ 8,996,134

Presuming no additional acquisitions, net amortization charged to income is expected to approximate \$1,104,000, \$1,038,000, \$855,000, \$789,000, and \$727,000 for the years 2013 through 2017. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2012, value of business acquired is being amortized over a weighted average life of 7.6 years.

5) Property and Equipment

The cost of property and equipment is summarized below:

	December 31	
	2012	2011
Land and buildings	\$ 14,782,646	\$ 12,503,230
Furniture and equipment	13,226,209	12,900,261
	28,008,855	25,403,491
Less accumulated depreciation	(16,974,898)	(16,103,306)
Total	\$ 11,033,957	\$ 9,300,185

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was \$1,258,097, \$1,499,038 and \$1,811,931 respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
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6) Bank and Other Loans Payable

Bank loans payable are summarized as follows:

	December 31	
	2012	2011
6.34% note payable in monthly installments of \$13,556 including principal and interest, collateralized by real property with a book value of approximately \$498,000, due November 2017.	748,612	877,707
5.75% note payable in monthly installments of \$28,271 including principal and interest, collateralized by real property with a book value of approximately \$6,450,000 due December 2014.	3,643,192	3,769,012
Bank prime rate less .75% (2.50% at December 31, 2012) note payable in quarterly installments of \$75,000 plus interest collateralized by shares of Security National Life Insurance Company Stock, due September 2013.	225,000	525,000
Mark to market of interest rate swaps (discussed below) adjustment	93,572	117,812
3.85% note payable in monthly installments of \$79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company Stock, due June 2015.	2,258,968	3,105,965
Revolving line-of-credit, interest payable at the variable overnight Libor rate plus 2% (2.1875% as of December 31, 2012), secured by bond investments of the Company, matures June 2013.	-	15,000,000
Revolving line-of-credit, interest payable at the prime rate minus .75% (2.5% as of December 31, 2012) secured by shares of Security National Life Insurance Company Stock, matures June 2013.	4,608,204	1,400,000
Other collateralized bank loans payable	331,834	222,662
Other notes payable	961	961
Total bank and other loans	11,910,343	25,019,119

Less current installments	6,266,765	18,018,145
Bank and other loans, excluding current installments	\$ 5,643,578	\$ 7,000,974

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Notes to Consolidated Financial Statements
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6) Bank and Other Loans Payable (Continued)

During 2001, the Company entered into a \$2,000,000 note payable to a bank with interest due at a variable interest rate of the Libor rate plus 1.65%. During 2001, the Company also entered into an interest rate swap instrument that effectively fixed the interest rate on the note payable at 6.34% per annum. Management considers the interest rate swap instrument an effective cash flow hedge against the variable interest rate on the bank note since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swap is a derivative financial instrument carried at its fair value.

In the event the swap is terminated, any resulting gain or loss would be deferred and amortized to interest expense over the remaining life of the bank loan it hedged. In the event of early extinguishment of the hedged bank loan, any realized or unrealized gain or loss from the hedging swap would be recognized in income coincident with the extinguishment.

At December 31, 2012, the fair value of the interest rate swap was an unrealized loss of \$93,572 and was computed based on the underlying variable Libor rate plus 1.65%, or 2.65% per annum. The unrealized loss resulted in a derivative liability of \$93,572 and has been reflected in accumulated other comprehensive income. The change in accumulated other comprehensive income from the interest rate swap in 2012 was \$24,240. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

At December 31, 2011, the fair value of the interest rate swap was an unrealized loss of \$117,812 and was computed based on the underlying variable Libor rate plus 1.65%, or 2.65% per annum. The unrealized loss resulted in a derivative liability of \$117,812 and has been reflected in accumulated other comprehensive income. The change in accumulated other comprehensive income from the interest rate swap in 2011 was \$1,279. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

The Company has a \$6,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2012), secured by the capital stock of Security National Life and maturing June 15, 2013, renewable annually. As of December 31, 2012, there was \$4,608,204 outstanding under the revolving line-of-credit. As of December 31, 2012, \$652,572 was available and \$514,224 was reserved for two outstanding letters of credit. \$1,500,000 was carved out for a loan in September 2008 that as of December 31, 2012 has a balance of \$225,000. As the principal payments on the loan are made the line of credit amount increases in availability.

The Company has a \$15,000,000 revolving line-of-credit with a bank with interest payable at the variable overnight Libor rate plus 2% (2.1875% at December 31, 2012), secured by bond investments of the Company and maturing June 30, 2013. As of December 31, 2012 there was \$15,000,000 available under the revolving line-of-credit.

The Company has a \$2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate plus 1.25% (4.5% at December 31, 2012), secured by the capital stock of Security National Life and maturing June 30, 2013. As of December 31, 2012 \$1,250,000 was reserved for an outstanding letter of credit. As of December 31, 2012 there were no amounts outstanding under the revolving line-of-credit.

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6) Bank and Other Loans Payable (Continued)

The following tabulation shows the combined maturities of bank loans payable, lines of credit and notes and contracts payable:

2013	\$6,266,765
2014	4,636,015
2015	598,975
2016	200,949
2017	161,704
Thereafter	45,935
Total	\$11,910,343

Interest paid approximated interest expense in 2012, 2011 and 2010 which was \$3,744,293, \$1,961,249 and \$2,778,920 respectively.

7) Cemetery and Mortuary Endowment Care and Pre-need Merchandise Funds

The Company is required by state law to pay into perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. The related cemetery perpetual care trusts are defined as variable interest entities pursuant to generally accepted accounting principles. Also, management has determined that the Company is the primary beneficiary of these trusts, as it absorbs both a majority of the losses and returns associated with the trusts. The Company has consolidated cemetery perpetual care trust investments with a corresponding amount recorded as Cemetery Perpetual Care Obligation in the accompanying consolidated balance sheets.

The components of the cemetery perpetual care obligation are as follows:

	December 31	
	2012	2011
Trust investments, at market value	\$ 2,090,111	\$ 1,810,185
Note receivables from Cottonwood MortuarySinging Hills Cemetery and Memorial Estates - Pinehill eliminated in consolidation	1,927,926	1,971,750
Total trust assets	4,018,037	3,781,935
Cemetery perpetual care obligation	(3,153,001)	(2,983,077)
Fair value of trust assets in excess of trust obligations	\$ 865,036	\$ 798,858

The Company has established and maintains certain restricted trust investments to provide for future merchandise and service obligations incurred in connection with its pre-need sales. Such amounts are reported as restricted assets of cemeteries and mortuaries in the accompanying consolidated balance sheets.

Assets in the restricted asset account are summarized as follows:

	December 31	
	2012	2011
Cash and cash equivalents	\$ 2,205,312	\$ 1,765,415
Mutual funds	504,170	470,049
Fixed maturity securities	8,775	8,775
Equity securities	81,242	78,712
Participating in Mortgage loans with Security National Life	1,155,628	1,069,546
Total	\$ 3,955,127	\$ 3,392,497

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7) Cemetery and Mortuary Endowment Care and Pre-need Merchandise Funds (Continued)

A surplus note receivable and interest, at December 31, 2012 and December 31, 2011 in the amount of \$4,000,000 from Security National Life was eliminated in consolidation.

8) Income Taxes

The Company's income tax liability (benefit) at December 31 is summarized as follows:

	December 31	
	2012	2011
Current	\$ 613,328	\$ (977,420)
Deferred	17,309,970	15,987,699
Total	\$ 17,923,298	\$ 15,010,279

Significant components of the Company's deferred tax (assets) and liabilities at December 31 are approximately as follows:

	December 31	
	2012	2011
Assets		
Future policy benefits	\$ (4,160,489)	\$ (4,597,137)
Loan loss reserve	(2,353,765)	(1,210,791)
Unearned premium	(1,830,492)	(1,861,264)
Available for sale securities	(599,528)	(116,501)
Net operating loss	(1,099,500)	(1,235,365)
Deferred compensation	(1,238,270)	(766,503)
Deposit obligations	(1,060,205)	-
Other	(1,090,409)	(603,447)
Less: Valuation allowance	6,328,931	3,640,327
Total deferred tax assets	(7,103,727)	(6,750,681)
Liabilities		
Deferred policy acquisition costs	9,945,683	9,526,785
Basis difference in property and equipment	5,739,272	3,917,124
Value of business acquired	3,341,888	4,077,709
Deferred gains	2,790,709	1,996,967
Trusts	1,599,657	2,385,770
Tax on unrealized appreciation	996,488	834,025
Total deferred tax liabilities	24,413,697	22,738,380
Net deferred tax liability	\$ 17,309,970	\$ 15,987,699

Life insurance companies with combined total assets less than \$500 million receive a special deduction that lowers their effective tax rate. The Company's combined tax assets exceed \$500 million at December 31, 2012. Therefore, the Company's valuation allowance related to the small life insurance company deduction has decreased. The remaining valuation allowance relates to differences between recorded deferred tax assets and liabilities and ultimate anticipated realization.

The valuation allowance increased \$2,688,604 during 2012 and decreased \$2,464,848 during 2011.

The Company paid \$1,900,000, \$174,811, and \$108,522 in income taxes for 2012, 2011 and 2010, respectively.

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8) Income Taxes (Continued)

The Company's income tax expense (benefit) is summarized as follows for the years ended December 31:

	2012	2011	2010
Current	\$ 2,707,962	\$ 130,526	\$ 171,133
Deferred	1,930,813	(192,731)	(829,929)
Total	\$ 4,638,775	\$ (62,205)	\$ (658,796)

The reconciliation of income tax expense at the U.S. federal statutory rates is as follows:

	2012	2011	2010
Computed expense at statutory rate	\$7,472,953	\$410,225	\$(370,403)
Special deductions allowed small life insurance companies	-	(503,672)	(351,847)
Other, net	(2,834,178)	31,242	63,454
Tax expense (benefit)	\$4,638,775	\$(62,205)	\$(658,796)

At December 31, 2012, the Company had \$376,799 of unrecognized tax benefits principally relating to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. At December 31, 2012, the Company had \$22,006 in interest and penalties related to unrecognized tax benefits. The Company accounts for interest expense and penalties for unrecognized tax benefits as part of its income tax provision. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. As of December 31, 2012, the Company does not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months. Federal and state income tax returns for 2009 through 2012 are subject to examination by taxing authorities.

9) Reinsurance, Commitments and Contingencies

Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranged from \$25,000 to \$100,000 during the years 2012 and 2011. The Company is liable for these amounts in the event such reinsurers are unable to pay their portion of the claims. The Company has also assumed insurance from other companies having insurance in force amounting to approximately \$1,665,573,000 (unaudited) at December 31, 2012 and approximately \$1,732,120,000 (unaudited) at December 31, 2011.

Reinsurance with Mothe Life Insurance Company and DLE Life Insurance Company

On December 19, 2012, the Company, through its wholly owned subsidiary, Security National Life, entered into a Coinsurance Agreement with Mothe Life Insurance Company, a Louisiana domiciled insurance company, and a subsidiary, DLE Life Insurance Company, also a Louisiana domiciled life insurance company (collectively referred to as "Mothe Life"). The effective date of the Coinsurance Agreement was November 1, 2012. Under the terms of the

Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of Mothe Life in exchange for the settlement amount of \$34,485,000. In addition, the Coinsurance Agreement provides that effective November 1, 2012, Mothe Life ceded and transferred to Security National Life, and Security National Life accepted and coinsured all of Mothe Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. On December 18, 2012, the Louisiana Department of Insurance approved the Coinsurance Agreement.

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9) Reinsurance, Commitments and Contingencies (Continued)

The Coinsurance Agreement further provides that on and after the effective date of November 1, 2012, Security National Life is entitled to exercise all contractual rights of Mothe Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of December 19, 2012, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a Service Agreement between Security National Life and Mothe Life. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to Mothe Life in the amount of \$4,684,000. As a result of the ceding commission, Mothe Life transferred \$34,485,000 in assets and \$39,169,000 in statutory reserves, or liabilities, to Security National Life.

Reinsurance with North America Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,000. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,526,000. In addition, North America Life transferred \$15,703,000 in assets and \$19,230,000 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,000 in assets included \$12,990,000 in cash, \$9,000 in policy loans, and \$2,704,000 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

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

On May 2, 2012 as part of Stock Purchase Agreement with North America Life, as discussed in Note 19 of the Notes to Consolidated Statements, the Company recaptured the 47% of insurance in force that had previously been ceded by Trans-Western Life to North America Life.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2012 and 2011 were \$4,053,000 and \$1,668,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2012 and 2011, the balances were \$6,035,000 and \$2,338,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement,

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9) Reinsurance, Commitments and Contingencies (Continued)

SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. The amounts deducted by Wells Fargo for years ended December 31, 2012 and 2011 were \$2,674,269 and \$928,075, respectively, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period.

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells Fargo. The amounts deducted by Wells Fargo for the years ended December 31, 2012 and 2011 were \$617,740 and \$80,554, respectively, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period.

Finally, SecurityNational Mortgage is required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value of \$5,404,900 as of December 31, 2012. Thus far, none of these real estate properties have been sold, liquidated or transferred.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009.

Mortgage Loan Loss Demands

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of December 31, 2012, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than \$25,000,000. Additional potential claims and notices of potential claims from third party investors have been made since December 31, 2012. The Company has reserved and accrued \$6,035,000 as of December 31, 2012 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was \$26,835,000 on December 31, 2012, and its reserve for mortgage loan loss, which was \$6,035,000 on December 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

SECURITY NATIONAL FINANCIAL CORPORATION
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9) Reinsurance, Commitments and Contingencies (Continued)

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011 relating to mortgage loans that EMC Mortgage, LLC (“EMC Mortgage”) allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase & Co. (“JP Morgan Chase”) on behalf of EMC Mortgage. According to the notice, the alleged indemnification claim relates to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claim from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery. A copy of the complaint and the amended complaint was provided to the Company by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage’s assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans in which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter dated February 7, 2012 from JP Morgan Chase that accompanied a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example,

neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

SECURITY NATIONAL FINANCIAL CORPORATION
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9) Reinsurance, Commitments and Contingencies (Continued)

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify \$4,281,000 in alleged losses from 31 mortgage loans that were among 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet

been determined. As of December 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

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

SECURITY NATIONAL FINANCIAL CORPORATION
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9) Reinsurance, Commitments and Contingencies (Continued)

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

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage's motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage's September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. SecurityNational Mortgage's motion in the Lehman Holdings case is presently set for hearing on May 30, 2013 before Judge Ted Stewart of the United States District Court for the District of Utah.

Non-Cancelable Leases

The Company leases office space and equipment under various non-cancelable agreements, with remaining terms up to five years. Minimum lease payments under these non-cancelable operating leases as of December 31, 2012, are approximately as follows:

Years Ending December 31

2013	\$ 2,242,899
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2014	1,756,656
2015	1,224,330
2016	1,032,881
2017	944,135
Total	\$ 7,200,901

Total rent expense related to non-cancelable operating leases for the years ended December 31, 2012, 2011, and 2010 was approximately \$3,425,000, \$2,595,000, and \$2,086,000, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
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9) Reinsurance, Commitments and Contingencies (Continued)

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of December 31, 2012, the Company's commitments were \$3,592,513 for these loans of which \$3,161,112 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of December 31, 2012). Maturities range between six and twelve months.

At December 31, 2012, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency relating to claims filed in states where SecurityNational Mortgage is licensed. SecurityNational Mortgage does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2012, the Company was contingently liable under a standby letter of credit aggregating \$458,224, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's self-insurance casualty program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

The Company is self-insured for certain casualty insurance, worker compensation and liability programs. Self-Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. Management reviews its assumptions with its independent third-party administrators and actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. At December 31, 2012, \$589,661 of reserves was established related to such insurance programs versus \$623,135 at December 31, 2011.

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 for the above claims in the consolidated financial statements.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
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10) Retirement Plans

The Company and its subsidiaries have a noncontributory Employee Stock Ownership Plan (ESOP) for all eligible employees. Eligible employees are primarily those with more than one year of service, who work in excess of 1,000 hours per year. Contributions, which may be in cash or stock of the Company, are determined annually by the Board of Directors.

The Company's contributions are allocated to eligible employees based on the ratio of each eligible employee's compensation to total compensation for all eligible employees during each year. The Company did not make any contributions for 2012, 2011 and 2010. At December 31, 2012 the ESOP held 599,250 shares of Class A and 2,294,549 shares of Class C common stock of the Company. All shares held by the ESOP have been allocated to the participating employees and all shares held by the ESOP are considered outstanding for purposes of computing earnings per share.

The Company has three 401(k) savings plans covering all eligible employees, as defined above, which includes employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plans allow participants to make pretax contributions up to a maximum of \$17,000, \$16,500 and \$16,500 for the years 2012, 2011 and 2010, respectively or the statutory limits.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company matched 100% of up to 3% of an employee's total annual compensation and matched 50% of 4% to 5% of an employee's annual compensation. The match was in Company Stock. The Company's contribution for 2012, 2011 and 2010 was \$222,719, \$208,206 and \$344,772, respectively under the "Safe Harbor" plan.

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The Board has appointed a Committee of the Company to be the Plan Administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company did not make any contributions for 2012, 2011 and 2010.

The Company has a deferred compensation agreement with its past Chief Executive Officer. The deferred compensation is payable on the retirement or death of this individual either in annual installments over 10 years or in a lump sum settlement, if approved by the Board of Directors. The amount payable is \$60,000 per year with cost of living adjustments each anniversary. The compensation agreement also provides that any remaining balance will be payable to his heirs in the event of his death. In addition, the agreement provides that the Company will pay the Group Health coverage for this individual and/or his spouse. In 2012, the Company decreased its liability for these future obligations by \$1,349 and in 2011 decreased its liability by \$57,125. The current balance as of December 31, 2012 is \$598,426.

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, its Chairman of the Board, President and Chief Executive Officer. The agreement is effective as of December 4, 2003 and has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Quist performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company serving as its Chairman of the Board, President, and Chief Executive Officer at not less than his current salary and benefits. The Company also agrees to maintain a group term life insurance policy of not less than \$1,000,000 on Mr. Quist's life and a whole life insurance policy in the amount of \$500,000 on Mr. Quist's life. In the event of disability, Mr. Quist's salary would be continued for up to five years at 75% of its current level.

SECURITY NATIONAL FINANCIAL CORPORATION
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10) Retirement Plans (Continued)

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$87,467 and \$145,036 in fiscal 2012 and 2011, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is \$1,173,242 and \$1,121,162 as of December 31, 2012 and 2011, respectively.

On December 4, 2003, the Company, through its subsidiary SecurityNational Mortgage Company, entered into an employment agreement with J. Lynn Beckstead, Jr., Vice President of Mortgage Operations and President of SecurityNational Mortgage Company. The agreement has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Beckstead performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Beckstead is to devote his full time to the Company serving as President of SecurityNational Mortgage Company at not less than his current salary and benefits, and to include \$350,000 of life insurance protection. In the event of disability, Mr. Beckstead's salary would be continued for up to five years at 50% of its current level.

In the event of a sale or merger of the Company and Mr. Beckstead is not retained in his current position, the Company would be obligated to continue Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$44,533 and \$58,964 in fiscal 2012 and 2011, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is \$613,403 and \$533,483, as of December 31, 2012 and 2011, respectively.

11) Capital Stock

The Company has two classes of common stock with shares outstanding, Class A and Class C. Class C shares vote share for share with the Class A shares on all matters except election of one third of the directors who are elected solely by the Class A shares, but generally are entitled to a lower dividend participation rate. Class C shares are convertible into Class A shares at any time on a ten to one ratio. The decrease in treasury stock was the result of treasury stock being used to fund the company's 401-K and Deferred Compensation Plans.

Stockholders of both classes of common stock have received 5% stock dividends in the years 1990 through 2012, as authorized by the Company's Board of Directors.

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11) Capital Stock (Continued)

The Company has Class B Common Stock of \$1.00 par value, 5,000,000 shares authorized, of which none are issued. Class B shares are non-voting stock except to any proposed amendment to the Articles of Incorporation which would affect Class B Common Stock.

The following table summarizes the activity in shares of capital stock for the three-year period ended December 31, 2012:

	Class A	Class C
Balance at December 31, 2009	8,730,227	9,214,211
Exercise of stock options	10,174	-
Stock dividends	437,138	460,005
Conversion of Class C to Class A	1,406	(14,064)
Balance at December 31, 2010	9,178,945	9,660,152
Exercise of stock options	-	-
Stock dividends	459,168	482,675
Conversion of Class C to Class A	685	(6,851)
Balance at December 31, 2011	9,638,798	10,135,976
Exercise of stock options	685,753	318,912
Stock dividends	518,702	522,440
Conversion of Class C to Class A	323	(3,227)
Balance at December 31, 2012	10,843,576	10,974,101

Earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. In accordance with accounting principles generally accepted in the United States of America, the basic and diluted earnings per share amounts were calculated as follows:

	2012	2011	2010
Numerator:			
Net earnings (loss)	\$ 16,712,518	\$ 1,298,758	\$ (430,624)
Denominator:			
Denominator for basic earnings per share-weighted-average shares	10,134,728	9,893,962	9,688,067
Effect of dilutive securities			
Employee stock options	543,566	107,947	-
Dilutive potential common shares	543,566	107,947	-
	10,678,294	10,001,909	9,688,067

Denominator for diluted earnings (loss)
per share-adjusted weighted-average
shares and assumed conversions

Basic earnings (loss) per share	\$ 1.65	\$ 0.13	\$ (0.04)
Diluted earnings (loss) per share	\$ 1.57	\$ 0.13	\$ (0.04)

SECURITY NATIONAL FINANCIAL CORPORATION
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12) Stock Compensation Plans

The Company has four fixed option plans (the “1993 Plan,” the “2000 Plan”, the “2003 Plan” and the “2006 Plan”) Compensation expense for options issued of \$251,031, \$253,934 and \$520,457 has been recognized under these plans for 2012, 2011 and 2010, respectively.

The weighted-average fair value of each option granted in 2012 under the 2006 Plan, is estimated at \$3.18 for the December 7, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 5%, volatility of 73.89%, risk-free interest rate of 0.70%, and an expected term of 5.31 years.

The weighted-average fair value of each option granted in 2012 under the 2003 Plan and the 2006 Plan, is estimated at \$0.64 and \$0.66, respectively for the April 13, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 5% and 5%, volatility of 70.26% and 72.58%, risk-free interest rate of 0.84% and 1.04%, and an expected term of 4.53 to 5.32 years, respectively.

The weighted-average fair value of each option granted in 2011 under the 2003 Plan and the 2006 Plan, is estimated at \$0.52 and \$0.71 for the December 2, 2011 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 59%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted during 2010 under the 2003 Plan and the 2006 Plan, is estimated at \$0.77 and \$0.71 for the December 3, 2010 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 65%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The Company generally estimates the expected life of the options based upon the contractual term of the options adjusted for actual experience. Future volatility is estimated based upon the weighted historical volatility of the Company’s Class A common stock and three peer company stocks over a period equal to the estimated life of the options. Common stock issued upon exercise of stock options are generally new share issuances rather than from treasury shares.

Description and activity for each Plan is summarized as follows:

1993 Stock Incentive Plan

On June 21, 1993, the Company adopted the Security National Financial Corporation 1993 Stock Incentive Plan (the “1993 Plan”), which reserved 300,000 shares of Class A Common Stock for issuance there under. The 1993 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress.

The 1993 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options,” as defined under Section 422A of the Internal Revenue Code of 1986 (the “Code”), and “non-qualified options” may be granted pursuant to the 1993 Plan. Options intended as incentive stock

options may be issued only to employees, and must meet certain conditions imposed by the Code, including a requirement that the option exercise price be not less than the fair market value of the option shares on the date of grant. The 1993 Plan provides that the exercise price for non-qualified options will be not less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company's Board of Directors.

The options were granted to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these officers and key employees by providing them with an additional incentive to contribute to the success of the Company.

The 1993 Plan is administered by the Board of Directors or by a committee designated by the Board. The options shall be either fully exercisable on the grant date or shall become exercisable thereafter in such installments as the Board or the committee may specify. The 1993 Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend. No options may be exercised for a term of more than ten years from the date of grant.

SECURITY NATIONAL FINANCIAL CORPORATION
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12) Stock Compensation Plans (Continued)

On November 7, 1996, the Company amended the Plan as follows: (i) to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 300,000 Class A shares to 600,000 Class A shares; and (ii) to provide that the stock subject to options, awards and purchases may include Class C Common Stock.

On October 14, 1999, the Company amended the 1993 Plan to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 600,000 Class A shares to 1,046,126 Class A shares. The Plan had a term of ten years and was terminated in 2003 and options granted there under are non-transferable.

Activity of the 1993 Plan is summarized as follows:

	Number of Class A Shares	Option Price
		1.54 -
Outstanding at December 31, 2009	291,950	\$ \$4.19
Adjustment for the effect of stock dividends	14,598	
Exercised	-	
Cancelled	-	
		1.47 -
Outstanding at December 31, 2010	306,548	\$ \$3.99
Adjustment for the effect of stock dividends	14,228	
Exercised	-	
Cancelled	(21,990)	
		2.62 -
Outstanding at December 31, 2011	298,786	\$ \$3.80
Adjustment for the effect of stock dividends	582	
Exercised	(238,755)	
Cancelled	(17,368)	
		3.61 -
Outstanding at December 31, 2012	43,245	\$ \$3.80
		3.61 -
Exercisable at end of year	43,245	\$ \$3.80
Available options for future grant 1993 Stock Incentive Plan	-0-	
Weighted average contractual term of options outstanding at December 31, 2012	.22 years	

Aggregated intrinsic value of options outstanding at December 31, 2012	\$ 199,519
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2000 Director Stock Option Plan

On October 16, 2000, the Company adopted the Security National Financial Corporation 2000 Director Stock Option Plan (the “2000 Plan”), which reserved 50,000 shares of Class A Common Stock for issuance there under. Effective November 1, 2000, and on each anniversary date thereof during the term of the 2000 Plan, each outside Director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside Director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the 2000 Plan. The options granted to outside Directors shall vest in their entirety on the first anniversary date of the grant.

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12) Stock Compensation Plans (Continued)

The primary purposes of the 2000 Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

The 2000 Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivisions, combination or stock dividend.

The 2000 Plan terminated in 2006 and options granted are non-transferable. Options granted and outstanding under the 2000 Plan include Stock Appreciation Rights which permit the holder of the option to elect to receive cash, amounting to the difference between the option price and the fair market value of the stock at the time of the exercise, or a lesser amount of stock without payment, upon exercise of the option.

Activity of the 2000 Plan is summarized as follows:

	Number of Class A Shares	Option Price
Outstanding at December 31, 2009	5,104	\$ 2.45
Adjustment for the effect of stock dividends	-	
Granted	-	
Cancelled	(5,104)	
Outstanding at December 31, 2010	-	
Adjustment for the effect of stock dividends	-	
Granted	-	
Cancelled	-	
Outstanding at December 31, 2011	-	
Exercisable at end of year	-	
Available options for future grant 2000 Director Plan	-0-	
Weighted average contractual term of options outstanding at December 31, 2012	-0-	
Aggregated intrinsic value of options outstanding at December 31, 2012	\$	-0-

2003 Stock Option Plan

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On July 11, 2003, the Company adopted the Security National Financial Corporation 2003 Stock Option Plan (the “2003 Plan”), which reserved 500,000 shares of Class A Common Stock and 1,000,000 shares of Class C Common Stock for issuance there under.

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12) Stock Compensation Plans (Continued)

On July 13, 2007, the Company amended the 2003 Plan to authorize an additional 400,000 shares of Class A Common Stock and an additional 1,000,000 shares of Class C common stock to be made available for issuance under the Plan. On July 10, 2009 the Company amended the 2003 Plan to authorize an additional 500,000 shares of Class A common stock and an additional 1,000,000 share of Class C common stock to be made available for issuance under the Plan. On July 9, 2010 the Company amended the 2003 Plan authorizing an additional 500,000 shares of Class A common stock and an additional 1,000,000 shares of Class C common stock to be made available for issuance under the Plan. On July 8, 2011 the Company amended the 2003 Plan authorizing an additional 400,000 shares of Class A common stock and an additional 1,000,000 shares of Class C common stock to be made available for issuance under the Plan. On July 6, 2012 the Company amended the 2003 Plan authorizing an additional 250,000 shares of Class A common stock and an additional 2,000,000 shares of Class C common stock to be made available for issuance under the Plan. The 2003 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress.

The 2003 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options”, as defined under Section 422A of the Internal Revenue Code of 1986 (the “Code”) and “non-qualified options” may be granted under the 2003 Plan.

The 2003 Plan is to be administered by the Board of Directors or by a committee designated by the Board. The terms of options granted or stock awards or sales affected under the 2003 Plan are to be determined by the Board of Directors or its committee. No options may be exercised for a term of more than ten years from the date of the grant. Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the Internal Revenue Code, including a requirement that the option exercise price be no less than the fair market value of the option shares on the date of grant. The 2003 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company’s Board of Directors.

The 2003 Plan has a term of ten years. The Board of Directors may amend or terminate the 2003 Plan at any time, from time to time, subject to approval of certain modifications to the 2003 Plan by the shareholders of the Company as may be required by law or the 2003 Plan.

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12) Stock Compensation Plans (Continued)

Activity of the 2003 Plan is summarized as follows:

	Number of Class A Shares	Number of Class C Shares(1)	Option Price(1)
Outstanding at December 31, 2009	1,007,971	2,274,624	1.36 - \$ \$3.84
Adjustment for the effect of stock dividends	56,598	163,731	
Granted	221,600	1,000,000	
Exercised	(97,609)	-	
Cancelled	-	-	
Outstanding at December 31, 2010	1,188,560	3,438,355	1.30 - \$ \$3.66
Adjustment for the effect of stock dividends	74,596	171,920	
Granted	322,500	-	
Exercised	-	-	
Cancelled	(19,135)	-	
Outstanding at December 31, 2011	1,566,521	3,610,275	1.23 - \$ \$3.48
Adjustment for the effect of stock dividends	35,948	245,145	
Granted	322,000	-	
Exercised	(794,144)	(525,000)	
Cancelled	(105,766)	-	
Reclass from A to C	(250,808)	2,508,085	
Outstanding at December 31, 2012	773,751	5,838,505	1.17 - \$ \$3.31 0
Exercisable at end of year	658,510	5,838,505	1.17 - \$ \$3.31
Available options for future grant 2003 Stock Incentive Plan	1,443,579	782,924	

Weighted average contractual term of options outstanding at December 31, 2012	4.50 years	2.03 years
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Aggregated intrinsic value of options outstanding at December 31, 2012	\$ 4,948,223	\$ 3,598,618
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(1) Class “C” shares are converted to Class “A” shares on a 10 to 1 ratio. The Option Price is based on Class A Common shares.

2006 Director Stock Option Plan

On December 7, 2006, the Company adopted the 2006 Director Stock Option Plan (the “Director Plan”) effective December 7, 2006. The Director Plan provides for the grant by the Company of options to purchase up to an aggregate of 100,000 shares of Class A Common Stock for issuance there under and adjusted for stock dividends if any. The Director Plan provides that each member of the Company’s Board of Directors who is not an employee or paid consultant of the Company automatically is eligible to receive options to purchase the Company’s Class A Common Stock under the Director Plan. On July 6, 2012 the Company amended the Director Plan authorizing an additional 50,000 shares of Class A common stock to be made available for issuance under the Plan.

Effective as of December 7, 2006, and on each anniversary date thereof during the term of the Director Plan, each outside director shall automatically receive an option to purchase 1,000 shares of Class A Common Stock. In addition, each new outside director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the Director Plan. The options granted to outside directors shall vest in four equal quarterly installments over a one year period from the date of grant, until such shares are fully vested. The primary purposes of the Director Plan are to enhance the Company’s ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

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Notes to Consolidated Financial Statements
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12) Stock Compensation Plans (Continued)

In the event of a merger of the Company with or into another company, or a consolidation, acquisition of stock or assets or other change in control transaction involving the Company, each option becomes exercisable in full, unless such option is assumed by the successor corporation. In the event the transaction is not approved by a majority of the “Continuing Directors” (as defined in the Director Plan), each option becomes fully vested and exercisable in full immediately prior to the consummation of such transaction, whether or not assumed by the successor corporation.

Activity of the 2006 Plan is summarized as follows:

	Number of Class A Shares	Option Price
Outstanding at December 31, 2009	72,178	1.28 - \$ \$4.37
Granted	24,000	
Adjustment for the effect of stock dividends	4,809	
Outstanding at December 31, 2010	100,987	1.22 - \$ \$4.16
Granted	24,000	
Adjustment for the effect of stock dividends	6,249	
Outstanding at December 31, 2011	131,236	1.16 - \$ \$3.96
Granted	25,000	
Exercised	(8,377)	
Adjustment for the effect of stock dividends	7,398	
Outstanding at December 31, 2012	155,257	1.10 - \$ \$7.05
Exercisable at end of year	139,507	
Available options for future grant 2006 Stock Incentive Plan	29,214	
Weighted average contractual term of options outstanding at December 31, 2012	7.40 years	
Aggregated intrinsic value of options outstanding at December 31, 2012	\$ 971,058	

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13) Statutory Financial Information and Dividend Limitations

The Company's insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. Statutory accounting practices differ from GAAP primarily since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing certain investments and establishing deferred taxes on a different basis.

Statutory net income and capital and surplus of the Company's insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities are as follows:

	2012	Net Income 2011	2010	Capital and Surplus 2012	2011
Amounts by insurance subsidiary:					
Security National Life Insurance Company	\$ 391,533	\$ (34,795)	\$ 1,050,328	\$ 29,828,732	\$ 24,257,274
Memorial Insurance Company of America	159	(1,994)	22,274	1,084,067	1,084,635
Southern Security Life Insurance Company, Inc.	184	971	2,667	1,583,524	1,581,199
Trans-Western Life Insurance Company	2,113	-	-	495,972	-
Total	\$ 393,989	\$ (35,818)	\$ 1,075,269	\$ 32,992,295	\$ 26,923,108

The Utah, Arkansas, Mississippi and Texas Insurance Departments impose minimum risk-based capital requirements ("RBC") that were developed by the NAIC on insurance enterprises. The formulas for determining the RBC specify

various factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio (the “Ratio”) of the enterprise’s regulatory total adjusted capital, as defined by the NAIC, to its authorized control level, as defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The life insurance subsidiaries have a combined weighted Ratio that is greater than the first level of regulatory action as of December 31, 2012.

Generally, the net assets of the life insurance subsidiaries available for transfer to the Company are limited to the amounts of the life insurance subsidiaries net assets, as determined in accordance with statutory accounting practices, which were \$32,992,295 at December 31, 2012, exceed minimum statutory capital requirements; however, payments of such amounts as dividends are subject to approval by regulatory authorities.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
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14) Business Segment Information

Description of Products and Services by Segment

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company's life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company's independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company's cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company's mortgage loan segment consists of loan originations fee income and expenses from the originations of residential and commercial mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that offer different products and are managed separately due to the different products and the need to report to the various regulatory jurisdictions.

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Notes to Consolidated Financial Statements
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14) Business Segment Information (Continued)

	2012				
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	\$48,216,327	\$10,864,497	\$150,553,261	\$-	\$209,634,085
Net investment income	17,951,118	333,625	4,965,411	-	23,250,154
Realized gains (losses) on investments and other assets	1,415,556	8,954	-	-	1,424,510
Other than temporary impairments	(1,207,632)	-	-	-	(1,207,632)
Other revenues	482,325	136,189	540,538	-	1,159,052
Intersegment revenues:					
Net investment income	7,570,979	1,435,891	294,980	(9,301,850)	-
Total revenues	74,428,673	12,779,156	156,354,190	(9,301,850)	234,260,169
Expenses:					
Death and other policy benefits	24,246,088	-	-	-	24,246,088
Increase in future policy benefits	21,435,191	-	-	-	21,435,191
Amortization of deferred policy and preneed acquisition costs and value of business acquired	5,137,586	311,843	-	-	5,449,429
Depreciation	315,960	426,006	516,131	-	1,258,097
General, administrative and other costs:					
Intersegment	24,000	102,726	137,696	(264,422)	-

Provision for loan losses	-	-	4,239,418	-	4,239,418
Costs related to funding mortgage loans	-	-	6,931,045	-	6,931,045
Other	17,824,800	9,582,499	118,198,014	2	145,605,315
Interest expense:					
Intersegment	694,442	1,681,987	6,661,001	(9,037,430)	-
Other	159,659	455,449	3,129,185	-	3,744,293
Total benefits and expenses	69,837,726	12,560,510	139,812,490	(9,301,850)	212,908,876
Earnings (losses) before income taxes	\$4,590,947	\$218,646	\$16,541,700	\$-	\$21,351,293
Income tax (expense) benefit	1,755,258	-	(6,394,033)	-	(4,638,775)
Net earnings (losses)	\$6,346,205	\$218,646	\$10,147,667	\$-	\$16,712,518
Identifiable assets	\$558,845,424	\$116,368,747	\$55,613,678	\$(133,611,226)	\$597,216,623
Goodwill	\$391,848	\$285,191	\$-	\$-	\$677,039
Expenditures for long-lived assets	\$400,605	\$689,154	\$2,131,861	\$-	\$3,221,620

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14) Business Segment Information (Continued)

	Life Insurance	Cemetery/ Mortuary	2011 Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	\$48,457,405	\$10,761,469	\$77,605,105	\$-	\$136,823,979
Net investment income	17,295,982	159,186	2,555,536	-	20,010,704
Realized gains (losses) on investments and other assets	1,596,127	868,226	-	-	2,464,353
Other than temporary impairments	(840,735)	-	-	-	(840,735)
Other revenues	712,400	147,830	248,739	-	1,108,969
Intersegment revenues:					
Net investment income	5,832,691	1,691,197	258,062	(7,781,950)	-
Total revenues	73,053,870	13,627,908	80,667,442	(7,781,950)	159,567,270
Expenses:					
Death and other policy benefits	23,945,720	-	-	-	23,945,720
Increase in future policy benefits	22,258,241	-	-	-	22,258,241
Amortization of deferred policy and preneed acquisition costs and value of business acquired	5,396,016	373,332	-	-	5,769,348
Depreciation	479,634	520,015	499,389	-	1,499,038
General, administrative and other costs:					
Intersegment	24,000	103,494	130,011	(257,505)	-
	-	-	2,070,399	-	2,070,399

Provision for loan losses					
Costs related to funding mortgage loans	-	-	4,240,377	-	4,240,377
Other	17,472,713	9,827,197	69,286,435	-	96,586,345
Interest expense:					
Intersegment	668,047	1,905,559	4,950,839	(7,524,445)	-
Other	111,221	437,736	1,412,292	-	1,961,249
Total benefits and expenses	70,355,592	13,167,333	82,589,742	(7,781,950)	158,330,717
Earnings (losses) before income taxes	\$2,698,278	\$460,575	\$(1,922,300)	\$-	\$1,236,553
Income tax (expense) benefit	(734,626)	-	796,831	-	62,205
Net earnings (losses)	\$1,963,652	\$460,575	\$(1,125,469)	\$-	\$1,298,758
Identifiable assets	\$504,744,743	\$116,453,434	\$27,913,480	\$(126,061,216)	\$523,050,441
Goodwill	\$391,848	\$285,191	\$-	\$-	\$677,039
Expenditures for long-lived assets	\$136,742	\$255,116	\$373,775	\$-	\$765,633

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14) Business Segment Information (Continued)

	Life Insurance	Cemetery/ Mortuary	2010 Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	\$38,509,198	\$11,520,369	\$97,342,215	\$-	\$147,371,782
Net investment income	14,738,200	63,574	3,814,210	-	18,615,984
Realized gains on investments and other assets	1,642,174	(26,756)	-	-	1,615,418
Other than temporary impairments	(673,981)	-	-	-	(673,981)
Other revenues	1,039,016	256,862	285,237	-	1,581,115
Intersegment revenues:					
Net investment income	6,817,008	1,678,096	244,578	(8,739,682)	-
Total revenues	62,071,615	13,492,145	101,686,240	(8,739,682)	168,510,318
Expenses:					
Death and other policy benefits	20,925,988	-	-	-	20,925,988
Increase in future policy benefits	17,020,086	-	-	-	17,020,086
Amortization of deferred policy and preneed acquisition costs and value of business acquired	4,058,514	372,562	-	-	4,431,076
Depreciation	559,999	631,281	620,652	-	1,811,932
General, administrative and other costs:					
Intersegment	24,000	109,128	185,147	(318,275)	-
Provision for loan losses	-	-	5,404,645	-	5,404,645
Costs related to funding mortgage loans	-	-	6,044,020	-	6,044,020
Other	16,756,255	11,097,302	83,329,514	-	111,183,071
Interest expense:					
Intersegment	686,384	1,792,479	5,942,544	(8,421,407)	-
Other	179,891	475,372	2,123,657	-	2,778,920
Total benefits and expenses	60,211,117	14,478,124	103,650,179	(8,739,682)	169,599,738
Earnings (losses) before income taxes	\$1,860,498	\$(985,979)	\$(1,963,939)	\$-	\$(1,089,420)
Income tax (expense) benefit	(97,410)	-	756,206	-	658,796
Net earnings (losses)	\$1,763,088	\$(985,979)	\$(1,207,733)	\$-	\$(430,624)
Identifiable assets	\$441,751,653	\$111,798,118	\$30,323,496	\$(116,860,777)	\$467,012,490
Goodwill	\$391,848	\$683,191	\$-	\$-	\$1,075,039
Expenditures for long-lived assets	\$220,417	\$275,904	\$363,667	\$-	\$859,988

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15) Related Party Transactions

The Company's Board of Directors has a written procedure, which requires disclosure to the Board of any material interest or any affiliation on the part of any of its officers, directors or employees that is in conflict or may be in conflict with the interests of the Company.

16) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets; or
- c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company utilizes a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

The items shown under Level 1 and Level 2 are valued as follows:

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 2 of the Notes to Consolidated Statements.

Restricted Assets of the Cemeteries and Mortuaries: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Cemetery Perpetual Care Trust Investments: A portion of these assets include equity securities that have quoted market prices. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Call Options: The fair values along with methods used to estimate such values are disclosed in Note 2 of the Notes to Consolidated Statements.

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16) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

Investment-Type Insurance Contracts: Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%. The fair values for the Company's liabilities under investment-type insurance contracts (disclosed as policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

The fair values for the Company's insurance contracts other than investment-type contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

Interest Rate Lock Commitments: The Company's mortgage banking activities enters into interest rate lock commitments with potential borrowers and forward commitments to sell loans to third-party investors. The Company also implements a hedging strategy for these transactions. A mortgage loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after inception of the mortgage loan commitment. Mortgage loan commitments are defined to be derivatives under generally accepted accounting principles and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded as part of other comprehensive income from mortgage banking operations.

Bank Loan Interest Rate Swaps: Management considers the interest rate swap instruments to be an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swaps are a derivative financial instruments carried at its fair value. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

Mortgage Loans on Real Estate: The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Other Real Estate Owned Held for Investment and Held for Sale: The Company believes that in an orderly market fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

In addition to this analysis performed by the Company, the Company depreciates Other Real Estate Owned Held for Investment. This depreciation reduces the book value of these properties and lessens the exposure to the Company from further deterioration in real estate values.

Mortgage Servicing Rights: The Company initially recognizes MSR's at their estimated fair values derived from the net cash flows associated with the servicing contracts, where the Company assumes the obligation to service the loan in the sale transaction. The precise fair value of MSR's cannot be readily determined because MSR's are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect the Company's earnings.

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16) Fair Value of Financial Instruments (Continued)

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2012.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock	\$18,795	\$18,795	\$-	\$-
Common stock	5,386,317	5,386,317	-	-
Total securities available for sale	5,405,112	5,405,112	-	-
Restricted assets of cemeteries and mortuaries	585,412	585,412		
Cemetery perpetual care trust investments	626,048	626,048	-	-
Derivatives - interest rate lock commitments	3,127,689	-	-	3,127,689
Total assets accounted for at fair value on a recurring basis	\$9,744,261	\$6,616,572	\$-	\$3,127,689
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	\$(49,746,337)	\$-	\$-	\$(49,746,337)
Future policy benefits - annuities	(65,171,687)	-	-	(65,171,687)
Derivatives - bank loan interest rate swaps	(93,572)	-	-	(93,572)
- call options	(126,215)	(126,215)	-	-
- interest rate lock commitments	(166,224)	-	-	(166,224)
Total liabilities accounted for at fair value on a recurring basis	\$(115,304,035)	\$(126,215)	\$-	\$(115,177,820)

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16) Fair Value of Financial Instruments (Continued)

Following is a summary of changes in the consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2011	\$ (50,926,020)	\$ (65,281,586)	\$ 1,694,541	\$ (117,812)
Total Losses (Gains):				
Included in earnings	1,179,683	109,899	-	-
Included in other comprehensive income (loss)	-	-	1,266,924	24,240
Balance - December 31, 2012	\$ (49,746,337)	\$ (65,171,687)	\$ 2,961,465	\$ (93,572)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2012.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	\$ 2,797,470			\$ 2,797,470
Mortgage loans on real estate	4,621,500	-	-	4,621,500
Other real estate owned held for investment	985,219	-	-	985,219
Total assets accounted for at fair value on a nonrecurring basis	\$ 8,404,189	\$ -	\$ -	\$ 8,404,189

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16) Fair Value of Financial Instruments (Continued)

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2011.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock	\$ 18,438	\$ 18,438	\$ -	\$ -
Common stock	6,280,954	6,280,954	-	-
Total securities available for sale	6,299,392	6,299,392	-	-
Restricted assets of cemeteries and mortuaries	548,761	548,761		
Cemetery perpetual care trust investments	617,107	617,107	-	-
Derivatives - interest rate lock commitments	1,904,901	-	-	1,904,901
Total assets accounted for at fair value on a recurring basis	\$ 9,370,161	\$ 7,465,260	\$ -	\$ 1,904,901
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	\$ (50,926,020)	\$ -	\$ -	\$ (50,926,020)
Future policy benefits - annuities	(65,281,586)	-	-	(65,281,586)
Derivatives - bank loan interest rate swaps	(117,812)	-	-	(117,812)
- call options	(80,102)	(80,102)	-	-
- interest rate lock commitments	(210,360)	-	-	(210,360)
Total liabilities accounted for at fair value on a	\$ (116,615,880)	\$ (80,102)	\$ -	\$ (116,535,778)

recurring basis

Following is a summary of changes in the consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2010	\$ (52,340,807)	\$ (65,936,445)	\$ 873,059	\$ (116,533)
Total Losses (Gains):				
Included in earnings	1,414,787	654,859	-	-
Included in other comprehensive income (loss)	-	-	821,482	(1,279)
Balance - December 31, 2011	\$ (50,926,020)	\$ (65,281,586)	\$ 1,694,541	\$ (117,812)

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16) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2011.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage loans on real estate	\$ 5,354,600	-	-	\$ 5,354,600
Other real estate owned held for investment	5,419,103	-	-	5,419,103
Other real estate owned held for sale	514,000	-	-	514,000
Total assets accounted for at fair value on a nonrecurring basis	\$ 11,287,703	\$ -	\$ -	\$ 11,287,703

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17) Accumulated Other Comprehensive Income

The following summarizes the changes in accumulated other comprehensive income:

	December 31	
	2012	2011
Unrealized gains (losses) on available for-sale securities	\$ (28,700)	\$ (1,698,175)
Reclassification adjustment for net realized gains in net income	386,328	472,038
Net unrealized gains (losses) before taxes	357,628	(1,226,137)
Tax (expense) benefit	70,120	150,999
Net	427,748	(1,075,138)
Potential unrealized gains (losses) for derivative bank loans (interest rate swaps) before taxes	24,240	(1,279)
Tax (expense) benefit	(8,242)	435
Net	15,998	(844)
Potential unrealized gains (losses) for derivative mortgage loans before taxes	1,266,924	821,483
Tax (expense) benefit	(430,754)	(279,304)
Net	836,170	542,179
Other comprehensive income changes	\$ 1,279,916	\$ (533,803)

The following is the accumulated balances of other comprehensive income as of December 31, 2012:

	Beginning Balance December 31, 2011	Change for the period	Ending Balance December 31, 2012
Unrealized net gains on available-for-sale securities and trust investments	\$ (386,198)	\$ 427,748	\$ 41,550
Unrealized gains on derivative mortgage loans	1,118,397	836,170	1,954,567
Unrealized gains (losses) on derivative bank loan interest rate swaps	(77,756)	15,998	(61,758)
Other comprehensive income	\$ 654,443	\$ 1,279,916	\$ 1,934,359

The following is the accumulated balances of other comprehensive income as of December 31, 2011:

	Beginning Balance	Change for the period	Ending Balance
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	December 31, 2010		December 31, 2011	
Unrealized net gains on available-for-sale securities and trust investments	\$ 688,940	\$ (1,075,138)	\$ (386,198)	
Unrealized gains on derivative mortgage loans	576,218	542,179	1,118,397	
Unrealized gains (losses) on derivative bank loan interest rate swaps	(76,912)	(844)	(77,756)	
Other comprehensive income	\$ 1,188,246	\$ (533,803)	\$ 654,443	

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18) Derivative Commitments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of mortgage loan commitments from the time a derivative loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of derivative loan commitments that will be exercised (i.e., the number of loan commitments that will be funded) fluctuates. The probability that a loan will not be funded within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the inception of the interest rate lock. However, many borrowers continue to exercise derivative loan commitments even when interest rates have fallen.

In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will not be funded within the terms of the mortgage loan commitment also is influenced by the source of the applications (retail, broker or correspondent channels), proximity to rate lock expiration, purpose for the loan (purchase or refinance) product type and the application approval status. The Company has developed fallout estimates using historical data that take into account all of the variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. These fallout estimates are used to estimate the number of loans that the Company expects to be funded within the terms of the mortgage loan commitments and are updated periodically to reflect the most current data.

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

The Company utilizes forward loan sales commitments to economically hedge the price risk associated with its outstanding mortgage loan commitments. A forward loan sales commitment protects the Company from losses on sales of the loans arising from exercise of the loan commitments by securing the ultimate sales price and delivery date of the loans. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the derivative loan commitments, thereby reducing earnings volatility related to the recognition in earnings of changes in the values of the commitments.

The Company has adopted a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the market value of the option. The liability for call options is adjusted to market value at each reporting date. The market value of outstanding call options as of December 31, 2012 and December 31, 2011 was \$126,215 and \$80,102, respectively. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option and retains the underlying equity security.

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18) Derivative Commitments (Continued)

The following table shows the fair value of derivatives as of December 31, 2012 and December 31, 2011.

	Fair Value of Derivative Instruments							
	Asset Derivatives				Liability Derivatives			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments	other assets	\$3,127,689	other assets	\$1,904,901	Other liabilities	\$166,224	Other liabilities	\$210,360
Call Options	-		-		Other liabilities	126,215	Other liabilities	80,102
Interest rate swaps	-		-		Bank loans payable	93,572	Bank loans payable	117,812
Total		\$3,127,689		\$1,904,901		\$386,011		\$408,274

The following table shows the gain (loss) on derivatives for the periods presented. There were no gains or losses reclassified from accumulated other comprehensive income (OCI) into income or gains or losses recognized in income on derivatives ineffective portion or any amounts excluded from effective testing.

	Net Amount Gain (Loss) Recognized in OCI	
	Years ended December 31	
	2012	2011
Derivative - Cash Flow Hedging Relationships:		
Interest Rate Lock Commitments	\$ 1,266,924	\$ 821,482
Interest Rate Swaps	24,240	(1,279)
Sub Total	1,291,164	820,203
Tax Effect	438,996	278,868
Total	\$ 852,168	\$ 541,335

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19) Acquisitions

On August 31, 2011 the Company entered into a Stock Purchase Agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company (“Trans-Western”), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. The Company completed the Stock Purchase Agreement on May 2, 2012. Purchase consideration paid was \$494,207 which was the capital and surplus of Trans-Western at May 2, 2012. The Stock Purchase Agreement was approved by the Texas Insurance Department on March 20, 2012. All of Trans-Western’s insurance business had been ceded to North America Life, of which approximately 47% of the insurance in force had been assumed by the Company under the Coinsurance Agreement explained in Note 9 of the Notes to Consolidated Statements. As part of the stock purchase transaction, the Company recaptured the 47% of insurance in force.

The estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition were as follows:

Cash	\$313,616
Receivables, net	186,487
Receivable from reinsurers	7,422,999
Total assets acquired	7,923,102
Future life, annuity, and other benefits	(7,422,999)
Other liabilities and accrued expenses	(5,896)
Total liabilities assumed	(7,428,895)
Fair value of net assets acquired	\$494,207

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of Trans-Western had occurred at the beginning of the years ended December 31, 2012, 2011 and 2010, respectively. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

	For the Year Ended, December 31 (unaudited)		
	2012	2011	2010
Total revenues	\$ 234,268,496	\$ 159,620,617	\$ 168,615,765
Net earnings	\$ 16,713,955	\$ 1,314,026	\$ (402,460)
Net earnings per Class A equivalent common share	\$ 1.65	\$ 0.13	\$ (0.04)
Net earnings per Class A equivalent common share assuming dilution	\$ 1.57	\$ 0.13	\$ (0.04)

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20) Mortgage Servicing Rights

The Company did not have MSR before the year ended December 31, 2012. The following table presents the MSR activity for 2012.

	December 31, 2012
Amortized cost:	
Balance before valuation allowance at beginning of year	\$ -
MSRs received as proceeds from loan sales	2,797,470
Amortization	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-
Balance before valuation allowance at year end	\$ 2,797,470
Valuation allowance for impairment of MSRs:	
Balance at beginning of year	\$ -
Additions	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-
Balance at year end	\$ -
Mortgage servicing rights, net	\$ 2,797,470
Estimated fair value of MSRs at year end	\$ 2,797,470

Amortization for 2012 was immaterial, and has not been recorded. The following table summarizes the Company's estimate of future amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its December 31, 2012 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

	Estimated MSR Amortization
2013	\$ 310,830
2014	310,830
2015	310,830
2016	310,830
2017	310,830
Thereafter	\$ 1,243,320
Total	\$ 2,797,470

The Company began to retain MSR's in the second quarter of 2012. Since the retained MSR's were relatively small, they were determined to be immaterial. However, the Company substantially increased its MSR retention in the fourth quarter and began to report these MSR's pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

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21) Quarterly Financial Data (Unaudited)

	2012			
	March 31	Three Months Ended		
	June 30	September 30	December 31	
Revenues	\$ 47,323,223	\$ 56,528,210	\$ 63,747,903	\$ 66,660,832
Benefits and expenses	44,994,631	51,491,833	57,615,608	58,806,804
Earnings (loss) before income taxes	2,328,592	5,036,377	6,132,295	7,854,029
Income tax benefit (expense)	(666,409)	(1,443,345)	(2,142,249)	(386,772)
Net earnings (loss)	1,662,183	3,593,032	3,990,046	7,467,257
Net earnings (loss) per common share	\$ 0.18	\$ 0.38	\$ 0.42	\$ 0.76
Net earnings (loss) per common share assuming dilution	\$ 0.17	\$ 0.36	\$ 0.38	\$ 0.69

	2011			
	March 31	Three Months Ended		
	June 30	September 30	December 31	
Revenues	\$ 34,172,180	\$ 36,466,418	\$ 41,324,687	\$ 47,603,985
Benefits and expenses	35,494,762	36,325,240	40,490,197	46,020,518
Earnings (loss) before income taxes	(1,322,582)	141,178	834,490	1,583,467
Income tax benefit (expense)	804,109	63,689	(64,168)	(741,425)
Net earnings (loss)	(518,473)	204,867	770,322	842,042
Net earnings (loss) per common share	\$ (0.06)	\$ 0.02	\$ 0.09	\$ 0.09
Net earnings (loss) per common share assuming dilution	\$ (0.06)	\$ 0.02	\$ 0.09	\$ 0.09

	2010			
	March 31	Three Months Ended		
	June 30	September 30	December 31	
Revenues	\$ 37,967,127	\$ 43,048,988	\$ 45,974,697	\$ 41,519,506
	39,640,041	42,964,207	45,161,511	41,833,979

Benefits and
expenses

Earnings (loss) before income taxes	(1,672,914)	84,781	813,186	(314,473)
Income tax benefit (expense)	721,681	334,638	(309,757)	(87,766)
Net earnings (loss)	(951,233)	419,419	503,429	(402,239)
Net earnings (loss) per common share	\$ (0.11)	\$ 0.05	\$ 0.06	\$ (0.05)
Net earnings (loss) per common share assuming dilution	\$ (0.11)	\$ 0.05	\$ 0.06	\$ (0.05)

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(a) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors of the Company, and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2012. Based on that assessment the Company believes that, at December 31, 2012, its internal control over financial reporting was effective.

This annual report on internal control over financial reporting does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities Exchange Commission that permit the Company to provide only management's report in this annual report.

(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred in the fourth quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers

The Company's Board of Directors consists of seven persons, five of whom are not employees of the Company. There are no family relationships between or among any of the directors and executive officers, except that Scott M. Quist and Christie Q. Overbaugh are brother and sister. The following table sets forth certain information with respect to the directors and executive officers of the Company.

Name	Age	Position with the Company
Scott M. Quist	59	Chairman of the Board, President, Chief Executive Officer and Director
Garrett S. Sill	42	Acting Chief Financial Officer
J . L y n n Beckstead, Jr.	59	Vice President Mortgage Operations and Director
Christie Q. Overbaugh	64	Senior Vice President of Internal Operations
Jeffrey R. Stephens	59	General Counsel and Corporate Secretary
Charles L. Crittenden	92	Director
Gilbert A. Fuller	72	Director
Robert G. Hunter	53	Director
H . C r a i g Moody	61	Director
Norman G. Wilbur	74	Director

Appointment of New Chairman of the Board and Chief Executive Officer

On September 14, 2012, the Company's Board of Directors appointed Scott M. Quist to serve as Chairman of the Board and Chief Executive Officer of the Company. Scott Quist replaces George R. Quist, who served as Chairman of the Board and Chief Executive Officer from 1979 until his death on September 6, 2012. Scott Quist will also continue to serve as the Company's President, a position he has held since 2002.

Directors

The following is a description of the business experience of each of the Company's directors.

Scott M. Quist has served as Chairman of the Board and Chief Executive Officer of the Company since September 14, 2012. Mr. Quist will also continue to serve as the Company's President, a position he has held since 2002. He has also served as a director of the Company since 1986. Mr. Quist served as First Vice President of the Company from 1986 to 2002. From 1980 to 1982, Mr. Quist was a tax specialist with Peat, Marwick, Mitchell, & Co., in Dallas, Texas. From 1986 to 1991, he was Treasurer and a director of The National Association of Life Companies, a trade association of 642 insurance companies until its merger with the American Council of Life Companies. Mr. Quist has been a member of the Board of Governors of the Forum 500 Section (representing small insurance companies) of the American Council of Life Insurance. He has also served as a regional director of Key Bank of Utah since November 1993. Mr. Quist is currently a director and a past president of the National Alliance of Life Companies, a trade association of over 200 life companies. Mr. Quist holds a B.S. degree in Accounting from Brigham Young University and received his law degree also from Brigham Young University. Mr. Quist's significant expertise and deep understanding of the technical, organizational and strategic business aspects of the insurance industry, his management expertise, his ten year tenure as President of the Company and twenty-six year tenure as a director, and his years of business and leadership experience led the Board of Directors to conclude that he should be appointed as Chairman of the Board and Chief Executive Officer of the Company.

J. Lynn Beckstead, Jr. has served as Vice President of Mortgage Operations and a director of the Company since 2002. In addition, Mr. Beckstead is President of SecurityNational Mortgage Company, a wholly owned subsidiary of the Company, having served in this position since 1993. From 1990 to 1993, Mr. Beckstead was Vice President and a director of Republic Mortgage Corporation. From 1983 to 1990, Mr. Beckstead was Vice President and a director of Richards Woodbury Mortgage Corporation. From 1980 to 1983, he was a principal broker for Boardwalk Properties. From 1978 to 1980, Mr. Beckstead was a residential loan officer for Medallion Mortgage Company. From 1977 to 1978, he was a residential construction loan manager of Citizens Bank. Mr. Beckstead's expertise in real estate, his nineteen year tenure serving as President of SecurityNational Mortgage Company, and his business and leadership experience led the Board of Directors to conclude that he should serve as a director.

Charles L. Crittenden has served as a director of the Company since 1979. Mr. Crittenden has been sole stockholder of Crittenden Paint & Glass Company since 1958. He is also an owner of Crittenden Enterprises, a real estate development company, and Chairman of the Board of Linco, Inc. Mr. Crittenden's status as one of the Company's founders, his thirty-three year long tenure on the Company's Board of Directors, and his years of business experience led the Board of Directors to conclude that he should serve as a director.

Gilbert A. Fuller has served as a director of the Company since December 7, 2012. From 2006 until his retirement in 2008, Mr. Fuller served as Executive Vice President, Chief Financial Officer and Secretary of USANA Health Sciences, Inc., a multinational manufacturer and direct seller of nutritional supplements. Mr. Fuller joined USANA in 1996 as the Vice President of Finance and served in that role until 1999 when he was appointed as its Senior Vice President. Mr. Fuller has served as a member of the Board of Directors of USANA since 2008. Before joining USANA, Mr. Fuller served in various executive positions for several different companies. Mr. Fuller served as Chief Administrative Officer and Treasurer of Melaleuca, Inc., a manufacturer and direct seller of personal care products. He was also the Vice President and Treasurer of Norton Company, a multinational manufacturer of ceramics and abrasives. Mr. Fuller obtained his certified public accountant license in 1970 and kept it current until his career path developed into corporate finance. Mr. Fuller received a B.S. degree in Accounting and an M.B.A. degree from the University of Utah. Mr. Fuller's accounting, finance and corporate strategy expertise and his years of financial, accounting and business experience in public and private companies, including USANA Health Sciences, Inc., which is listed on the New York Stock Exchange, where he served as an executive officer and continues to serve as a director, led the Board of Directors to conclude that he should serve as a director.

Robert G. Hunter, M.D. has served as a director of the Company since 1998. Dr. Hunter is currently a practicing physician in private practice. Dr. Hunter created the statewide E.N.T. Organization (Rocky Mountain E.N.T., Inc.) where he is currently a member of the Executive Committee. Dr. Hunter is Department Head of Otolaryngology, Head and Neck Surgery at Intermountain Medical Center and a past President of the medical staff of the Intermountain Medical Center. He is also a delegate to the Utah Medical Association and has served as a delegate representing the State of Utah to the American Medical Association, and a member of several medical advisory boards. Dr. Hunter holds a B.S. degree in Microbiology from the University of Utah and received his medical degree from the University of Utah College of Medicine. Dr. Hunter's medical expertise and experience, and his administrative and leadership experience from serving in a number of administrative positions in the medical profession led the Board of Directors to conclude that he should serve as a director.

H. Craig Moody has served as a director of the Company since 1995. Mr. Moody is owner of Moody & Associates, a political consulting and real estate company. He is a former Speaker and House Majority Leader of the House of Representatives of the State of Utah. Mr. Moody holds a B.S. degree in Political Science from the University of Utah. Mr. Moody's real estate and governmental affairs expertise and years of business and leadership experience led the Board of Directors to conclude he should serve as a director.

Norman G. Wilbur has served as a director of the Company since 1998. Mr. Wilbur worked for J.C. Penny's regional offices in budget and analysis. His final position was Manager of Planning and Reporting for J.C. Penny's stores. After 36 years with J.C. Penny's, Mr. Wilbur opted for early retirement in 1997. Mr. Wilbur holds a B.S. degree in Accounting from the University of Utah. Mr. Wilbur is a past executive director of the Dallas area for Habitat for Humanity. Mr. Wilbur's financial expertise and business experience from a successful career at JC Penny's led the Board of Directors to conclude he should serve as a director. In addition, the Board of Directors' determination that Mr. Wilbur is the Audit Committee "financial expert" lends further support to his financial acumen and qualification for serving as a director.

The Board of Directors, Board Committees and Meetings

The Company's Bylaws provide that the Board of Directors shall consist of not less than three or more than eleven members. The term of office of each director is for a period of one year or until the election and qualification of his successor. A director is not required to be a resident of the State of Utah but must be a stockholder of the Company. The Board of Directors held a total of four meetings during the fiscal year ended December 31, 2012. No directors attended fewer than 75% of all meetings of the Board of Directors during the 2012 fiscal year.

The size of the Board of Directors of the Company for the coming year is seven members. A majority of the Board of Directors must qualify as "independent" as that term is defined in Rule 4200 of the listing standards of the Nasdaq Stock Market. The Board of Directors has affirmatively determined that five of the seven members of the Board of Directors, Messrs. Charles L. Crittenden, Gilbert A. Fuller, Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur, are independent under the listing standards of the Nasdaq Stock Market.

There are four committees of the Board of Directors, which meet periodically during the year: the Audit Committee, the Compensation Committee, the Executive Committee, and the Nominating and Corporate Governance Committee.

The Audit Committee directs the auditing activities of the Company's internal auditors and outside public accounting firm and approves the services of the outside public accounting firm. The Audit Committee consists of Messrs. Charles L. Crittenden, H. Craig Moody and Norman G. Wilbur (Chairman of the committee). During 2012, the Audit Committee met on three occasions.

The Compensation Committee is responsible for recommending to the Board of Directors for approval the annual compensation of each executive officer of the Company and the executive officers of the Company's subsidiaries, developing policy in the areas of compensation and fringe benefits, contributions under the Employee Stock Ownership Plan, contributions under the 401(k) Retirement Savings Plans, Deferred Compensation Plan, granting of options under the stock option plans, and creating other employee compensation plans. The Compensation Committee consists of Messrs. Charles L. Crittenden (Chairman of the committee), Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur. During 2012, the Compensation Committee met on one occasion.

The Executive Committee reviews Company policy, major investment activities and other pertinent transactions of the Company. The Executive Committee consists of Messrs. Scott M. Quist (Chairman of the committee), and H. Craig Moody. During 2012, the Executive Committee met on one occasion.

The Nominating and Corporate Governance Committee identifies individuals qualified to become board members consistent with criteria approved by the board, recommends to the board the persons to be nominated by the board for election as directors at a meeting of stockholders, and develops and recommends to the board a set of corporate governance principles. The Nominating and Corporate Governance Committee consists of Messrs. Charles L. Crittenden, Robert G. Hunter, M.D., H. Craig Moody (Chairman of the committee), and Norman G. Wilbur. The Nominating and Corporate Governance Committee is composed solely of independent directors, as defined in the listing standards of the Nasdaq Stock Market. During 2012, the Nominating and Corporate Governance Committee met on three occasions.

Director Nominating Process

The process for identifying and evaluating nominees for directors include the following steps: (1) the Nominating and Corporate Governance Committee, Chairman of the Board or other board members identify a need to fill vacancies or add newly created directorships; (2) the Chairman of the Nominating and Corporate Governance Committee initiates a search and seeks input from board members and senior management and, if necessary, obtains advice from legal or

other advisors (but does not hire an outside search firm); (3) director candidates, including any candidates properly proposed by stockholders in accordance with the Company's Bylaws, are identified and presented to the Nominating and Corporate Governance Committee; (4) initial interviews with candidates are conducted by the Chairman of the Nominating and Corporate Governance Committee; (5) the Nominating and Corporate Governance Committee meets to consider and approve final candidate(s) and conduct further interviews as necessary; and (6) the Nominating and Corporate Governance Committee makes recommendations to the board for inclusion in the slate of directors at the annual meeting. The evaluation process will be the same whether the nominee is recommended by a stockholder or by a member of the Board of Directors.

Meetings of Non-Management Directors

The Company's independent directors meet regularly in executive session without management. The Board of Directors has designated a lead director to preside at executive sessions of independent directors. Mr. H. Craig Moody is currently the lead director.

Executive Officers

Garrett S. Sill has served as Acting Chief Financial Officer since January 18, 2013. Prior to his appointment as the Company's Acting Chief Financial Officer, Mr. Sill served since 2011 as Vice President and Assistant Treasurer of Security National Life Insurance Company, a wholly-owned subsidiary of the Company. From 2002 to 2011, Mr. Sill was Chief Financial Officer and Treasurer of SecurityNational Mortgage Company, a wholly-owned subsidiary of the Company. From 1997 to 2002, Mr. Sill was Vice President and Controller of SecurityNational Mortgage Company. Garrett Sill is a certified public accountant, having been licensed since 2002. He holds a B.A. degree in Accounting from Weber State University and an M.B.A. degree in Business Administration from the University of Utah. Mr. Sill also serves as a member of the Advisory Council of the School of Accounting and Taxation at Weber State University.

Christie Q. Overbaugh has been Senior Vice President of Internal Operations of the Company since June 2006, and a Vice President of the Company from 1998 to June 2006. Ms. Overbaugh has also served as Vice President of Underwriting for Security National Life Insurance Company since 1998. From 1986 to 1991, she was Chief Underwriter for Investors Equity Life Insurance Company of Hawaii and Security National Life Insurance Company. From 1990 to 1991, Ms. Overbaugh was President of the Utah Home Office Underwriters Association. Ms. Overbaugh is currently a member of the Utah Home Office Underwriters Association and an Associate Member of LOMA (Life Office Management Association).

Jeffrey R. Stephens was appointed General Counsel and Corporate Secretary of the Company in December 2008. Mr. Stephens had served as General Counsel for the Company from November 2006 to December 2008. He was in private practice from 1981 to 2006 in the states of Washington and Utah. Mr. Stephens holds a B.S. degree in Geography from the University of Utah and received his law degree from Brigham Young University. He is a member of the Utah State Bar and the Washington State Bar Association.

The Board of Directors of the Company has a written procedure, which requires disclosure to the board of any material interest or any affiliation on the part of any of its officers, directors or employees that is in conflict or may be in conflict with the Company's interests.

No director, officer or 5% stockholder of the Company or its subsidiaries or any affiliate thereof has had any transactions with the Company or its subsidiaries during 2012 or 2011.

All directors of the Company hold office until the next Annual Meeting of Stockholders and until their successors have been elected and qualified.

Corporate Governance

Corporate Governance Guidelines. The Board of Directors has adopted the Security National Financial Corporation Corporate Governance Guidelines. These guidelines outline the functions of the board, director qualifications and responsibilities, and various processes and procedures designed to insure effective and responsive governance. The guidelines are reviewed from time to time in response to regulatory requirements and best practices and are revised accordingly. The full text of the guidelines is published on the Company's website at www.securitynational.com. A

copy of the Corporate Governance Guidelines may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

Code of Business Conduct. All of the Company's officers, employees and directors are required to comply with the Company's Code of Business Conduct and Ethics to help insure that the Company's business is conducted in accordance with appropriate standards of ethical behavior. The Company's Code of Business Conduct and Ethics covers all areas of professional conduct, including customer relationships, conflicts of interest, insider trading, financial disclosures, intellectual property and confidential information, as well as requiring adherence to all laws and regulations applicable to the Company's business. Employees are required to report any violations or suspected violations of the Code. The Code includes an anti-retaliation statement. The full text of the Code of Business Conduct and Ethics is published on the Company's website at www.securitynational.com. A copy of the Code of Business Conduct and Ethics may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

Item 11. Executive Officer Compensation

The following table sets forth, for each of the last three fiscal years, the compensation received by the Company's Chief Executive Officer, consisting of George R. Quist, who served as Chairman of the Board and Chief Executive Officer from 1979 until his death on September 6, 2012, and Scott M. Quist, who served as Chairman of the Board and Chief Executive Officer since September 14, 2012, and by the Company's Chief Financial Officer, and the Company's three other most highly compensated executive officers who were serving as executive officers at the end of 2012 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Options Awards (\$)	Non-qualified Incentive Plan Compensation (\$)	Change in Pension Value Non-qualified Deferred Earnings (3) (\$)	All Other Compensation (4) (\$)	Total (\$)
George R. Quist(1) Former Chairman of the Board and Former Chief Executive Officer	2012	\$ 203,625	\$ 53,230	--	--	--	\$ 9,483	\$ 266,338
	2011	285,513	53,230	--	--	--	11,308	350,051
	2010	269,013	52,405	--	--	--	11,307	332,725
Scott M. Quist(1) Chairman of the Board, President and Chief Executive Officer	2012	\$ 384,400	\$ 193,950	--	--	--	\$ 41,330	\$ 619,680
	2011	384,400	95,000	--	--	--	44,140	523,540
	2010	383,317	93,950	--	--	--	43,660	520,927
Stephen M. Sill(2) Former Vice President, Former Treasurer and	2012	\$ 153,833	\$ 13,627	--	--	--	\$ 23,987	\$ 191,447
	2011	149,760	13,500	--	--	--	24,056	187,316
	2010	144,000	13,213	--	--	--	23,581	180,794

Former Chief Financial Officer									
J. Lynn Beckstead, Jr.	2012	\$ 255,667	\$ 144,916	--	--	--	\$ 23,996	\$ 424,579	
Vice President of Mortgage Operations	2011	247,583	26,381	--	--	--	22,969	296,933	
	2010	237,583	21,900	--	--	--	32,499	291,982	
Jeffrey R. Stephens	2012	\$ 156,833	\$ 16,850	--	--	--	\$ 19,926	\$ 193,609	
General Counsel and Corporate Secretary	2011	152,792	30,100	--	--	--	19,354	202,246	
	2010	147,708	8,000	--	--	--	17,145	172,853	

- (1) George R. Quist, the father of Scott M. Quist, passed away on September 6, 2012.
- (2) Stephen M. Sill served as the Company's Vice President, Treasurer and Chief Financial Officer from 2002 until his retirement on January 18, 2013. The Company's Board of Directors appointed Garrett S. Sill, son of Stephen M. Sill, to serve as the Company's Acting Chief Financial Officer, effective January 18, 2013.
- (3) The amounts indicated under "Change in Pension Value and Non-qualified Deferred Compensation Earnings" consist of amounts contributed by the Company into a trust for the benefit of the Named Executive Officers under the Company's Deferred Compensation Plan.
- (4) The amounts indicated under "All Other Compensation" consist of the following amounts paid by the Company for the benefit of the Named Executive Officers:
- payments related to the operation of automobiles were for George R. Quist (\$1,700, \$2,400 and \$2,400 each for 2012, 2011 and 2010, respectively); Scott M. Quist (\$7,200 for each of the years 2012, 2011 and 2010); Stephen M. Sill (\$5,700 for each of the years 2012, 2011 and 2010); and Jeffrey R. Stephens (\$0- for each of the years 2012, 2011 and 2010). However, such payments do not include the furnishing of an automobile by the Company to George R. Quist, Scott M. Quist and J. Lynn Beckstead Jr., nor the payment of insurance and property taxes with respect to the automobiles operated by the such executive officers;
 - group life insurance premiums paid by the Company to a group life insurance plan for George R. Quist (\$7, \$9, and \$9 for 2012, 2011 and 2010, respectively); Scott M. Quist, Stephen M. Sill, and J. Lynn Beckstead Jr. (\$207, \$223 and \$223 each for 2012, 2011 and 2010, respectively); and Jeffrey R. Stephens (\$207, \$223 and \$115 for 2012, 2011 and 2010, respectively);

- c) life insurance premiums paid by the Company for the benefit of George R. Quist (\$4,644 for each of the years 2012, 2011 and 2010); Scott M. Quist (\$15,016 for each of the years 2012, 2011 and 2010); Stephen M. Sill (\$2,976 for each of the years 2012, 2011 and 2010); J. Lynn Beckstead Jr. (\$4,500 for each of the years 2012, 2011 and 2010); and Jeffrey R. Stephens (\$-0- for each of the years 2012, 2011 and 2010);
- d) medical insurance premiums paid by the Company to a medical insurance plan: George R. Quist (\$2,934 for 2012, \$3,991 for 2011, and \$3,990 for 2010); Scott M. Quist (\$8,644 for 2012, \$11,637 for 2011, and \$11,157 for 2010) and J. Lynn Beckstead Jr. (\$12,441 for 2012, \$11,637 for 2011, and \$11,157 for 2010); Stephen M. Sill (\$8,644 for 2012, \$8,135 for 2011 and \$7,901 for 2010); and Jeffrey R. Stephens (\$12,510 for 2012, \$11,550 for 2011, and \$10,738 for 2010);
- e) long term disability insurance paid by the Company to a provider of such insurance; George R. Quist (\$198 for 2012, \$264 for 2011 and \$264 for 2010), Scott M. Quist, Stephen M, Sill, J. Lynn Beckstead Jr., and Jeffrey R. Stephens (\$262 for 2012, \$264 for 2011 and \$264 for 2010);
- f) membership dues paid by the Company to Alpine Country Club for the benefit of J. Lynn Beckstead Jr. (\$6,586 for 2012, \$6,645 for 2011, and \$6,855 for 2010);
- g) contributions to defined contribution plans paid by the Company; Scott M. Quist (\$10,000 for 2012, \$9,800 for 2011, and \$9,800 for 2010); Stephen M. Sill (\$6,197 for 2012, \$6,758 for 2011, and \$6,517 for 2010); J. Lynn Beckstead Jr. (\$-0- for 2012, \$-0- for 2011, and \$9,800 for 2010); and Jeffrey R. Stephens (\$6,947 for 2012, \$7,316 for 2011, and \$6,028 for 2010);

SUPPLEMENTAL ALL OTHER COMPENSATION TABLE

The following table sets forth all other compensation provided the Named Executive Officers for fiscal years 2012, 2011 and 2010.

Name of Executive Officer	Year	Perks and Other Personal Benefits	Tax Reimburse-ments	Discounted Securities Purchases	Payments/ Accruals on Termination Plans	Registrant Contributions to Defined Contribution Plans	Insurance Premiums	Dividends or Earnings on Stock or Option Awards	Other (1)
George R. Quist									
	2012	\$ 1,700	--	--	--	\$ -	\$ 7,783	--	--
	2011	2,400	--	--	--	-	8,908	--	--
	2010	2,400	--	--	--	-	8,907	--	--
Scott M. Quist									
	2012	\$ 7,200	--	--	--	\$ 10,000	\$ 24,130	--	--
	2011	7,200	--	--	--	9,800	27,140	--	--
	2010	7,200	--	--	--	9,800	26,660	--	--
Stephen M. Sill									
	2012	\$ 5,700	--	--	--	\$ 6,197	\$ 12,090	--	--
	2011	5,700	--	--	--	6,758	11,598	--	--
	2010	5,700	--	--	--	6,517	11,364	--	--
J. Lynn Beckstead	2012	\$ 6,586	--	--	--	\$ -	\$ 17,410	--	--

Jr.									
	2011	6,645	--	--	--	-	16,324	--	--
	2010	6,855	--	--	--	9,800	15,844	--	--
Jeffrey R.									
Stephens	2012	\$-	--	--	--	\$ 6,947	\$ 12,979	--	--
	2011	-	--	--	--	7,316	12,038	--	--
	2010	-	--	--	--	6,028	11,117	--	--

GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information regarding options granted to the named Executive Officers during the fiscal year ended December 31, 2012.

Name of Executive Officer	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Securities Underlying Options (#)		Exercise or Base Price of Option Awards (\$/Sh)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)					
George R. Quist	4/13/12	--	--	--	101,250	(1)	\$1.630	\$1.560	\$57,863
Scott M. Quist	4/13/12	--	--	--	105,000	(1)(2)	1.630	1.560	59,993
Stephen M. Sill	4/13/12	--	--	--	7,688	(1)	1.480	1.560	5,068
J. Lynn Beckstead, Jr.	4/13/12	--	--	--	18,450	(1)	1.480	1.560	12,164
Jeffrey R. Stephens	4/13/12	--	--	--	5,125	(1)	1.480	1.560	3,379

- (1) The stock options have been adjusted for the 5% annual stock dividend declared December 7, 2012.
- (2) On April 13, 2013 Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$1.63 per share or 1,000,000 shares of Class C common stock at an exercise price of \$.163 per share, or any combination thereof.

OUTSTANDING EQUITY AWARDS AT FISCAL 2012 YEAR END

The following table sets forth information concerning outstanding equity awards held by Named Executive Officers at December 31, 2012.

Name of Executive Officer	Option Grant Date	Option Awards		Option Awards		Stock Awards				
		Number of Securities Underlying Unexercised Options Exercisable (1) (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Stock Award Grant Date	Not Vested (#)	Not Vested (\$)	Not Vested (#)	Not Vested (\$)
George R. Quist	3/31/08	63,814	--	\$ 3.31	03/31/13	--	--	--	--	--
	12/04/09	121,551	--	3.17	12/04/14	--	--	--	--	--
	12/03/10	115,763	--	1.74	12/03/15	--	--	--	--	--
	12/02/11	81,703 (9)	--	1.30	12/02/16	--	--	--	--	--
	4/13/12	25,312 (10)	--	1.63	04/13/17	--	--	--	--	--
George R. Quist	3/25/05	103,422 (2)	--	\$ 2.37	03/25/15	--	--	--	--	--
	3/31/08	63,814 (3)	--	3.33	03/31/13	--	--	--	--	--
	12/05/08	121,551 (4)	--	1.33	12/05/13	--	--	--	--	--
	12/04/09	121,551 (5)	--	3.14	12/04/14	--	--	--	--	--
	12/03/10	115,763 (6)	--	1.71	12/03/15	--	--	--	--	--
	12/02/11	57,750 (7) (9)	--	1.30	12/02/16	--	--	--	--	--
	4/13/12	52,500 (8) (10)	52,500 (8) (10)	1.63	04/13/17	--	--	--	--	--
Stephen M. Sill	12/02/11	2,067 (9)	--	\$ 1.18	12/02/21	--	--	--	--	--
	4/13/12	94 (10)	3,844 (10)	1.48	04/13/22	--	--	--	--	--
J. Lynn Beckstead Jr.	12/02/11	4,961 (9)	--	\$ 1.18	12/02/21	--	--	--	--	--

	4/13/12	225	(10)	9,225	(10)	1.48	04/13/22					
Jeffrey R. Stephens	4/13/12	62	(10)	2,563	(10)	\$ 1.48	04/13/22	--	--	--	--	--

- (1) Except for options granted George R. Quist and options granted to Scott M. Quist after May 31, 2007, which have a five year term, such grants have ten year terms. The vesting of any unvested shares is subject to the recipient's continuous employment. This reflects the equivalent of Class A common shares.
- (2) On March 25, 2005, Scott Quist was granted stock options to purchase either 70,000 shares of Class A common stock at an exercise price of \$2.37 per share or 700,000 shares of Class C common stock at an exercise price of \$.237 per share, or any combination thereof.
- (3) On March 31, 2008, Scott Quist was granted stock options to purchase 50,000 shares of Class A common stock at an exercise price of \$3.33 per share or 500,000 shares of Class C common stock at an exercise price of \$.333 per share, or any combination thereof.
- (4) On December 5, 2008, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$1.33 per share or 1,000,000 shares of Class C common stock at an exercise price of \$.133 per share, or any combination thereof.
- (5) On December 4, 2009, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$3.14 per share or 1,000,000 shares of Class C common stock at an exercise price of \$.314 per share, or any combination thereof.
- (6) On December 3, 2010, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$1.71 per share or 1,000,000 shares of Class C common stock at an exercise price of \$.171 per share, or any combination thereof.

- (7) On December 2, 2011, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$1.30 per share or 1,000,000 shares of Class C common stock at an exercise price of \$.13 per share, or any combination thereof.
- (8) On April 13, 2013 Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$1.63 per share or 1,000,000 shares of Class C common stock at an exercise price of \$.163 per share, or any combination thereof.
- (9) Stock options vested at the rate of 25% of the total number of shares subject to the options on March 2, 2012 and 25% of the total number of shares on the last day of each three month period thereafter.
- (10) Stock options vest at the rate of 25% of the total number of shares subject to the options on July 13, 2012 and 25% of the total number of shares on the last day of each three month period thereafter.

OPTION AWARDS VESTING SCHEDULE

The following table sets forth the vesting schedule of unexercisable options reported in the “Number of Securities Underlying Unexercised Options – Unexercisable” column of the table above.

Grant Date	Vesting
3/21/03	These options vested on the grant date.
12/10/04	These options vested on the grant date.
3/25/05	These options vested on the grant date.
3/31/08	These options vested 25% per quarter over a one year period after the grant date.
12/05/08	These options vested 25% per quarter over a one year period after the grant date.
12/04/09	These options vested 25% per quarter over a one year period after the grant date.
12/03/10	These options vested 25% per quarter over a one year period after the grant date.
12/02/11	These options vested 25% per quarter over a one year period after the grant date.
4/13/12	These options vest 25% per quarter over a one year period after the grant date.
12/07/12	These options vest 25% per quarter over a one year period after the grant date.

OPTION EXERCISES AND STOCK VESTED FOR FISCAL 2012

The following table sets forth all stock options exercised and value received upon exercise, and all stock awards vested and value realized upon vesting, by the Named Executive Officers during the year ended December 31, 2012.

Name of Executive Officer	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)

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George R. Quist	102,957	\$ 755,114	--	--
Scott M. Quist	93,167	585,256	--	--
Stephen M. Sill	20,561	66,849	--	--
J. Lynn Beckstead, Jr.	117,287	557,850	--	--
Jeffrey R. Stephens	15,489	96,646	--	--

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PENSION BENEFITS FOR FISCAL 2012

The following table sets forth the present value as of December 31, 2012 of the benefit of the Named Executive Officers under the defined benefit pension plan.

Name of Executive Officer	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
George R. Quist	None	--	--	--
Scott M. Quist	None	--	--	--
Stephen M. Sill	None	--	--	--
J. Lynn Beckstead, Jr.	None	--	--	--
Jeffrey R. Stephens	None	--	--	--

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2012 with respect to compensation plans (including individual compensation arrangements) under which the Company's equity securities are authorized for issuance, aggregated as follows:

- All compensation plans previously approved by security holders; and
- All compensation plans not previously approved by security holders.

Plan Category	A Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	B Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by stockholders[1]	1,556,104[2]	\$ 2.02 [3]	1,551,085[4]
Equity compensation plans not approved by stockholders	0	-	0

[1] This reflects the 1993 Stock Option Plan (the "1993 Plan"), the 2000 Director Stock Option Plan (the "2000 Director Plan"), the 2003 Stock Option Plan (the "2003 Plan"), and the 2006 Director Stock Option Plan (the "2006 Director Plan"). The 2003 Plan was approved by stockholders at the annual stockholders meeting held on July 11, 2003, which reserved

500,000 shares of Class A common stock and 1,000,000 shares of Class C common stock for issuance thereunder. As a result of the stockholder approval of the 2003 Plan, the Company terminated the 1993 Plan. The 2006 Director Plan was approved by stockholders at the annual stockholders meeting held on December 7, 2006, which reserved 100,000 shares of Class A common stock for issuance thereunder. As a result of the stockholder approval of the 2006 Director Plan, the Company terminated the 2000 Director Plan.

[2] Assumes that 5,838,505 shares of Class C common stock issuable upon the exercise of certain outstanding options are converted into 583,851 shares of Class A common stock.

[3] The weighted average exercise prices reflect solely the shares of Class A common stock that will be issued upon exercise of outstanding options.

[4] This number includes 1,443,579 shares of Class A common stock and 78,292 shares of Class C common stock available for future issuance under the 2003 Plan, and 29,214 shares of Class A common stock available for future issuance under the 2006 Director Plan.

Retirement Plans

On December 8, 1988, the Company entered into a deferred compensation plan with George R. Quist, the former Chairman and Chief Executive Officer of the Company. The plan was later amended on three occasions with the third amendment effective February 1, 2001. Under the terms of the plan as amended, upon the retirement of Mr. Quist, the Company is required to pay him ten annual installments in the amount of \$60,000. The \$60,000 annual payments are to be adjusted for inflation in accordance with the United States Consumer Price Index each year.

The plan also provided that the Board of Directors may, in its discretion, pay the amounts due under the plan in a single, lump-sum payment. The Company accrued \$12,000 and \$18,000 in fiscal 2012 and 2011, respectively, to cover the present value of anticipated retirement benefits under the employment agreement of \$598,426 as of December 31, 2012. Mr. Quist passed away on September 6, 2012, pursuant to the plan, the unpaid installments will be paid to his designated beneficiaries.

Employment Agreements

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, its Chairman of the Board, President and Chief Executive Officer. The agreement is effective as of December 4, 2003 and has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Quist performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company serving as its Chairman of the Board, President, and Chief Executive Officer at not less than his current salary and benefits. The Company also agrees to maintain a group term life insurance policy of not less than \$1,000,000 on Mr. Quist's life and a whole life insurance policy in the amount of \$500,000 on Mr. Quist's life. In the event of disability, Mr. Quist's salary would be continued for up to five years at 75% of its current level.

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue paying Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$87,467 and \$145,036 in fiscal 2012 and 2011, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is \$1,173,242 and \$1,121,162 as of December 31, 2012 and 2011, respectively.

On December 4, 2003, the Company, through its subsidiary SecurityNational Mortgage Company, entered into an employment agreement with J. Lynn Beckstead, Jr., Vice President of Mortgage Operations and President of SecurityNational Mortgage Company. The agreement has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Beckstead performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Beckstead is to devote his full time to the Company serving as President of SecurityNational Mortgage Company at not less than his current salary and benefits, and to include \$350,000 of life insurance protection. In the event of disability, Mr. Beckstead's salary would be continued for up to five years at 50% of its current level.

In the event of a sale or merger of the Company, and Mr. Beckstead was not retained in his current position, the Company would be obligated to continue paying Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual

retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$44,533 and \$58,964 in fiscal 2012 and 2011, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is \$613,403 and \$533,483, as of December 31, 2012 and 2011, respectively.

Director Compensation

Directors of the Company (but not including directors who are employees) are currently paid a director's fee of \$16,800 per year by the Company for their services and are reimbursed for their expenses in attending board and committee meetings. An additional fee of \$750 is paid to each audit committee member for each audit committee meeting attended. Each director is provided with an annual grant of stock options to purchase 1,000 shares of Class A Common Stock, which occurred under the 2000 Director Stock Option Plan for years 2000 to 2005 and under the 2006 Director Stock Option Plan for years 2006 to 2012. During 2012 and 2011 each director was granted an additional 5,000 and 5,000, respectively, stock options to purchase Class A Common Stock.

DIRECTOR COMPENSATION

The following table sets forth the compensation of the Company's non-employee directors for fiscal 2012.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Charles L. Crittenden	\$17,550	--	\$6,806	--	--	--	\$24,356
Robert G. Hunter	16,800	--	6,806	--	--	--	23,606
Gilbert A. Fuller	1,400	--	3,029	--	--	--	4,429
H. Craig Moody	19,050	--	6,806	--	--	--	25,856
Norman G. Wilbur	19,050	--	6,806	--	--	--	25,856

Employee 401(k) Retirement Savings Plan

In 1995, the Company's Board of Directors adopted a 401(k) Retirement Savings Plan. Under the terms of the 401(k) plan, effective as of January 1, 1995, the Company made discretionary employer matching contributions to its employees who choose to participate in the plan. The plan allowed the board to determine the amount of the contribution at the end of each year. During the period from January 1, 1995 to December 31, 2007 the Board had adopted a contribution formula specifying that such discretionary employer matching contributions would equal 50% of the participating employee's contribution to the plan to purchase Company's stock up to a maximum discretionary employee contribution of 1/2 of 1% of participating employees' compensation, as defined by the plan.

All persons who have completed at least one year's service with the Company and satisfy other plan requirements are eligible to participate in the 401(k) plan. All Company matching contributions are invested in the Company's Class A common stock. Also, the Company may contribute at the discretion of the Company's Board of Directors an Employer Profit Sharing Contribution to the 401(k) plan. The Employer Profit Sharing Contribution is to be divided among three different classes of participants in the plan based upon the participant's title in the Company. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company will match 100% of up to 3% of an employee's total annual compensation and 50% of 4% to 5% of an employee's annual compensation. The match is in shares of the Company's Class A Common Stock. The Company's

contribution for 2012, 2011 and 2010 was \$222,719, \$208,206 and \$344,772, respectively under the “Safe Harbor” plan.

Employee Stock Ownership Plan

Effective January 1, 1980, the Company adopted an employee stock ownership plan (the “ESOP Plan”) for the benefit of career employees of the Company and its subsidiaries. The following is a description of the ESOP Plan, and is qualified in its entirety by the ESOP Plan, a copy of which is available for inspection at the Company’s offices.

Under the ESOP Plan, the Company has discretionary power to make contributions on behalf of all eligible employees into a trust created under the ESOP Plan. Employees become eligible to participate in the ESOP Plan when they have attained the age of 19 and have completed one year of service (a twelve-month period in which the Employee completes at least 1,040 hours of service). The Company’s contributions under the ESOP Plan are allocated to eligible employees on the same ratio that each eligible employee’s compensation bears to total compensation for all eligible employees during each year. To date, the ESOP Plan has approximately 338 participants and had \$-0- contributions payable to the Plan in 2012. Benefits under the ESOP Plan vest as follows: 20% after the third year of eligible service by an employee, an additional 20% in the fourth, fifth, sixth and seventh years of eligible service by an employee.

Benefits under the ESOP Plan will be paid out in one lump sum or in installments in the event the employee becomes disabled, reaches the age of 65, or is terminated by the Company and demonstrates financial hardship. The ESOP Plan Committee, however, retains discretion to determine the final method of payment. Finally, the Company reserves the right to amend or terminate the ESOP Plan at any time. The trustees of the trust fund under the ESOP Plan are Scott M. Quist (Chairman) and Robert G. Hunter, who each serve a director of the Company, and S. Andrew Quist who does not serve as a director of the Company.

Deferred Compensation Plan

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Deferred Compensation Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The board has appointed a committee of the Company to be the plan administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company did not make any contributions for 2012, 2011 and 2010.

NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL 2012

The following table sets forth contributions to the deferred compensation account of the Named Executive Officers in fiscal 2012 and the aggregate balance of deferred compensation of the Named Executive Officers at December 31, 2012.

Name	Executive Contributions In Last FY (\$)	Registrant Contributions In Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals Distributions (\$)	Aggregate Balance at Last FYE (\$)
George R. Quist	--	--	--	--	\$ 545,783
Scott M. Quist	--	--	--	--	603,968
Stephen M. Sill	--	--	--	--	181,943
J. Lynn Beckstead, Jr.	--	--	--	--	291,191
Jeffrey R. Stephens	--	--	--	--	--

2003 Stock Option Plan

On July 11, 2003, the Company adopted the Security National Financial Corporation 2003 Stock Incentive Plan (the "2003 Plan"), which reserved 500,000 shares of Class A common stock and 1,000,000 shares of Class C common stock for issuance there under. The 2003 Plan was approved by the Board of Directors on May 9, 2003, and by the stockholders at the annual meeting of the stockholders held on July 11, 2003. The 2003 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress. On July 13, 2007, the stockholders approved an amendment to the 2003 Plan to increase the number of shares of Class A and Class C common stock reserved for issuance there under to 978,528 shares of Class A common stock and 2,110,775 shares of Class C common stock. On July 10, 2010, the stockholders approved an amendment to the 2003 plan to increase the number of shares of Class A and Class C

common stock reserved for issuance there under to 1,478,528 shares of Class A common stock and 3,110,775 shares of Class C common stock.

The 2003 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options”, as defined under Section 422A of the Internal Revenue Code of 1986 (the “Code”) and “non-qualified options” may be granted under the 2003 Plan. The exercise prices for the options granted are equal to or greater than the fair market value of the stock subject to such options as of the date of grant, as determined by the Company’s Board of Directors. The options granted under the 2003 Plan are to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these officers by providing them with an additional incentive to contribute to the success of the Company.

The 2003 Plan is to be administered by the Board of Directors or by a committee designated by the board. The terms of options granted or stock awards or sales affected under the 2003 Plan are to be determined by the Board of Directors or its committee. The options shall be either fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the board of the committee may specify. The Plan provides that if the shares of common stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price to reflect such subdivision, combination or stock dividend. In addition, the number of shares of common stock reserved for purposes of the plan shall be adjusted by the same proportion. No options may be exercised for a term of more than ten years from the date of grant.

Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the code, including a requirement that the option exercise price be no less than then fair market value of the option shares on the date of grant. The 2003 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company's Board of Directors.

The 2003 Plan has a term of ten years. The Board of Directors may amend or terminate the 2003 Plan at any time, subject to approval of certain modifications to the 2003 Plan by the shareholders of the Company as may be required by law or the 2003 Plan.

2006 Director Stock Option Plan

On December 7, 2006, the Company adopted the 2006 Director Stock Option Plan (the "Director Plan") effective December 7, 2006. The Director Plan provides for the grant by the Company of options to purchase up to an aggregate of 100,000 shares of Class A common stock for issuance there under. The Director Plan provides that each member of the Company's Board of Directors who is not an employee or paid consultant of the Company is automatically eligible to receive options to purchase the Company's Class A common stock under the Director Plan.

Effective as of December 7, 2006, and on each anniversary date thereof during the term of the Director Plan, each outside director shall automatically receive an option to purchase 1,000 shares of Class A common stock. In addition, each new outside director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the Director Plan. The options granted to outside directors shall vest in four equal quarterly installments over a one year period from the date of grant, until such shares are fully vested. The primary purposes of the Director Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

In the event of a merger of the Company with or into another company, or a consolidation, acquisition of stock or assets or other change in control transaction involving the Company, each option becomes exercisable in full, unless such option is assumed by the successor corporation. In the event the transaction is not approved by a majority of the "Continuing Directors" (as defined in the Director Plan), each option becomes fully vested and exercisable in full immediately prior to the consummation of such transaction, whether or not assumed by the successor corporation.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and persons who own more than 10% of a registered class of the Company's equity securities to file reports

of ownership and periodic changes in ownership of the Company's common stock with the Securities and Exchange Commission. Such persons are also required to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on its review of the copies of stock reports received by it with respect to fiscal 2012, or written representations from certain reporting persons, the Company believes that its directors, executive officers and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them, except that each of the Company's officers and directors (with the exception of Gilbert Fuller), through an oversight, filed one late Form 4 report disclosing the granting of stock options in April 2012.

In addition, Scott Quist, through an oversight, filed two late Form 4 reports disclosing the exercise of stock options in August 2012 and December 2012; and Lynn Beckstead, through an oversight, filed two late Form 4 reports disclosing the exercise of stock options in October 2012 and November 2012, and one late Form 4 disclosing one transaction involving the sale of shares of Class A common stock in December 2012.

Moreover, Stephen Sill, through an oversight, filed two late Form 4 reports disclosing the exercise of stock options in August 2012 and November 2012; Jeffrey Stephens, through an oversight, filed one late Form 4 report disclosing the exercise of stock options in December 2012 and one late Form 4 report disclosing one transaction involving the sale of shares of Class A common stock in December 2012; and Christie Overbaugh, through an oversight, filed two late Form 4 reports disclosing the exercise of stock options in November 2012 and December 2012.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The following table sets forth security ownership information of the Company's Class A and Class C common stock as of March 29, 2013, (i) for persons who own beneficially more than 5% of the Company's outstanding Class A or Class C common stock, (ii) each director of the Company, and (iii) for all executive officers, and directors of the Company as a group.

Name and Address (1)	Class A Common Stock		Class C Common Stock		Class A and Class C Common Stock	
	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class
Scott M. Quist (3)(5)(6)(7)(9)	578,834	5.4 %	7,951,987	48.1 %	8,530,821	31.4 %
George R. and Shirley C. Quist Family Partnership, Ltd. (2)	830,028	7.8 %	4,957,828	30.0 %	5,787,856	21.3 %
Employee Stock Ownership Plan (ESOP) (4)	540,190	5.1 %	1,540,731	9.3 %	2,080,921	7.7 %
Estate of George R. Quist (8)	959,948	9.0 %	576,267	3.5 %	1,536,215	5.7 %
401(k) Retirement Savings Plan (10)	654,373	6.1 %	-	-	654,373	2.4 %
Associated Investors (11)	58,803	*	569,979	3.4 %	628,782	2.3 %
Non-Qualified Deferred Compensation Plan	488,536	4.6 %	-	-	488,536	1.8 %
Christie Q. Overbaugh (12)	189,875	1.8 %	166,790	1.0 %	356,665	1.3 %
J. Lynn Beckstead, Jr., (6)(13)	185,403	1.7 %	-	-	185,403	*
Jeffrey R. Stephens (6)(14)	48,955	*	-	-	48,955	*
Robert G. Hunter, M.D., (4)(15)	46,050	*	-	-	46,050	*
Charles L. Crittenden (16)	45,775	*	-	-	45,775	*
H. Craig Moody (17)	44,540	*	-	-	44,540	*
Norman G. Wilbur (18)	35,460	*	-	-	35,460	*
Garrett S. Sill (6)(19)	34,580	*	-	-	34,580	*
Gilbert A. Fuller (20)	262	*	-	-	262	*
All directors and executive officers (10 persons) (3)(5)(6)(7)	1,209,734	11.4 %	8,118,777	49.1 %	9,328,511	34.3 %

* Less than 1%

- (1) Unless otherwise indicated, the address of each listed stockholder is c/o Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.
- (2) This stock is owned by the George R. and Shirley C. Quist Family Partnership, Ltd., of which Scott M. Quist is the managing general partner.
- (3) Does not include 540,190 shares of Class A common stock and 1,540,731 shares of Class C common stock owned by the Company's Employee Stock Ownership Plan (ESOP), of which Scott M. Quist, S. Andrew Quist and Robert G. Hunter are the trustees and accordingly, exercise shared voting and investment powers with respect to such shares.
- (4) The trustees of the Employee Stock Ownership Plan (ESOP) Scott M. Quist, S. Andrew Quist, and Robert G. Hunter who exercise shared voting and investment powers.

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- (5) Does not include 58,803 shares of Class A common stock and 569,979 shares of Class C common stock owned by Associated Investors, a Utah general partnership, of which Scott M. Quist is the managing partner and, accordingly, exercises sole voting and investment powers with respect to such shares.
- (6) Does not include 654,373 shares of Class A common stock owned by the Company's 401(k) Retirement Savings Plan, of which Scott M. Quist, J. Lynn Beckstead, and Garrett S. Sill are members of the Investment Committee and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (7) Does not include 488,536 shares of Class A common stock owned by the Company's Deferred Compensation Plan, of which Scott M. Quist, J. Lynn Beckstead, and Garrett S. Sill are members of the Investment Committee and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (8) Includes options to purchase 408,143 shares of Class A common stock granted to George R. Quist that are currently exercisable.
- (9) Includes options to purchase 5,147,995 shares of Class C common stock and 78,750 shares of Class A common stock granted to Scott M. Quist that are currently exercisable.
- (10) The investment committee of the Company's 401(k) retirement savings plan is Scott M. Quist, J. Lynn Beckstead Jr., and Garrett S. Sill, and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (11) The managing partner of Associated Investors is Scott M. Quist, who exercises sole voting and investment powers.
- (12) Includes options to purchase 2,687 shares of Class A common stock granted to Ms. Overbaugh that are currently exercisable.
- (13) Includes options to purchase 9,798 shares of Class A common stock granted to Mr. Beckstead that are currently exercisable.
- (14) Includes options to purchase 1,343 shares of Class A common stock granted to Mr. Stephens that are currently exercisable.
- (15) Includes options to purchase 38,655 shares of Class A common stock granted to Mr. Hunter that are currently exercisable.
- (16) Includes options to purchase 262 shares of Class A common stock granted to Mr. Crittenden that are currently exercisable.
- (17) Includes options to purchase 38,655 shares of Class A common stock granted to Mr. Moody that are currently exercisable.
- (18) Includes options to purchase 23,222 shares of Class A common stock granted to Mr. Wilbur that are currently exercisable.
- (19) Includes options to purchase 27,302 shares of Class A common stock granted to Mr. Sill that are currently exercisable.
- (20) Includes options to purchase 262 shares Class A common stock granted to Mr. Fuller that are currently exercisable.

The Company's executive officers and directors, as a group, own beneficially approximately 61.6% of the outstanding shares of the Company's Class A and Class C common stock.

Item 13. Certain Relationships and Related Transactions

The Company's Board of Directors has a written procedure, which requires disclosure to the Board of any material interest or any affiliation on the part of any of its officers, directors or employees that is in conflict or may be in conflict with the interests of the Company.

Item 14. Principal Accounting Fees and Services

The following table summarizes the fees of the Company's current independent auditors, billed to the Company for each of the last two fiscal years and for audit and other services. All of these fees were reviewed and approved by the Audit Committee of the Board of Directors:

Fee Category	2012	2011
Audit Fees (1)	\$ 371,425	\$ 387,700
Audit-Related Fees (2)	29,000	32,000
Tax Fees (3)	89,698	85,400
All Other Fees (4)	-	15,700
	\$ 490,123	\$ 520,800

- (1) Audit fees consist of aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent auditor in connection with statutory and regulatory filings for the years ended December 31, 2012 and 2011.
- (2) Audit related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees". These fees include review of registration statements, and audits of the Company's ESOP and 401(k) Plans.
- (3) Tax fees consist of aggregate fees billed for professional services for tax compliance, tax advice, and tax planning.
- (4) All other fees consist of aggregate fees billed for products and services by the independent auditor, other than those disclosed above.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1)
Financial
Statements

See "Index to Consolidated Financial Statements" under Item 8 above.

(a)(2) Financial Statement Schedules

II. Condensed Balance Sheets as of December 31, 2012 and 2011 and Condensed Statement of Earnings and Cash Flows for the years ended 2012, 2011 and 2010

IV. Reinsurance

V. Valuation and Qualifying Accounts

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits

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

- 3.1 Articles of Restatement of Articles of Incorporation (4)
- 3.2 Amended Bylaws (6)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- 10.2 2003 Stock Option Plan (5)
- 10.3 2006 Director Stock Option Plan (9)
- 10.4 Deferred Compensation Agreement with George R. Quist (2)
- 10.5 Deferred Compensation Plan (3)
- 10.6 Employment agreement with J. Lynn Beckstead, Jr. (7)

- 10.7 Employment agreement with Scott M. Quist (8)
- 10.8 Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (10)
- 10.9 Coinsurance Agreement between Security National Life Insurance Company and Mothe Life Insurance Company (11)
- 10.10 Certificate and Agreement of Contribution to Surplus between Security National Financial Corporation and Security National Life Insurance Company (11)
- 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
- 101 XBRL Instance Document*
- INS
- 101 XBRL Schema Document*
- SCH
- 101 XBRL Calculation Linkbase Document*
- CAL
- 101 XBRL Definition Linkbase Document*
- DEF
- 101 XBRL Labels Linkbase Document*
- LAB
- 101 XBRL Presentation Linkbase Document*
- PRE

* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 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 April 3, 2002
- (4) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003
- (5) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company’s Annual Meeting of Shareholders
- (6) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
- (7) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
- (8) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
- (9) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company’s Annual Meeting of Shareholders
- (10) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
- (11) Incorporated by reference from Report on Form 8-K, as filed on December 27, 2012

March 29,
2013

Robert G. Hunter

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Schedule II

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Balance Sheets

	December 31	
	2012	2011
Assets		
Cash	\$2,963,680	\$655,714
Investment in subsidiaries (equity method)	89,984,662	73,911,675
Receivables:		
Mortgage loans sold to investors	-	2,986,110
Receivable from affiliates	11,580,198	7,282,861
Other	-	177,509
Total receivables	11,580,198	10,446,480
Property and equipment, at cost, net of accumulated depreciation of \$1,661,177 for 2012 and \$1,803,535 for 2011.	2,219	13,570
Other assets	98,023	89,539
Total assets	\$104,628,782	\$85,116,978

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Balance Sheets (Continued)

	December 31	
	2012	2011
Liabilities and Stockholders' Equity Liabilities		
Bank loans payable:		
Current installments	\$5,789,226	\$2,546,778
Long-term	1,302,946	2,484,187
Notes and contracts payable:		
Current installments	961	961
Advances from affiliated companies	10,548,349	9,012,547
Other liabilities and accrued expenses	1,336,459	1,358,992
Income taxes	5,838,732	8,482,926
Total liabilities	24,816,673	23,886,391
Stockholders' Equity		
Class A common stock \$2.00 par value; 20,000,000 shares authorized; issued 10,843,576 shares in 2012 9,638,798 shares in 2011	21,687,152	19,277,596
Class B non-voting common stock-\$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	--	--
Class C convertible common stock, \$0.20 par value; 15,000,000 shares authorized; issued 10,974,101 shares in 2012 and 10,135,976 shares in 2011	2,194,820	2,027,195
Additional paid-in capital	21,262,140	19,487,565
Accumulated other comprehensive income	1,934,359	654,443
Retained Earnings	35,114,072	22,546,623
Treasury stock at cost - (1,097,416 Class A shares and -0- Class C shares in 2012; 1,198,167 Class A shares and -0- Class C shares in 2011, held by affiliated companies)	(2,380,434)	(2,762,835)
Total stockholders' equity	79,812,109	61,230,587
Total Liabilities and Stockholders' Equity	\$104,628,782	\$85,116,978

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Statements of Earnings

	Year Ended December 31		
	2012	2011	2010
Revenue			
Net investment income	\$18,607	\$13,319	\$11,969
Fees from affiliates	925,496	890,462	835,172
Other Income	686	870	-
Total revenue	944,789	904,651	847,141
Benefits and Expenses:			
General and administrative expenses	560,426	621,978	943,723
Interest expense	124,112	99,645	54,260
Total benefits and expenses	684,538	721,623	997,983
Earnings (loss) before income taxes, and earnings of subsidiaries	260,251	183,028	(150,842)
Income tax benefit (expense)	1,659,194	(483,651)	86,699
Equity in earnings (loss) of subsidiaries	14,793,073	1,599,381	(366,481)
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Statements of Cash Flow

	Year Ended December 31		
	2012	2011	2010
Cash flows from operating activities:			
Net earnings (loss)	\$16,712,518	\$1,298,758	\$(430,624)
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	11,351	97,636	134,243
Undistributed earnings of affiliates	14,793,073	1,599,381	(366,481)
Provision for income taxes	(2,644,194)	121,840	(86,699)
Provision for losses on loans & real estate	-	(21,646)	--
Receivables for mortgage loans held for sale	2,986,110	(2,986,110)	--
Stock based compensation expense	251,031	253,934	520,457
Benefit plans funded with treasury stock	319,751	283,230	438,274
Change in assets and liabilities:			
Accrued Investment Income from affiliates	--	--	--
Accounts receivable	177,509	184,793	--
Other assets	-	(46,204)	5,883
Other liabilities	(22,533)	(131,277)	(123,207)
Net cash provided by operating activities	32,584,616	654,335	91,846
	-	-	
Cash flows from investing activities:			
Purchase of real estate	--	--	--
Sale of real estate	--	--	--
Purchase of equipment	--	--	--
Mortgage, policy loans made	--	--	(89,375)
Payments, mortgage loans	--	8,400	9,218
Dividend received from subsidiary	--	--	--
Investment in subsidiaries	(29,586,144)	(3,198,757)	732,956
	(29,586,144)	(3,190,357)	652,799
Cash flows from financing activities:			
Advances from (to) affiliates	(2,770,019)	(1,962,849)	233,812
Proceeds from stock options exercised	18,306	--	--
Payments of notes and contracts payable	(1,146,997)	(1,077,246)	(1,385,484)
	--	3,525,875	--
Proceeds from borrowings on notes and contracts payable	--	3,525,875	--
Change in line of credit borrowings	3,208,204	1,400,000	--
Net cash used in financing activities	(690,506)	1,885,780	(1,151,672)
Net change in cash	2,307,966	(650,242)	(407,027)
Cash at beginning of year	655,714	1,305,956	1,712,983
Cash at end of year	\$2,963,680	\$655,714	\$1,305,956

See accompanying notes to condensed financial statements.

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Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Notes to Condensed Financial Statements

1) Bank Loans Payable

	December 31	
	2012	2011
Bank prime rate less .75% (2.50% at December 31, 2012) note payable quarterly installments of \$75,000 plus interest collateralized by shares of Security National Life Insurance Company stock, due September 2013	225,000	525,000
3.85% note payable in monthly installments of \$79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company Stock, due June 2015.	2,258,968	3,105,965
Revolving line-of-credit, interest payable at the prime minus .75% secured by by shares of Security National Life Insurance Company Stock, matures June 2013.	4,608,204	1,400,000
Total bank loans	7,092,172	5,030,965
	-	-
Less current installments	5,789,226	2,546,778
Bank loans, excluding current installments	\$ 1,302,946	\$ 2,484,187

2) Notes and Contracts Payable

Notes and contracts are summarized as follows:

	December 31	
	2012	2011
Other notes and contracts payable	961	961
Total notes and contracts	961	961
Less current installments	961	961
Notes and contracts, excluding current installments	-	-

The Company has a \$6,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2012), secured by the capital stock of Security National Life and maturing June 15, 2013, renewable annually. As of December 31, 2012, there was \$4,608,204 outstanding under the revolving line-of-credit. As of December 31, 2012, \$652,572 was available and \$514,224 was reserved for two outstanding letters of credit. \$1,500,000 was carved out for a loan in September 2008 that as of December 31, 2012 has a balance of \$225,000. As the principal payments on the loan are made the line of credit amount increases in availability.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Notes to Condensed Financial Statements

The following tabulation shows the combined maturities of bank loans payable and notes and contracts payable:

2013	5,789,226
2014	919,168
2015	383,778
2016	-
2017	-
Thereafter	-
Total	\$7,092,172

3) Advances from Affiliated Companies

	December 31	
	2012	2011
Non-interest bearing advances from affiliates:		
Cemetery and Mortuary subsidiary	\$ 1,459,841	\$ 1,459,841
Life insurance subsidiaries	9,088,508	7,552,706
Mortgage subsidiary	-	-
	\$ 10,548,349	\$ 9,012,547

4) Dividends and Capital Contributions

In 2012, 2011 and 2010, SecurityNational Mortgage Company, a wholly owned subsidiary of the Registrant, paid to the registrant cash dividends of \$1,500,000, \$-0-, and \$-0-, respectively.

In 2012, 2011 and 2010 the Registrant made a capital contribution to Security National Life Insurance Company, a wholly owned subsidiary of the Registrant, in the amount of \$4,684,204, \$3,525,875, and \$-0-, respectively.

Schedule IV

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Reinsurance

	Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net	
2012						
Life Insurance in force (\$000)	\$1,248,846	\$87,684	\$1,664,573	\$2,825,735	58.9	%
Premiums:						
Life Insurance	\$47,121,650	\$1,409,325	\$2,345,324	\$48,057,649	4.9	%
Accident and Health Insurance	158,648	-	30	158,678	0.0	%
Total premiums	\$47,280,298	\$1,409,325	\$2,345,354	\$48,216,327	4.9	%
2011						
Life Insurance in force (\$000)	\$1,237,528	\$87,441	\$1,732,120	\$2,882,207	60.1	%
Premiums:						
Life Insurance	\$41,498,338	\$1,910,152	\$8,696,242	\$48,284,428	18.0	%
Accident and Health Insurance	172,940	-	37	172,977	0.0	%
Total premiums	\$41,671,278	\$1,910,152	\$8,696,279	\$48,457,405	18.0	%
2010						
Life Insurance in force (\$000)	\$1,202,208	\$76,042	\$1,801,414	\$2,927,580	61.5	%
Premiums:						
Life Insurance	\$36,535,373	\$601,049	\$2,384,637	\$38,318,961	3.7	%
Accident and Health Insurance	190,237	-	-	190,237	0.0	%
Total premiums	\$36,725,610	\$601,049	\$2,384,637	\$38,509,198	3.7	%

Schedule V

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions Disposals and Write-offs	Balance at End of Year
For the Year Ended December 31, 2012				
Accumulated depreciation on real estate	\$5,999,879	\$1,619,646	\$(178,107)	\$7,441,418
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	4,881,173	433,829	(1,075,141)	4,239,861
Accumulated depreciation on property and equipment	16,103,305	1,258,097	(386,504)	16,974,898
Allowance for doubtful accounts on receivables	2,278,969	208,472	(1,296,849)	1,190,592
Allowance for doubtful accounts on collateral loans	427,136	232,081	(154,187)	505,030
For the Year Ended December 31, 2011				
Accumulated depreciation on real estate	\$4,940,227	\$1,315,547	\$(255,895)	\$5,999,879
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	7,070,442	1,235,720	(3,424,989)	4,881,173
Accumulated depreciation on property and equipment	16,235,255	1,499,038	(1,630,988)	16,103,305
Allowance for doubtful accounts on receivables	1,995,347	747,304	(463,682)	2,278,969
Allowance for doubtful accounts on collateral loans	380,506	171,838	(125,208)	427,136
For the Year Ended December 31, 2010				
Accumulated depreciation on real estate	\$3,939,272	\$1,105,580	\$(104,625)	\$4,940,227
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	6,808,803	630,133	(368,494)	7,070,442
Accumulated depreciation on property and equipment	19,133,583	1,811,931	(4,710,259)	16,235,255
Allowance for doubtful accounts on receivables	2,183,056	918,256	(1,105,965)	1,995,347
Allowance for doubtful accounts on collateral loans	652,498	120,000	(391,992)	380,506

