

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2010, or

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

Commission file number: 000-09341

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

UTAH
(State or other jurisdiction of incorporation or organization)

87-0345941
(I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250 Salt Lake City, Utah
(Address of principal executive office)

84123
(Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class A Common Stock, \$2.00 par value	8,741,852
Title of Class	Number of Shares Outstanding as of August 11, 2010
Class C Common Stock, \$.20 par value	9,200,145
Title of Class	Number of Shares Outstanding as of August 11, 2010

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company).

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED JUNE 30, 2010

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

Assets	June 30, 2010	December 31, 2009
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 116,871,210	\$ 115,832,300
Fixed maturity securities, available for sale, at estimated fair value	129,735	1,149,523
Equity securities, available for sale, at estimated fair value	6,186,539	5,786,614
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$6,795,390 and \$6,808,803 for 2010 and 2009, respectively	108,367,630	103,290,076
Real estate held for investment, net of accumulated depreciation and allowances for losses of \$4,413,826 and \$4,046,272 for 2010 and 2009, respectively	53,216,157	46,901,832
Policy, student and other loans, net of allowances for doubtful accounts	16,261,155	18,145,029
Short-term investments	1,380,639	7,144,319
Accrued investment income	2,133,727	2,072,495
Total investments	304,546,792	300,322,188
Cash and cash equivalents	14,581,093	39,463,803
Mortgage loans sold to investors	70,762,022	39,269,598
Receivables, net	12,337,399	10,873,207
Restricted assets of cemeteries and mortuaries	2,886,586	2,593,413
Cemetery perpetual care trust investments	1,214,022	1,104,046
Receivable from reinsurers	4,761,808	5,776,780
Cemetery land and improvements	11,107,748	10,987,833
Deferred policy and pre-need contract acquisition costs	35,154,574	34,087,951
Property and equipment, net	11,557,915	11,994,284
Value of business acquired	9,497,505	10,252,670
Goodwill - cemetery and mortuary operations	1,075,039	1,075,039
Other	3,424,517	2,776,086
Total Assets	\$ 482,907,020	\$ 470,576,898

See accompanying notes to condensed consolidated financial statements.

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

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$ 341,582,145	\$ 336,343,433
Unearned premium reserve	5,023,235	4,780,645
Bank loans payable	24,412,603	8,656,245
Notes and contracts payable	242,494	283,744
Deferred pre-need cemetery and mortuary contract revenues	13,341,217	13,381,662
Cemetery perpetual care obligation	2,828,344	2,756,174
Accounts payable	2,722,359	2,601,149
Other liabilities and accrued expenses	18,161,997	24,623,535
Income taxes	15,491,381	17,344,869
Total liabilities	<u>423,805,775</u>	<u>410,771,456</u>
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 8,741,852 shares in 2010 and 8,730,227 shares in 2009	17,483,704	17,460,454
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 9,200,145 shares in 2010 and 9,214,211 in 2009	1,840,029	1,842,842
Additional paid-in capital	19,530,247	19,191,606
Accumulated other comprehensive income, net of taxes	959,372	1,593,327
Retained earnings	22,646,965	23,178,944
Treasury stock at cost - 1,391,028 Class A shares in 2010 and 1,454,974 Class A shares in 2009	<u>(3,359,072)</u>	<u>(3,461,731)</u>
Total stockholders' equity	<u>59,101,245</u>	<u>59,805,442</u>
Total Liabilities and Stockholders' Equity	<u>\$ 482,907,020</u>	<u>\$ 470,576,898</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Insurance premiums and other considerations	\$ 9,730,491	\$ 9,309,971	\$ 19,653,384	\$ 19,093,689
Net investment income	5,187,586	5,255,832	9,755,781	11,303,834
Net mortuary and cemetery sales	3,121,440	3,402,250	6,023,161	6,373,246
Realized gains (losses) on investments and other assets	289,471	226,723	653,917	292,769
Mortgage fee income	24,335,286	39,545,590	44,746,120	79,799,784
Other	760,484	269,566	1,114,301	638,707
Total revenues	43,424,758	58,009,932	81,946,664	117,502,029
Benefits and expenses:				
Death benefits	5,029,515	4,876,923	9,864,337	9,409,148
Surrenders and other policy benefits	55,960	360,905	642,631	875,910
Increase in future policy benefits	4,181,521	3,240,931	8,089,349	7,022,183
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,282,570	1,694,015	2,715,625	3,679,320
Selling, general and administrative expenses:				
Commissions	15,770,484	20,778,365	28,011,742	41,446,178
Salaries	6,767,622	6,740,660	14,045,581	13,626,477
Provision for loan losses and loss reserve	1,080,029	5,113,961	2,100,514	10,434,622
Other	7,904,072	9,435,288	15,653,165	18,592,324
Interest expense	708,839	662,867	1,310,206	1,762,994
Cost of goods and services sold-mortuaries and cemeteries	559,365	621,648	1,101,647	1,228,601
Total benefits and expenses	43,339,977	53,525,563	83,534,797	108,077,757
Earning (loss) before income taxes	84,781	4,484,369	(1,588,133)	9,424,272
Income tax benefit (expense)	334,638	(1,393,980)	1,056,319	(3,100,873)
Net earnings (loss)	\$ 419,419	\$ 3,090,389	\$ (531,814)	\$ 6,323,399
Net earnings (loss) per Class A Equivalent common share (1)	\$ 0.05	\$ 0.38	\$ (0.06)	\$ 0.78
Net earnings (loss) per Class A Equivalent common share-assuming dilution (1)	\$ 0.05	\$ 0.38	\$ (0.06)	\$ 0.78
Weighted-average Class A equivalent common share outstanding (1)	8,259,101	8,156,440	8,243,493	8,126,421
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	8,260,143	8,156,440	8,316,626	8,126,421

(1) Earnings (loss) 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 share basis. Net earnings (loss) per common share represent net earnings (loss) per equivalent Class A common share. Net earnings (loss) per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net cash provided (used) by operating activities	\$ (31,583,120)	\$ 22,303,452
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(6,794,598)	(6,081,944)
Calls and maturities - fixed maturity securities	6,824,714	15,414,024
Securities available for sale:		
Purchase - equity securities	(4,037,803)	(1,400,080)
Sales - equity securities	3,072,203	826,586
Purchase of short-term investments	(4,887,121)	(14,296,660)
Sales of short-term investments	10,650,801	13,353,755
Sales (Purchase) of restricted assets	(300,431)	1,639,358
Changes in assets for perpetual care trusts	(156,540)	(115,980)
Amount received for perpetual care trusts	72,170	67,550
Mortgage, policy, and other loans made	(17,587,449)	(12,141,761)
Payments received for mortgage, policy and other loans	6,911,408	8,200,013
Purchase of property and equipment	(414,902)	(365,552)
Disposal of property and equipment	-	845
Purchase of real estate	(1,701,585)	(3,178,555)
Sale of real estate	2,206,112	2,620,953
Net cash provided (used) by investing activities	(6,143,021)	4,542,552
Cash flows from financing activities:		
Annuity contract receipts	4,287,856	4,565,274
Annuity contract withdrawals	(7,128,354)	(7,130,158)
Repayment of bank loans on notes and contracts	(1,066,071)	(896,367)
Proceeds from borrowing on bank loans	16,750,000	2,031,952
Net cash provided (used) by financing activities	12,843,431	(1,429,299)
Net change in cash and cash equivalents	(24,882,710)	25,416,705
Cash and cash equivalents at beginning of period	39,463,803	19,914,110
Cash and cash equivalents at end of period	\$ 14,581,093	\$ 45,330,815
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	\$ 7,410,770	\$ 16,616,672

See accompanying notes to condensed consolidated financial statements.

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2009, included in the Company's Annual Report on Form 10-K (file number 0-9341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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

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

Certain 2009 amounts have been reclassified to bring them into conformity with the 2010 presentation.

2) Recent Accounting Pronouncements

Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses: In July 2010, the FASB issued accounting guidance requiring that entities provide additional disclosure about the credit quality of its financing receivables and the related allowance for credit losses. Entities are required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

Consolidation Analysis Considering Investments Held through Separate Accounts: In April 2010, the FASB issued guidance clarifying that an insurer is not required to combine interests in investments held in a qualifying separate account with its interests in the same investments held in the general account when performing a consolidation evaluation. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

Stock-Based Compensation: In April 2010, the FASB issued guidance to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with early adoption permitted. 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 Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of June 30, 2010 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>June 30, 2010:</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S Government agencies	\$ 8,907,869	\$ 776,643	\$ (1,469)	\$ 9,683,043
Obligations of states and political subdivisions	1,891,377	131,548	(18,027)	2,004,898
Corporate securities including public utilities	97,249,699	6,742,153	(1,243,872)	102,747,980
Mortgage-backed securities	7,242,312	290,156	(557,453)	6,975,015
Redeemable preferred stock	<u>1,579,953</u>	<u>19,230</u>	<u>(70,631)</u>	<u>1,528,552</u>
Total fixed maturity securities held to maturity	<u>\$ 116,871,210</u>	<u>\$ 7,959,730</u>	<u>\$ (1,891,452)</u>	<u>\$ 122,939,488</u>

Securities available for sale carried at estimated fair value:

Fixed maturity securities available for sale:

U.S. Treasury securities and obligations of U.S. Government agencies	<u>\$ 98,320</u>	<u>\$ 31,415</u>	<u>\$ -</u>	<u>\$ 129,735</u>
Total fixed maturity securities available for sale	<u>\$ 98,320</u>	<u>\$ 31,415</u>	<u>\$ -</u>	<u>\$ 129,735</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

3) Investments (Continued)

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>June 30, 2010:</u>				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$ 20,281	\$ -	\$ (4,927)	\$ 15,354
Common stock:				
Industrial, miscellaneous and all other	6,754,171	345,247	(928,233)	6,171,185
Total equity securities available for sale at estimated fair value	<u>\$ 6,774,452</u>	<u>\$ 345,247</u>	<u>\$ (933,160)</u>	<u>\$ 6,186,539</u>
Total securities available for sale carried at estimated fair value	<u>\$ 6,872,772</u>	<u>\$ 376,662</u>	<u>\$ (933,160)</u>	<u>\$ 6,316,274</u>
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 56,832,153			
Residential construction	21,722,877			
Commercial	36,607,990			
Less: Allowance for loan losses	(6,795,390)			
Total mortgage loans on real estate and construction loans held for investment	<u>\$ 108,367,630</u>			
Real estate at cost – net of depreciation and allowance	<u>\$ 53,216,157</u>			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	<u>\$ 16,261,155</u>			
Short-term investments at amortized cost	<u>\$ 1,380,639</u>			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2009 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2009:</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 9,477,032	\$ 430,783	\$ (6,389)	\$ 9,901,426
Obligations of states and political subdivisions	2,034,784	95,333	(20,722)	2,109,395
Corporate securities including public utilities	95,903,129	3,927,607	(2,763,448)	97,067,288
Mortgage-backed securities	6,852,072	182,932	(1,338,817)	5,696,187
Redeemable preferred stock	<u>1,565,283</u>	<u>-</u>	<u>(109,832)</u>	<u>1,455,451</u>
Total fixed maturity securities held to maturity	<u>\$ 115,832,300</u>	<u>\$ 4,636,655</u>	<u>\$ (4,239,208)</u>	<u>\$ 116,229,747</u>
Securities available for sale carried at estimated fair value:				
Fixed maturity securities available for sale:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 98,280	\$ 21,158	\$ -	\$ 119,438
Corporate securities including public utilities	<u>1,012,458</u>	<u>17,627</u>	<u>-</u>	<u>1,030,085</u>
Total fixed maturity securities available for sale	<u>\$ 1,110,738</u>	<u>\$ 38,785</u>	<u>\$ -</u>	<u>\$ 1,149,523</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

3) Investments (Continued)

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2009:</u>				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$ 20,281	\$ -	\$ (5,061)	\$ 15,220
Common stock:				
Industrial, miscellaneous and all other	<u>5,398,320</u>	<u>682,075</u>	<u>(309,001)</u>	<u>5,771,394</u>
Total equity securities available for sale at estimated fair value	<u>\$ 5,418,601</u>	<u>\$ 682,075</u>	<u>\$ (314,062)</u>	<u>\$ 5,786,614</u>
Total securities available for sale carried at estimated fair value	<u>\$ 6,529,339</u>	<u>\$ 720,860</u>	<u>\$ (314,062)</u>	<u>\$ 6,936,137</u>
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 60,863,842			
Residential construction	25,028,081			
Commercial	24,206,956			
Less: Allowance for loan losses	<u>(6,808,803)</u>			
Total mortgage loans on real estate and construction loans held for investment	<u>\$ 103,290,076</u>			
Real estate at cost – net of depreciation & allowance	<u>\$ 46,901,832</u>			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	<u>\$ 18,145,029</u>			
Short-term investments at amortized cost	<u>\$ 7,144,319</u>			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed-maturities securities, which are carried at amortized cost, at June 30, 2010 and December 31, 2009. The unrealized losses were primarily related to interest rate fluctuations or spread-widening, and mortgage and other asset-backed securities. 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
<u>At June 30, 2010</u>					
Interest rate or spread widening	\$ 435,220	18	\$ 898,779	34	\$ 1,333,999
Mortgage and other asset-backed securities	15,646	3	541,807	5	557,453
Total unrealized losses	<u>\$ 450,866</u>	<u>21</u>	<u>\$ 1,440,586</u>	<u>39</u>	<u>\$ 1,891,452</u>
Fair Value	<u>\$ 7,917,487</u>		<u>\$ 11,128,618</u>		<u>\$ 19,046,105</u>
<u>At December 31, 2009</u>					
Interest rate or spread widening	\$ 580,244	37	\$ 2,320,148	70	\$ 2,900,392
Mortgage and other asset-backed securities	31,337	3	1,307,479	5	1,338,816
Total unrealized losses	<u>\$ 611,581</u>	<u>40</u>	<u>\$ 3,627,627</u>	<u>75</u>	<u>\$ 4,239,208</u>
Fair Value	<u>\$ 17,777,172</u>		<u>\$ 22,641,536</u>		<u>\$ 40,418,708</u>

As of June 30, 2010, the average market value of the related fixed maturities was 91.0% of amortized cost and the average market value was 90.5% of amortized cost as of December 31, 2009. During the first six months ended June 30, 2010 and for the year ended December 31, 2009, an other-than-temporary decline in market value resulted in the recognition of an impairment loss on fixed maturity securities of \$30,000 and \$326,000, respectively. No other-than-temporary impairment loss was considered to exist for these fixed maturities as of June 30, 2010 and December 31, 2009.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

3) 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 June 30, 2010 and December 31, 2009. 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
<u>At June 30, 2010</u>					
Non-redeemable preferred stock	\$ -	-	\$ 4,927	2	\$ 4,927
Industrial, miscellaneous and all other	638,759	92	289,474	13	928,233
Total unrealized losses	\$ 638,759	92	\$ 294,401	15	\$ 933,160
Fair Value	<u>\$ 3,759,691</u>		<u>\$ 488,678</u>		<u>\$ 4,248,369</u>
<u>At December 31, 2009</u>					
Non-redeemable preferred stock	\$ -	-	\$ 5,061	2	\$ 5,061
Industrial, miscellaneous and all other	55,287	23	253,714	16	309,001
Total unrealized losses	\$ 55,287	23	\$ 258,775	18	\$ 314,062
Fair Value	<u>\$ 1,007,525</u>		<u>\$ 660,809</u>		<u>\$ 1,668,334</u>

As of June 30, 2010, the average market value of the equity securities available for sale was 82.0% of the original investment and the average market value was 84.2% of the original investment as of December 31, 2009. 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. No other-than-temporary impairment loss on equity securities was determined to exist as of June 30, 2010 and December 31, 2009.

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 AND SUBSIDIARIES
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3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at June 30, 2010, 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 2010	\$ 2,248,171	\$ 2,261,598
Due in 2011 through 2014	23,369,328	24,992,700
Due in 2015 through 2019	35,985,098	39,224,650
Due after 2019	46,446,348	47,956,973
Mortgage-backed securities	7,242,312	6,975,015
Redeemable preferred stock	1,579,953	1,528,552
Total held to maturity	<u>\$ 116,871,210</u>	<u>\$ 122,939,488</u>

The amortized cost and estimated fair value of available-for-sale securities at June 30, 2010, 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 2010	\$ -	\$ -
Due in 2011 through 2014	-	-
Due in 2015 through 2019	-	-
Due after 2019	98,320	129,735
Non-redeemable preferred stock	20,281	15,354
Common stock	6,754,171	6,171,185
Total available for sale	<u>\$ 6,872,772</u>	<u>\$ 6,316,274</u>

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

	Three Month Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Fixed maturity securities held to maturity:				
Gross realized gains	\$ 23,315	\$ 8,181	\$ 296,012	\$ 69,637
Gross realized losses	(57,682)	(450)	(252,924)	(581)
Securities available for sale:				
Gross realized gains	151,488	226,318	447,992	226,936
Gross realized losses	(12,144)	(11,348)	(43,073)	(11,349)
Other assets	184,494	4,022	205,910	8,126
Total	<u>\$ 289,471</u>	<u>\$ 226,723</u>	<u>\$ 653,917</u>	<u>\$ 292,769</u>

Generally gains and losses from held to maturity securities are a result of early calls and related amortization of premiums or discounts. However, credit losses of \$30,000 and \$-0- were recognized during the three months ended June 30, 2010 and 2009, respectively, and credit losses of \$30,000 and \$-0- were recognized during the six months ended June 30, 2010 and 2009, respectively, from other-than-temporary declines in market value of held to maturity securities.

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3) Investments (Continued)

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 11.0%, 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 June 30, 2010, the Company has 43%, 11% and 14% of its mortgage loans from borrowers located in the states of Utah, Florida and California, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$6,795,390 and \$6,808,803 at June 30, 2010 and December 31, 2009, respectively.

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 June 30, 2010, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Month Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Fixed maturity securities	\$ 1,770,573	\$ 1,749,945	\$ 3,540,003	\$ 3,583,951
Equity securities	61,158	221,982	112,774	406,086
Mortgage loans on real estate	1,580,153	1,447,064	2,998,595	2,876,259
Real estate	369,273	439,197	767,899	799,381
Policy, student and other loans	217,651	175,128	445,392	431,746
Short-term investments, principally gains on sale of mortgage loans and other	1,803,131	1,821,517	3,177,864	4,405,380
Gross investment income	5,801,939	5,854,833	11,042,527	12,502,803
Investment expenses	(614,353)	(599,001)	(1,286,746)	(1,198,969)
Net investment income	<u>\$ 5,187,586</u>	<u>\$ 5,255,832</u>	<u>\$ 9,755,781</u>	<u>\$ 11,303,834</u>

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of \$337,489 and \$189,337 for three months ended June 30, 2010 and 2009, respectively, and \$706,309 and \$366,150 for the six months ended June 30, 2010 and 2009, 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.

Securities on deposit for regulatory authorities as required by law amounted to \$9,470,110 at June 30, 2010 and \$10,614,292 at December 31, 2009. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

4) Comprehensive Income

For the three months ended June 30, 2010 and 2009, total comprehensive income (loss) amounted to \$(333,255) and \$2,900,185, respectively.

For the six months ended June 30, 2010 and 2009, total comprehensive income (loss) amounted to \$(1,165,769) and \$7,462,766, respectively.

5) Stock-Based Compensation

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 \$135,569 and \$89,100 has been recognized for these plans for the quarters ended June 30, 2010 and 2009, respectively, and \$269,689 and \$291,611 for the six months ended June 30, 2010 and 2009, respectively. Deferred tax credit has been recognized related to the compensation expense of \$46,093 and \$30,294 for the quarters ended March 31, 2010 and 2009, respectively, and \$91,674 and \$99,148 for the six months ended June 30, 2010 and 2009, respectively.

Options to purchase 211,000 shares of the Company's common stock were granted March 31, 2008. The fair value relating to stock-based compensation is \$453,650 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over the twelve months ended March 31, 2009.

Options to purchase 324,000 shares of the Company's common stock were granted December 5, 2008. The fair value relating to stock-based compensation is \$356,400 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over twelve months ending December 31, 2009.

Options to purchase 330,500 shares of the Company's common stock were granted December 4, 2009. The fair value relating to stock-based compensation is \$542,275 and will be expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ending December 31, 2010.

The weighted-average fair value of each option granted during 2008 under the 2003 Plan and 2006 Plan is estimated at \$2.15 for the March 31, 2008 options and \$1.10 for the December 5, 2008 options as of the grant date using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 63%, risk-free interest of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted during 2009 under the 2003 Plan and 2006 Plan is estimated at \$1.70 and \$1.55 for the December 4, 2009 options as of the grant date using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 72%, risk-free interest of 3.4%, and an unexpected life of five to ten years.

The Company generally estimates the expected life of the options based upon the contractual term of the options. Future volatility is estimated based upon the historical volatility of the Company's Class A common stock 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.

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6) Capital Stock

The Company has two classes of common stock with shares outstanding, Class A and Class C. Class C shares are convertible into Class A shares at any time on a ten to one ratio. The three months and year to date June 30, 2010 decrease in outstanding Class C shares and the corresponding increase in Class A shares was due to conversion of Class C to Class A common stock. The decrease in treasury stock was the result of treasury stock being used to fund the Company's 401-K and Deferred Compensation plans.

7) Earnings (Loss) Per Share

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

	Three Months Ended June 30,	
	2010	2009
Numerator:		
Net earnings	\$ 419,419	\$ 3,090,389
Denominator:		
Basic weighted-average shares outstanding	8,259,101	8,156,440
Effect of dilutive securities:		
Employee stock options	1,042	-
Dilutive potential common shares	1,042	-
Diluted weighted-average shares outstanding	8,260,143	8,156,440
Basic gain (loss) per share	\$ 0.05	\$ 0.38
Diluted gain (loss) per share	\$ 0.05	\$ 0.38
	Six Months Ended June 30,	
	2010	2009
Numerator:		
Net earnings (loss)	\$ (531,814)	\$ 6,323,399
Denominator:		
Basic weighted-average shares outstanding	8,243,493	8,126,421
Effect of dilutive securities:		
Employee stock options	73,133	-
Dilutive potential common shares	73,133	-
Diluted weighted-average shares outstanding	8,316,626	8,126,421
Basic gain (loss) per share	\$ (0.06)	\$ 0.78
Diluted gain (loss) per share	\$ (0.06)	\$ 0.78

Earnings (loss) per share amounts have been adjusted for the effect of annual stock dividends. For the three months ended June 30, 2010 and 2009 the antidilutive employee stock option shares were 1,814,558 and 303,225, respectively. For the six months ended June 30, 2010 and 2009 the antidilutive employee stock options were 1,754,567 and 303,225, respectively.

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8) Business Segment

	<u>Life Insurance</u>	<u>Cemetery/ Mortuary</u>	<u>Mortgage</u>	<u>Reconciling Items</u>	<u>Consolidated</u>
For the Three Months Ended					
<u>June 30, 2010</u>					
Revenues from external customers	\$ 14,294,453	\$ 3,611,410	\$ 25,518,895	\$ -	\$ 43,424,758
Intersegment revenues	1,564,408	428,698	61,358	(2,054,464)	-
Segment profit (loss) before income taxes	1,303,284	99,703	(1,318,206)	-	84,781
For the Three Months Ended					
<u>June 30, 2009</u>					
Revenues from external customers	\$ 13,499,302	\$ 3,625,168	\$ 40,885,462	\$ -	\$ 58,009,932
Intersegment revenues	1,366,734	95,303	50,810	(1,512,847)	-
Segment profit (loss) before income taxes	363,661	151,353	3,969,355	-	4,484,369
For the Six Months Ended					
<u>June 30, 2010</u>					
Revenues from external customers	\$ 28,387,336	\$ 6,916,048	\$ 46,643,280	\$ -	\$ 81,946,664
Intersegment revenues	2,760,213	797,944	118,043	(3,676,200)	-
Segment profit (loss) before income taxes	1,450,594	52,759	(3,091,486)	-	(1,588,133)
Identifiable Assets	446,016,789	109,101,362	34,429,574	(106,640,705)	482,907,020
For the Six Months Ended					
<u>June 30, 2009</u>					
Revenues from external customers	\$ 27,457,720	\$ 6,806,263	\$ 83,238,046	\$ -	\$ 117,502,029
Intersegment revenues	2,429,988	177,894	102,596	(2,710,478)	-
Segment profit before income taxes	51,461	396,914	8,975,897	-	9,424,272
Identifiable Assets	425,588,966	87,315,916	39,402,323	(90,161,957)	462,145,248

9) Disclosure about 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.

We utilize a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

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9) Disclosure about 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 recurring basis by their classification in the condensed consolidated balance sheet at June 30, 2010.

	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				
Investment in securities available for sale	\$ 6,316,274	\$ 6,316,274	\$ -	\$ -
Short-term investments	1,380,639	1,380,639	-	-
Restricted assets of cemeteries and mortuaries	1,934,291	1,934,291	-	-
Cemetery perpetual care trust investments	1,214,022	1,214,022	-	-
Derivatives - interest rate lock commitments	2,363,060	-	-	2,363,060
Total assets accounted for at fair value on a recurring basis	\$ 13,208,286	\$ 10,845,226	\$ -	\$ 2,363,060
Liabilities accounted for at fair value on a recurring basis				
Investment type insurance contracts	\$(115,165,994)	\$ -	\$ -	\$(115,165,994)
Derivatives - bank loan interest rate swaps	(132,431)	-	-	(132,431)
- call options	(36,572)	-	-	(36,572)
- interest rate lock commitments	(480,973)	-	-	(480,973)
Total liabilities accounted for at fair value on a recurring basis	\$(115,815,970)	\$ -	\$ -	\$(115,815,970)

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

	Investment Type Insurance Contracts	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps	Call Options
Balance - December 31, 2009	\$ (115,763,748)	\$ 1,554,711	\$ (101,251)	\$ (134,492)
Options sold	-	-	-	(216,751)
Total gains (losses):				
Included in earnings	597,754	-	-	314,671
Included in other comprehensive income (loss)	-	327,376	(31,180)	-
Balance - June 30, 2010	\$ (115,165,994)	\$ 1,882,087	\$ (132,431)	\$ (36,572)

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9) Disclosure about 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 recurring basis by their classification in the condensed consolidated balance sheet at June 30, 2009.

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets accounted for at fair value on a recurring basis				
Investment in securities available for sale	\$ 6,642,366	\$ 6,642,366	\$ -	\$ -
Short-term investments	6,225,891	6,225,891	-	-
Restricted assets of cemeteries and mortuaries	1,580,839	1,580,839	-	-
Cemetery perpetual care trust investments	1,924,592	1,924,592	-	-
Derivatives - interest rate lock commitments	2,128,285	-	-	2,128,285
Total assets accounted for at fair value on a recurring basis	<u>\$ 18,501,973</u>	<u>\$ 16,373,688</u>	<u>\$ -</u>	<u>\$ 2,128,285</u>
Liabilities accounted for at fair value on a recurring basis				
Investment-type insurance contracts	\$(110,738,686)	\$ -	\$ -	\$(110,738,686)
Derivatives - bank loan interest rate swaps	(110,232)	-	-	(110,232)
- call options	(63,452)	-	-	(63,452)
- interest rate lock commitment	(103,079)	-	-	(103,079)
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (111,015,449)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (111,015,449)</u>

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

	<u>Investment Type Insurance Contracts</u>	<u>Interest Rate Lock Commitments</u>	<u>Bank Loan Interest Rate Swaps</u>	<u>Call Options</u>
Balance - December 31, 2008	\$ (112,351,916)	\$ 362,231	\$ (167,483)	\$ -
Options sold	-	-	-	(354,316)
Total gains (losses):				
Included in earnings	1,613,230	-	-	290,864
Included in other comprehensive income	-	1,662,975	57,251	-
Balance - June 30, 2009	<u>\$ (110,738,686)</u>	<u>\$ 2,025,206</u>	<u>\$ (110,232)</u>	<u>\$ (63,452)</u>

The items shown under level one are valued as follows:

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.

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.

9) Disclosure about Fair Value of Financial Instruments (Continued)

The items shown under level three 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%.

Interest rate lock commitments. As discussed further in Note 11, 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.

Bank loan interest rate swaps. 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.

10) Other Business Activity

Mortgage Operations

Over fifty percent of revenue and expenses of the Company are through its wholly owned subsidiary, SecurityNational Mortgage. SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows and loan purchase agreements with unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the six months ended June 30, 2010 and 2009, SecurityNational Mortgage originated and sold 5,459 loans (\$967,240,911 total volume), and 9,781 loans (\$1,824,623,109 total volume), respectively. For the three months ended June 30, 2010 and 2009 SecurityNational Mortgage originated and sold 3,098 loans (\$540,474,122 total volume), and 4,846 loans (\$885,209,753 total volume), respectively.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreements at June 30, 2010 was \$55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of June 30, 2010, there were \$131,803,246 in mortgage loans in which settlements with third party investors were still pending. Generally when certain mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on June 18, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

10) Other Business Activity (Continued)

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 meet 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 the loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including any investor commitments for these 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 such as 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 the Company are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in the Company's best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems with respect to 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. Remedy methods include, but are not limited to:

- 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.

10) Other Business Activity (Continued)

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.

As a standard in the industry, the Company receives payments on the mortgage loans during the time period between the sale date and settlement or repurchase date. During the period the Company services these loans through Security National Life, its life insurance subsidiary.

As of June 30, 2010, the Company's long term mortgage loan portfolio contained mortgage loans of \$19,590,551 in unpaid principal with delinquencies more than 90 days. Of this amount, \$9,204,691 in mortgage loans were in foreclosure proceedings. The Company has not received nor recognized any interest income on the \$19,590,551 in mortgage loans with delinquencies more than 90 days. During the three and six months ended June 30, 2010, the Company increased its allowance for mortgage losses by \$4,219 and \$171,081, respectively which was charged to loan loss expense and included in other selling, general and administrative expenses for the period. The allowance for mortgage loan losses as of June 30, 2010 and December 31, 2009 was \$6,795,390 and \$6,808,803, respectively.

Also at June 30, 2010, the Company has foreclosed on a total of \$51,661,589 in long term mortgage loans, of which \$7,410,770 in loans were foreclosed on and reclassified as real estate during 2010. The foreclosed property was shown in real estate. 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.

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June 30, 2010 (Unaudited)

11) Allowance for Loan Losses and Loan Loss Reserve

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account) and for mortgage loans sold to investors through the mortgage loan loss reserve (a liability account). The allowance for loan losses and doubtful accounts is an allowance for losses on the Company's mortgage loans held for investment. 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 is classified as real estate. The Company carries the foreclosed properties 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 following is a summary of the allowance for loan losses as a contra-asset account:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 6,806,003	\$ 5,561,421	\$ 6,808,803	\$ 4,780,467
Provisions for losses	4,219	61,383	171,081	842,337
Charge-offs	(14,832)	(1,231)	(184,494)	(1,231)
Balance, end of period	<u>\$ 6,795,390</u>	<u>\$ 5,621,573</u>	<u>\$ 6,795,390</u>	<u>\$ 5,621,573</u>

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 the Company's historical experience. The amount accrued for the three and six months ended June 30, 2010 was \$1,526,966 and \$2,900,321, respectively and the amount accrued for the three and six months ended June 30, 2009 was \$5,052,577 and \$9,792,284, respectively, and the charge to expense has been included in other selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses, and, as of June 30, 2010 and December 31, 2009, the balance was \$9,890,947 and \$11,662,897, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 8,991,955	\$ 5,337,012	\$ 11,662,897	\$ 2,775,452
Provisions for losses	1,526,966	5,052,577	2,900,321	9,792,284
Charge-offs	(627,974)	(2,556,456)	(4,672,271)	(4,734,603)
Balance, end of period	<u>\$ 9,890,947</u>	<u>\$ 7,833,133</u>	<u>\$ 9,890,947</u>	<u>\$ 7,833,133</u>

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims and potential claims asserted by Bank of America, Wells Fargo and JP Morgan Chase if SecurityNational Mortgage is unable to negotiate acceptable settlement agreements with these banks, litigation ensues, and SecurityNational Mortgage is not successful in what it believes are its significant defenses to these claims. In such event, a substantial judgment could be entered against SecurityNational Mortgage that exceeds the amount of the loan loss reserve.

12) Derivative Investments

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 the 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 derivative instruments to economically hedge the price risk associated with its outstanding mortgage loan commitments. Forward loan sales commitments protect 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 June 30, 2010 and December 31, 2009 was \$36,572 and \$134,492, 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2010 (Unaudited)

12) Derivative Investments (Continued)

The following table shows the fair value of derivatives as of June 30, 2010 and December 31, 2009.

	Fair Value of Derivative Instruments							
	Asset Derivatives				Liability Derivatives			
	June 30, 2010		December 31, 2009		June 30, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments	other assets	\$ 2,363,060	other assets	\$ 1,770,193	Other liabilities	\$ 480,973	Other liabilities	\$ 215,481
Call Options	--	--	--	--	Other liabilities	36,572	Other liabilities	134,492
Interest rate swaps	--	--	--	--	Bank loans payable	132,431	Bank loans payable	101,206
Total		<u>\$ 2,363,060</u>		<u>\$ 1,770,193</u>		<u>\$ 649,976</u>		<u>\$ 451,179</u>

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.

	Gross Amount Gain (Loss) Recognized in OCI	
	Three Months Ended June 30,	
	2010	2009
<u>Derivative - Cash Flow Hedging Relationships:</u>		
Interest Rate Lock Commitments	\$ 314,221	\$ (1,099,845)
Interest Rate Swaps	(23,718)	46,789
Total	<u>\$ 290,503</u>	<u>\$ (1,053,056)</u>
	Six Months Ended June 30,	
	2010	2009
<u>Derivative - Cash Flow Hedging Relationships:</u>		
Interest Rate Lock Commitments	\$ 327,376	\$ 1,662,975
Interest Rate Swaps	(31,179)	57,251
Total	<u>\$ 296,197</u>	<u>\$ 1,720,226</u>

13) Commitments and Contingencies

On April 16, 2010, the Company's life insurance subsidiary, Security National Life, entered into a revolving line of credit with a bank for \$15,000,000. The terms for the line of credit are interest at the LIBOR daily rate plus 2% per annum on amounts drawn and a tiered unused fee between 0% to .25% per annum on the monthly average unfunded balances. There would not be an unused fee if the average balances drawn are 60% or more. The line of credit matures on April 15, 2011. The line of credit is secured by marketable fixed maturity securities. The amount drawn on the line of credit cannot exceed 75% of market value of the fixed maturity securities. The main purpose of the line of credit is for additional funding capacity to originate mortgage loans for the Company's mortgage subsidiary operations of originating and selling loans to third party investors. Amounts drawn will be paid back once the funds are received from third party investors. As of June 30, 2010 \$14,500,000 was drawn on the line.

On December 31, 2008, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with Continental American Insurance Company ("Continental American"), a South Carolina domiciled insurance company. This agreement was effective November 30, 2008. Under the terms of the agreement, the Company ceded to Continental American 100% of a block of deferred annuities in the amount of \$4,828,487 as of December 31, 2008 and retained the assets and recorded a funds held under coinsurance liability for the same amount. Continental American agreed to pay the Company an initial ceding commission of \$60,000 and a quarterly management fee of \$16,500 per quarter to administer the policies. The Company will also receive a 90% experience refund for any profits on the business. The Company has the right to recapture the business on January 1 subsequent to December 31, 2008 or any other date if mutually agreed and with 90 days written notice to Continental American. The Company and Continental American terminated this agreement on March 31, 2010.

The Company has entered into commitments to fund new residential construction loans. As of June 30, 2010 the Company's commitments are \$23,404,185 for these loans of which \$21,738,419 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% to 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 June 30, 2010). Maturities range between six and twelve months.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreements at June 30, 2010 was \$55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of June 30, 2010, there were \$131,803,246 in mortgage loans in which settlements with third party investors were still pending. Generally, when certain mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on June 18, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

Aurora Loan Services

In 1998, SecurityNational Mortgage entered into a Loan Purchase Agreement with Lehman Brothers Bank and its wholly owned subsidiary, Aurora Loan Services, LLC. Under the terms of the Loan Purchase Agreement, Lehman Brothers, through its subsidiary, Aurora Loan Services, agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Aurora Loan Services purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. On January 17, 2008, Aurora Loan Services announced it was suspending all wholesale and correspondent mortgage originations. As a result of this policy change, Aurora Loan Services discontinued purchasing mortgage loans from all mortgage brokers and lenders, including SecurityNational Mortgage.

13) Commitments and Contingencies (Continued)

During 2007, Aurora Loan Services maintained that as part of its quality control efforts it reviewed mortgage loans purchased from SecurityNational Mortgage and determined that certain of the loans contained alleged misrepresentations and early payment defaults. Aurora Loan Services further maintained that these alleged breaches in the purchased mortgage loans provide it with the right to require SecurityNational Mortgage to immediately repurchase the mortgage loans containing the alleged breaches in accordance with the terms of the Loan Purchase Agreement. In order for Lehman Brothers and Aurora Loan Services to refrain from demanding immediate repurchase of the mortgage loans by SecurityNational Mortgage, SecurityNational Mortgage was willing to enter into an agreement to indemnify Lehman Brothers and Aurora Loan Services for any losses incurred in connection with certain mortgage loans with alleged breaches that were purchased from SecurityNational Mortgage.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Brothers and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agrees to indemnify Lehman Brothers and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may have as a result of any current or future defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage and listed as an attachment to the Indemnification Agreement. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also requires SecurityNational Mortgage to indemnify Lehman Brothers and Aurora Loan Services for 100% of losses incurred on mortgage loans with alleged breaches that are not listed on the attachment to the agreement.

Concurrently with the execution of the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account to secure the obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit is in addition to a \$250,000 deposit that SecurityNational Mortgage made to Aurora Loan Services on December 10, 2007, for a total of \$645,000. Losses from mortgage loans with alleged breaches are payable by SecurityNational Mortgage from the reserve account. However, Lehman Brothers and Aurora Loan Services are not to apply any funds from the reserve account to a particular mortgage loan until an actual loss has occurred.

The Indemnification Agreement further provides that SecurityNational Mortgage will be entitled to have held back 25 basis points on any mortgage loans that Aurora Loan Services purchases from SecurityNational Mortgage and to add the amount of the basis point holdbacks to the reserve account. SecurityNational Mortgage agreed to deliver to Aurora Loan Services at least \$300,000,000 in mortgage loans on an annual basis or at least \$600,000,000 in 24 months. These provisions may not be effective, however, because Aurora Loan Services has discontinued purchasing mortgage loans from SecurityNational Mortgage. SecurityNational Mortgage also agrees to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event will SecurityNational Mortgage be required to pay any amount into the reserve account that would result in a total contribution, including both the basis point holdbacks and cash payments, in excess of \$125,000 for any calendar month.

During 2007 and 2008, SecurityNational Mortgage made \$1,730,000 in total payments to Aurora Loan Services pursuant to the Indemnification Agreement. During the year ended December 31, 2009 and the six months ended June 30, 2010 SecurityNational Mortgage made payments to Aurora Loan Services of \$1,174,082 and \$750,000, respectively. When SecurityNational Mortgage entered into the Indemnification Agreement, it anticipated using basis point holdbacks from loan production credits toward satisfying the \$125,000 monthly obligations. Because Aurora Loan Services discontinued purchasing mortgage loans from SecurityNational Mortgage shortly after the Indemnification Agreement was executed, SecurityNational Mortgage has not had the benefit of using the basis point holdbacks toward payment of the \$125,000 monthly obligations.

During 2008 and 2009, funds were paid out of the reserve account to indemnify \$2,732,000 in losses from 34 mortgage loans that were among the 54 mortgage loans with alleged breaches which were listed on the attachment to the Indemnification Agreement. For the three months ended June 30, 2010, an additional \$375,000 was paid out of the reserve account on two additional loans. The estimated potential losses from the remaining 18 mortgage loans listed on the attachment, which would require indemnification by SecurityNational Mortgage for such losses, is \$2,259,887. During 2008, 2009 and the six months ended June 30, 2010, the Company recognized losses related to this matter of \$1,636,000, \$1,032,000, and \$792,360 respectively; however, management cannot fully determine the total losses, if any, nor the rights that the Company may have as a result of Lehman Brothers' and Aurora Loan Services' refusal to purchase subsequent loans under the Indemnification Agreement. The Company has estimated and accrued \$1,020,887 for losses under the Indemnification Agreement as of June 30, 2010.

13) Commitments and Contingencies (Continued)

Bank of America, Wells Fargo and JP Morgan Chase

There have been assertions in third party purchaser 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. As a result of these claims, third party investors, including Bank of America – Countrywide Home Loans, Inc. (“Bank of America”), Wells Fargo Funding, Inc. (“Wells Fargo”) and JP Morgan Chase Bank – EMC Mortgage Corp. (“JP Morgan Chase”), 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 number of these claims and demands has accelerated during the past several months.

As of June 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims representing actual demands against SecurityNational Mortgage with potential losses of approximately \$25,000,000 and potential claims representing claims that could be pending against SecurityNational Mortgage with additional potential losses of approximately \$25,000,000. Thus, as of June 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims and potential claims against SecurityNational Mortgage with total potential losses of approximately \$50,000,000. These claims are significantly greater than the net asset value of SecurityNational Mortgage, which was \$17,500,000 on June 30, 2010, and its reserve for mortgage loan loss, which was \$9,891,000 on June 30, 2010.

The Company disagrees with the claims and potential claims asserted by Bank of America, Wells Fargo and JP Morgan Chase against SecurityNational Mortgage and believes it has significant defenses to these claims. Notwithstanding, SecurityNational Mortgage has been engaged in recent settlement discussions with Bank of America and Wells Fargo in an attempt to settle their claims. Although SecurityNational Mortgage has in the past negotiated settlements of claims of this nature, there can be no assurance that SecurityNational Mortgage will be successful in negotiating settlement agreements with Bank of America or Wells Fargo on acceptable terms.

If SecurityNational Mortgage is unable to negotiate acceptable settlements with Bank of America, Wells Fargo and JP Morgan Chase, legal action may ensue relative to amounts that the banks claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against the claims asserted by these banks to the extent that a substantial judgment were entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations. Because the Company has not entered into any agreements or guarantees with Bank of America, Wells Fargo or JP Morgan Chase in regards to these claims, the Company believes these banks would only have claims against SecurityNational Mortgage and not against the Company or its subsidiaries other than SecurityNational Mortgage.

CitiMortgage

On November 24, 2009, a complaint was filed in the United States District Court, Eastern District of Missouri, by CitiMortgage, Inc. against SecurityNational Mortgage Company. The complaint claimed that at various times since May 3, 2004 SecurityNational Mortgage sold mortgage loans to CitiMortgage that did not meet requirements under certain agreements between CitiMortgage and SecurityNational Mortgage, the complaint specifically addressing nineteen mortgage loans. The requirements in the agreements that CitiMortgage claimed in the complaint were not met by SecurityNational Mortgage are more particularly described in “Item 1. Legal Proceedings” of this Form 10-Q for June 30, 2010.

The complaint further alleged that with respect to the nineteen mortgage loans, SecurityNational Mortgage refused to cure these alleged nonconforming mortgage loans or to repurchase such loans. Because of SecurityNational Mortgage’s alleged failure to comply with its repurchase obligations in such agreements, the complaint contended that SecurityNational Mortgage owes CitiMortgage in excess of \$3,226,000. The complaint also requested an order requiring SecurityNational Mortgage to perform its obligations under the agreements with CitiMortgage, including to repurchase the defective mortgage loans and indemnify CitiMortgage for its costs and attorneys’ fees in the lawsuit, interest, and such further relief as the court deems just and proper.

13) Commitments and Contingencies (Continued)

SecurityNational Mortgage disputed the claims that CitiMortgage asserted in the complaint. Prior to filing an answer to the complaint, SecurityNational Mortgage and CitiMortgage engaged in settlement discussions. As a result of the settlement discussions, a settlement was reached. The settlement covers the nineteen mortgage loans in the complaint and, in addition, other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage. On February 15, 2010, SecurityNational Mortgage and CitiMortgage entered into a written Settlement Agreement and Release encompassing the aforesaid settlement. Under the terms of the Settlement Agreement and Release, SecurityNational Mortgage paid a settlement amount to CitiMortgage. The Company reserved a sufficient amount to cover the settlement payment in its consolidated financial statements at December 31, 2009.

The Settlement Agreement and Release specifically provides that SecurityNational Mortgage and CitiMortgage fully release each other from any and all claims, liabilities and causes of action that each has or may have had against the other concerning the nineteen mortgage loans identified in the complaint and the other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage prior to the date of the agreement. The agreement does not extend to any mortgage loans purchased by CitiMortgage after the effective date of the settlement agreement nor to claims by borrowers.

Florida Office of Insurance Regulation Proposed Consent Order

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

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

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

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

13) Commitments and Contingencies (Continued)

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

After several months of discussions with the Florida Office of Insurance Regulation concerning the categorization of certain admitted assets, Security National Life received a letter dated June 17, 2009, in which Florida indicated its rejection of Security National Life's position and requested that Security National Life either infuse additional capital or cease writing new business in the State of Florida. Florida's decision was based upon excess investments in subsidiaries by Security National Life and Florida's determination to classify as property acquired and held for the purposes of investment, certain real property that Security National Life acquired in satisfaction of creditor rights and subsequently rented to tenants. These determinations resulted in Security National Life exceeding certain investment limitations under Florida law and in a corresponding capital and surplus deficiency as of March 31, 2009. Florida has acknowledged that the deficiency may be cured by the infusion of additional capital in the amount of the excess investments.

Security National Life strongly disagrees with Florida's interpretation of the Florida statutes, including Florida's opinion that \$21,672,000 of real property that Security National Life acquired in satisfaction of creditor rights as of March 31, 2009 must be included in an investment category that is subject to a limitation of only 5% of admitted assets (which category consists of real estate acquired and held for investment purposes) rather than in the investment category that is subject to a limitation of 15% of admitted assets (which category includes real estate acquired in satisfaction of loans, mortgages, or debts). In rendering its opinion, Florida did not suggest that the real property assets of Security National Life are not fairly stated. The letter further stated that Security National Life may not resume writing insurance in Florida until such time as it regains full compliance with Florida law and receives written approval from Florida authorizing it to resume writing insurance.

On June 18, 2009, Security National Life responded by letter to Florida and expressed its disagreement with Florida's interpretation of the Florida statutes but, for practical purposes, agreed, beginning as of June 30, 2009 and continuing until Florida determines that Security National Life has attained full compliance with the Florida statutes, to cease originating new insurance policies in Florida and not to enter into any new reinsurance agreements with any Florida domiciled insurance company. The State of Utah, Security National Life's state of domicile, has not determined Security National Life to have a capital and surplus deficiency, nor is Security National Life aware of any state, other than Florida, in which Security National Life is determined to have a capital and surplus deficiency.

During 2008, the annualized premiums for new insurance policies written by Security National Life in Florida were \$464,000, or 4.7% of the total amount of \$9,901,000 in annualized premiums for new insurance policies written by Security National Life during the same period. Security National Life is in the process of preparing an application to be submitted to Florida for approval of a Florida only subsidiary for all new insurance business written in Florida. Security National Life believes that if Florida were to approve a Florida only subsidiary, Security National Life would be able to resume writing new insurance policies in Florida in full compliance with the Florida statutes relating to investments in real estate and subsidiaries.

13) Commitments and Contingencies (Continued)

Legal

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.

14) Other Business Activity

On May 24, 2010, Security National Life completed a stock purchase transaction with American Life and Security Corporation ("American Life"), a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the stock purchase agreement, American Life paid Security National Life, at closing, purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of \$1,692,576, plus additional consideration in the amount of \$105,000 for a total of \$1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate the Capital Reserve into Security National Life in the same manner as the liquidation described in Private Letter Ruling 98 47027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue code of 1986, as amended, and other applicable provisions described in such Letter Ruling. American Life did obtain approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, Security National Life entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Security National Life ceded to American Life 100% of a block of deferred annuities in the amount of \$2,678,931 and a block of whole life policies in the amount of \$1,048,134 along with the net due and deferred premiums in the amount of \$12,305, the advance premiums in the amount of \$353, the claims liability in the amount of \$14,486 and the net policy loans in the amount of \$128,487 for the said block of whole life as of January 1, 2010. The total initial consideration of \$3,601,112 cash was wired to Wells Fargo as Custodian of the assets. American Life has control of said assets subject to the terms of the Custodial Agreement. American Life agreed to pay Security National Life an initial ceding commission of \$350,000 and a management fee of \$3,500 per quarter to administer the policies. American Life agreed to indemnify Security National Life 100% for these contracts and risks. The initial term on this Agreement shall be for a period of one (1) year from the Effective Date of this Agreement. Subsequent to the one (1) year term, this Agreement shall be automatically renewed unless American Life notifies Security National Life of its intention not to renew in writing, no less than one hundred eighty (180) days prior to the expiration of the then current agreement. Each automatic renewal period of this Agreement shall be for a term on one (1) year. The accounting and settlement of this Agreement will be on a calendar-quarter basis and calculated as per the Reinsurance Agreement.

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

Overview

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

Results of Operations

Mortgage Operations

Overview

Over fifty percent of revenues and expenses of the Company are through its wholly owned subsidiary SecurityNational Mortgage. SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows and loan purchase agreements with unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the six months ended June 30, 2010 and 2009, SecurityNational Mortgage originated and sold 5,459 loans (\$967,241,000 total volume), and 9,781 loans (\$1,824,623,000 total volume), respectively. For the three months ended June 30, 2010 and 2009, SecurityNational Mortgage originated and sold 3,098 loans (\$540,474,000 total volume), and 4,846 loans (\$885,210,000 total volume), respectively.

The loan volume in 2009 was higher than 2010 primarily due to greater refinancing activity in 2009. The 2010 loan volume is primarily for home purchases and the lower volume is due to the slow-down in the economy and the low demand in the housing sector. SecurityNational Mortgage expects the loan volume for the rest of the year to be at the \$160,000,000 to \$175,000,000 per month range compared to \$250,000,000 to \$300,000,000 per month range in 2009 and has taken steps to reduce staff and funding costs to these levels of production.

The following table shows the condensed financial results for the three and six months ended June 30, 2010 and 2009. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

	Three months ended June 30 (in thousands of dollars)			Six months ended June 30 (in thousands of dollars)		
	2010	2009	% Increase (Decrease)	2010	2009	% Increase (Decrease)
Revenues from external customers						
Income from loan originations	\$ 22,414	\$ 29,364	(24%)	\$ 39,187	\$ 59,681	(34%)
Secondary gains from investors	3,105	11,521	(73%)	7,456	23,557	(68%)
Total	\$ 25,519	\$ 40,885	(38%)	\$ 46,643	\$ 83,238	(44%)
Earnings (Losses) before income taxes	\$ (1,318)	\$ 3,969	(133%)	\$ (3,091)	\$ 8,976	(134%)

This decrease in profitability is due to the lower loan volume and lower secondary gains from investors.

Significant Accounting Policies

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreement at June 30, 2010 was \$55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of June 30, 2010, there were \$131,803,000 in mortgage loans in which settlements with third party investors were still pending. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on June 18, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

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 meet 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 any investor commitments for these 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 such as 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 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems with respect to 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. Remedy methods include, but are not limited to:

- 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.

As of June 30, 2010, the Company's long term mortgage loan portfolio contained mortgage loans of \$19,591,000 in unpaid principal with delinquencies more than 90 days. Of this amount, \$9,205,000 in mortgage loans were in foreclosure proceedings. The Company has not received nor recognized any interest income on the \$19,591,000 in mortgage loans with delinquencies more than 90 days. During the three and six months ended June 30, 2010, the Company has increased its allowance for mortgage losses by \$4,000 and \$171,000, respectively, which allowance was charged to loan loss expense and included in other selling, general and administrative expenses for the period. The allowance for mortgage loan losses as of June 30, 2010 and December 31, 2009 was \$6,795,000 and \$6,809,000, respectively.

Also at June 30, 2010, the Company has foreclosed on a total of \$51,662,000 in long term mortgage loans, of which \$7,411,000 in loans were foreclosed on and reclassified as real estate during the six months ended June 30, 2010. The Company carries the foreclosed properties 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.

Mortgage Loan Loss Settlements

Aurora Loan Services

In 1998, SecurityNational Mortgage entered into a Loan Purchase Agreement with Lehman Brothers Bank and its wholly owned subsidiary, Aurora Loan Services, LLC. Under the terms of the Loan Purchase Agreement, Lehman Brothers, through its subsidiary, Aurora Loan Services, agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Aurora Loan Services purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. On January 17, 2008, Aurora Loan Services announced it was suspending all wholesale and correspondent mortgage originations. As a result of this policy change, Aurora Loan Services discontinued purchasing mortgage loans from all mortgage brokers and lenders, including SecurityNational Mortgage.

During 2007, Aurora Loan Services maintained that as part of its quality control efforts it reviewed mortgage loans purchased from SecurityNational Mortgage and determined that certain of the loans contained alleged misrepresentations and early payment defaults. Aurora Loan Services further maintained that these alleged breaches in the purchased mortgage loans provide it with the right to require SecurityNational Mortgage to immediately repurchase the mortgage loans containing the alleged breaches in accordance with the terms of the Loan Purchase Agreement. In order for Lehman Brothers and Aurora Loan Services to refrain from demanding immediate repurchase of the mortgage loans by SecurityNational Mortgage, SecurityNational Mortgage was willing to enter into an agreement to indemnify Lehman Brothers and Aurora Loan Services for any losses incurred in connection with certain mortgage loans with alleged breaches that were purchased from SecurityNational Mortgage.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Brothers and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agrees to indemnify Lehman Brothers and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may have as a result of any current or future defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage and listed as an attachment to the Indemnification Agreement. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also requires SecurityNational Mortgage to indemnify Lehman Brothers and Aurora Loan Services for 100% of losses incurred on mortgage loans with alleged breaches that are not listed on the attachment to the agreement.

Concurrently with the execution of the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account to secure the obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit is in addition to a \$250,000 deposit that SecurityNational Mortgage made to Aurora Loan Services on December 10, 2007, for a total of \$645,000. Losses from mortgage loans with alleged breaches are payable by SecurityNational Mortgage from the reserve account. However, Lehman Brothers and Aurora Loan Services are not to apply any funds from the reserve account to a particular mortgage loan until an actual loss has occurred.

The Indemnification Agreement further provides that SecurityNational Mortgage will be entitled to have held back 25 basis points on any mortgage loans that Aurora Loan Services purchases from SecurityNational Mortgage and to add the amount of the basis point holdbacks to the reserve account. SecurityNational Mortgage agreed to deliver to Aurora Loan Services at least \$300,000,000 in mortgage loans on an annual basis or at least \$600,000,000 in 24 months. These provisions may not be effective, however, because Aurora Loan Services has discontinued purchasing mortgage loans from SecurityNational Mortgage. SecurityNational Mortgage also agrees to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event will SecurityNational Mortgage be required to pay any amount into the reserve account that would result in a total contribution, including both the basis point holdbacks and cash payments, in excess of \$125,000 for any calendar month.

During 2007 and 2008, SecurityNational Mortgage made \$1,730,000 in total payments to Aurora Loan Services pursuant to the Indemnification Agreement. During the year ended 2009 and the six months ended June 30, 2010, SecurityNational Mortgage made payments to Aurora Loan Services of \$1,174,000 and \$750,000, respectively. When SecurityNational Mortgage entered into the Indemnification Agreement, it anticipated using basis point holdbacks from loan production credits toward satisfying the \$125,000 monthly obligations. Because Aurora Loan Services discontinued purchasing mortgage loans from SecurityNational Mortgage shortly after the Indemnification Agreement was executed, SecurityNational Mortgage has not had the benefit of using the basis point holdbacks toward payment of the \$125,000 monthly obligations.

During 2008 and 2009, funds were paid out of the reserve account to indemnify \$2,732,000 in losses from 34 mortgage loans that were among the 54 mortgage loans with alleged breaches which were listed on the attachment to the Indemnification Agreement. For the three months ended June 30, 2010, an additional \$375,000 was paid out of the reserve account on four additional mortgage loans. The estimated potential losses from the remaining 18 mortgage loans listed on the attachment, which would require indemnification by SecurityNational Mortgage for such losses, is \$2,260,000. During 2008 and 2009, and the six months ended June 30, 2010, the Company recognized losses related to this matter of \$1,636,000, \$1,032,000, and \$792,000, respectively; however, management cannot fully determine the total losses, if any, nor the rights that the Company may have as a result of Lehman Brothers' and Aurora Loan Services' refusal to purchase subsequent loans under the Indemnification Agreement. The Company has estimated and accrued \$1,021,000 for losses under the Indemnification Agreement as of June 30, 2010.

CitiMortgage

On November 24, 2009, a complaint was filed in the United States District Court, Eastern District of Missouri, by CitiMortgage, Inc. against SecurityNational Mortgage Company. The complaint claimed that at various times since May 3, 2004 SecurityNational Mortgage sold mortgage loans to CitiMortgage that did not meet requirements under certain agreements between CitiMortgage and SecurityNational Mortgage, the complaint specifically addressing nineteen mortgage loans. The requirements in the agreements that CitiMortgage claimed in the complaint were not met by SecurityNational Mortgage are more particularly described in "Item 1. Legal Proceedings" of this Form 10-Q.

The complaint further alleged that with respect to the nineteen mortgage loans, SecurityNational Mortgage refused to cure these alleged nonconforming mortgage loans or to repurchase such loans. Because of SecurityNational Mortgage's alleged failure to comply with its repurchase obligations in such agreements, the complaint contended that SecurityNational Mortgage owes CitiMortgage in excess of \$3,226,000. The complaint also requested an order requiring SecurityNational Mortgage to perform its obligations under the agreements with CitiMortgage, including to repurchase the defective mortgage loans and indemnify CitiMortgage for its costs and attorneys' fees in the lawsuit, interest, and such further relief as the court deems just and proper.

SecurityNational Mortgage disputed the claims that CitiMortgage asserted in the complaint. Prior to filing an answer to the complaint, SecurityNational Mortgage and CitiMortgage engaged in settlement discussions. As a result of the settlement discussions, a settlement was reached. The settlement covers the nineteen mortgage loans in the complaint and, in addition, other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage. On February 15, 2010, SecurityNational Mortgage and CitiMortgage entered into a written Settlement Agreement and Release encompassing the aforesaid settlement. Under the terms of the Settlement Agreement and Release, SecurityNational Mortgage paid a settlement amount to CitiMortgage. The Company reserved a sufficient amount to cover the settlement payment in its consolidated financial statements at December 31, 2009.

The Settlement Agreement and Release specifically provides that SecurityNational Mortgage and CitiMortgage fully release each other from any and all claims, liabilities and causes of action that each has or may have had against the other concerning the nineteen mortgage loans identified in the complaint and the other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage prior to the date of the agreement. The agreement does not extend to any mortgage loans purchased by CitiMortgage after the effective date of the settlement agreement nor to claims by borrowers.

Mortgage Loan Loss Settlement Discussions

Bank of America, Wells Fargo and JP Morgan Chase

There have been assertions in third party purchaser 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. As a result of these claims, third party investors, including Bank of America – Countrywide Home Loans, Inc. ("Bank of America"), Wells Fargo Funding, Inc. ("Wells Fargo") and JP Morgan Chase Bank – EMC Mortgage Corp. ("JP Morgan Chase"), 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 number of these claims and demands has accelerated during the past several months.

As of June 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims representing actual demands against SecurityNational Mortgage with potential losses of approximately \$25,000,000 and potential claims representing claims that could be pending against SecurityNational Mortgage with additional potential losses of approximately \$25,000,000. Thus, as of June 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims and potential claims against SecurityNational Mortgage with total potential losses of approximately \$50,000,000. These claims are significantly greater than the net asset value of SecurityNational Mortgage, which was \$17,500,000 on June 30, 2010, and its reserve for mortgage loan loss, which was \$9,891,000 on June 30, 2010.

The Company disagrees with the claims and potential claims asserted by Bank of America, Wells Fargo and JP Morgan Chase against SecurityNational Mortgage and believes it has significant defenses to these claims. Notwithstanding, SecurityNational Mortgage has been engaged in recent settlement discussions with Bank of America and Wells Fargo in an attempt to settle their claims. Although SecurityNational Mortgage has in the past negotiated settlements of claims of this nature, there can be no assurance that SecurityNational Mortgage will be successful in negotiating settlement agreements with Bank of America or Wells Fargo on acceptable terms.

If SecurityNational Mortgage is unable to negotiate acceptable settlements with Bank of America, Wells Fargo and JP Morgan Chase, legal action may ensue relative to amounts that the banks claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against the claims asserted by these banks to the extent that a substantial judgment were entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations. Because the Company has not entered into any agreements or guarantees with Bank of America, Wells Fargo or JP Morgan Chase in regards to these claims, the Company believes these banks would only have claims against SecurityNational Mortgage and not against the Company or its subsidiaries other than SecurityNational Mortgage.

Cemetery and Mortuary Operations

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

The following table shows the condensed financial results for the three and six months ended June 30, 2010 and 2009. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

	Three months ended June 30 (in thousands of dollars)			Six months ended June 30 (in thousands of dollars)		
	2010	2009	% Increase (Decrease)	2010	2009	% Increase (Decrease)
Revenues from external customers						
Mortuary revenues	\$ 1,687	\$ 1,705	(1%)	\$ 3,241	\$ 3,433	(6%)
Cemetery revenues	1,594	1,439	11%	3,103	3,322	(7%)
Other	330	481	(31%)	572	51	-
Total	<u>\$ 3,611</u>	<u>\$ 3,625</u>	<u>-</u>	<u>\$ 6,916</u>	<u>\$ 6,806</u>	<u>2%</u>
Earnings (Losses) before income taxes	<u>\$ 100</u>	<u>\$ 151</u>	<u>(34%)</u>	<u>\$ 53</u>	<u>\$ 397</u>	<u>(87%)</u>

Included in other revenue is rental income from residential properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income is offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates has recorded depreciation on these properties of \$121,000 and \$257,000 for the three and six months ended June 30, 2010, respectively and \$0- and \$72,000 for the three and six months ended June 30, 2009, respectively

Insurance Operations

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

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$15,000. The Company believes that funeral plans represents 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 condensed financial results for the three and six months ended June 30, 2010 and 2009. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

	Three months ended June 30 (in thousands of dollars)			Six months ended June 30 (in thousands of dollars)		
	2010	2009	% Increase (Decrease)	2010	2009	% Increase (Decrease)
Revenues from external customers						
Insurance premiums	\$ 9,730	\$ 9,310	5%	\$ 19,653	\$ 19,094	3%
Net investment income	3,731	3,826	(2%)	7,296	7,680	(5%)
Other	833	362	130%	1,438	683	111%
Total	\$ 14,294	\$ 13,498	6%	\$ 28,387	\$ 27,457	3%
Intersegment revenue	\$ 1,564	\$ 1,367	14%	\$ 2,760	\$ 2,429	14%
Earnings before income taxes	\$ 1,303	\$ 364	257%	\$ 1,451	\$ 51	2,745%

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2010 has improved due to increases in net investment income including intersegment revenues, insurance premiums and \$350,000 ceding commission from American Life in connection with the reinsurance agreement entered into during June 2010.

Consolidation

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Total revenues decreased by \$14,585,000, or 25.1%, to \$43,425,000 for the three months ended June 30, 2010, from \$58,010,000 for the three months ended June 30, 2009. Contributing to this decrease in total revenues was a \$15,210,000 decrease in mortgage fee income, a \$68,000 decrease in investment income, and a \$281,000 decrease in net mortuary and cemetery sales. This decrease in total revenues was partially offset by a \$420,000 increase in insurance premiums and other considerations, a \$63,000 increase in realized gains on investments and other assets and a \$491,000 increase in other revenues.

Insurance premiums and other considerations increased by \$420,000, or 4.5%, to \$9,730,000 for the three months ended June 30, 2010, from \$9,310,000 for the comparable period in 2009. This increase was primarily the result of additional premiums realized from new insurance sales.

Net investment income decreased by \$68,000, or 1.3%, to \$5,188,000 for the three months ended June 30, 2010, from \$5,256,000 for the comparable period in 2009. This decrease was primarily attributable to reduced interest income resulting from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Net mortuary and cemetery sales decreased by \$281,000, or 8.3%, to \$3,121,000 for the three months ended June 30, 2010, from \$3,402,000 for the comparable period in 2009. This decrease was due to a decline in at-need mortuary sales.

Realized gains on investments and other assets increased by \$63,000 to \$290,000 in realized gains for the three months ended June 30, 2010, from \$227,000 in realized gains for the comparable period in 2009. This increase in realized gains on investments was due to gains from the sale of equity and fixed maturity securities.

Mortgage fee income decreased by \$15,210,000, or 38.5%, to \$24,335,000 for the three months ended June 30, 2010, from \$39,545,000 for the comparable period in 2009. This decrease was primarily attributable to a decrease in the number of mortgage loans originated and lower secondary gains from third party investors.

Other revenues increased by \$491,000, or 182.1%, to \$760,000 for the three months ended June 30, 2010 from \$269,000 for the comparable period in 2009. This increase was due to a \$350,000 ceding commission received from American Life in connection with a reinsurance agreement entered into in June 2010, a \$115,000 sale of a land easement in the cemetery operations, and additional miscellaneous income throughout the Company's operations.

Total benefits and expenses were \$43,340,000, or 99.8% of total revenues, for the three months ended June 30, 2010, as compared to \$53,526,000, or 92.3% of total revenues, for the comparable period in 2009. This decrease resulted primarily from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$788,000, or 9.3%, to \$9,267,000 for the three months ended June 30, 2010, from \$8,479,000 for the comparable period in 2009. This increase was primarily the result of increased death benefits of \$153,000, and future policy benefits of \$941,000 primarily due to better persistency and more new business of traditional life products offset by a decrease of \$305,000 in surrenders and other policy benefits primarily due to decreases in policyholder accumulations.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$411,000, or 24.3%, to \$1,283,000 for the three months ended June 30, 2010, from \$1,694,000 for the comparable period in 2009. This decrease was due to a lower interest rate credited on the fund values of universal life policies.

Selling, general and administrative expenses decreased by \$10,546,000, or 25.1%, to \$31,522,000 for the three months ended June 30, 2010, from \$42,068,000 for the comparable period in 2009. Salaries increased by \$27,000 from \$6,741,000 in 2009 to \$6,768,000 in 2010, primarily due to merit increases in salaries of existing employees offset by a reduction in the total number of employees. Other expenses decreased by \$1,531,000 from \$9,435,000 in 2009 to \$7,904,000 in 2010 due to decreased investor fees, processing fees, and loan costs. Provision for loan losses decreased by \$4,034,000 from \$5,114,000 in 2009 to \$1,080,000 in 2010 due primarily to lower provision for loan losses at SecurityNational Mortgage Company. Commission expenses decreased by \$5,008,000, from \$20,778,000 in the second quarter of 2009 to \$15,770,000 in the second quarter of 2010, due to a reduction in mortgage loan origination costs made by SecurityNational Mortgage, a decrease in sales at the cemetery operations, and a decrease in life insurance commissions during the second quarter of 2010.

Interest expense increased by \$46,000, or 6.9%, to \$709,000 for the three months ended June 30, 2010, from \$663,000 for the comparable period in 2009. This increase was primarily due to increased borrowing from warehouse lines of \$64,000, increased bank loans for the mortuary/cemetery operations of \$50,000 offset by a decrease of \$69,000 from the termination of a reinsurance agreement in the Life operations.

Cost of goods and services sold of the mortuaries and cemeteries decreased by \$62,000, or 10.0%, to \$559,000 for the three months ended June 30, 2010, from \$622,000 for the comparable period in 2009. This decrease was primarily due to a reduction in at-need mortuary sales.

For the three months ended June 30, 2010 and 2009, total comprehensive income (loss) amounted to \$(333,000) and \$2,900,000, respectively. This decrease of \$3,233,000 was primarily the result of a \$1,449,000 decrease in unrealized gains in securities available for sale, and a decrease in net income of \$2,671,000, which was partially offset by a \$886,000 increase in derivative losses related to mortgage loans.

Income taxes for the insurance segment have a lower effective tax rate of 13.6% due to the deduction for small life companies. Cemetery, mortuary and mortgage segments have an effective tax rate of 34%.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Total revenues decreased by \$35,555,000, or 30.3%, to \$81,947,000 for the six months ended June 30, 2010, from \$117,502,000 for the six months ended June 30, 2009. Contributing to this decrease in total revenues was a \$35,054,000 decrease in mortgage fee income, a \$1,548,000 decrease in investment income, and a \$350,000 decrease in net mortuary and cemetery sales. This decrease in total revenues was partially offset by a \$560,000 increase in insurance premiums and other considerations, a \$361,000 increase in realized gains on investments and other assets and a \$476,000 increase in other revenues.

Insurance premiums and other considerations increased by \$560,000, or 2.9%, to \$19,653,000 for the six months ended June 30, 2010, from \$19,093,000 for the comparable period in 2009. This increase was primarily the result of additional premiums realized from new insurance sales.

Net investment income decreased by \$1,548,000, or 13.7%, to \$9,756,000 for the six months ended June 30, 2010, from \$11,304,000 for the comparable period in 2009. This decrease was primarily attributable to reduced interest income resulting from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Net mortuary and cemetery sales decreased by \$350,000, or 5.5%, to \$6,023,000 for the six months ended June 30, 2010, from \$6,373,000 for the comparable period in 2009. This decrease was due to a decline in at-need mortuary and cemetery sales.

Realized gains on investments and other assets increased by \$361,000 to \$654,000 in realized gains for the six months ended June 30, 2010, from \$293,000 in realized gains for the comparable period in 2009. This increase in realized gains on investments was due to gains from the sale of equity and fixed maturity securities.

Mortgage fee income decreased by \$35,054,000, or 43.9%, to \$44,746,000 for the six months ended June 30, 2010, from \$79,800,000 for the comparable period in 2009. This decrease was primarily attributable to an decrease in the number of mortgage loans originated and secondary gains for third party investors.

Other revenues increased by \$476,000, or 74.6%, to \$1,114,000 for the six months ended June 30, 2010 from \$638,000 for the comparable period in 2009. This increase was due to a \$350,000 ceding commission received from American Life in connection with a reinsurance agreement entered into in June 2010, \$115,000 sale of a land easement in the cemetery operations, and additional miscellaneous income throughout the Company's operations.

Total benefits and expenses were \$83,535,000, or 101.9% of total revenues, for the six months ended June 30, 2010, as compared to \$108,078,000, or 92.0% of total revenues, for the comparable period in 2009. This decrease resulted primarily from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$1,289,000, or 7.4%, to \$18,596,000 for the six months ended June 30, 2010, from \$17,307,000 for the comparable period in 2009. This increase was primarily the result of increased death benefits of \$455,000, and increased future policy benefits of \$1,067,000 primarily due to better persistency and more new business of traditional life products offset by a decrease of \$233,000 in surrenders and other policy benefits primarily due to decreases in policyholder accumulations.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$964,000, or 26.2%, to \$2,716,000 for the six months ended June 30, 2010, from \$3,680,000 for the comparable period in 2009. This decrease was due to a lower interest rate credited on the fund values of universal life policies.

Selling, general and administrative expenses decreased by \$24,289,000, or 28.9%, to \$59,811,000 for the six months ended June 30, 2010, from \$84,100,000 for the comparable period in 2009. Salaries increased by \$419,000 from \$13,627,000 in 2009 to \$14,046,000 in 2010, primarily due to merit increases in salaries of existing employees offset in part by a reduction in the total number of employees. Other expenses decreased by \$2,939,000 from \$18,592,000 in 2009 to \$15,653,000 in 2010 due to decreased investor fees, processing fees, and loan costs. Provision for loan losses decreased by \$8,334,000 from \$10,434,000 in 2009 to \$2,101,000 in 2010 due primarily to lower provision for loan losses at SecurityNational Mortgage Company. Commission expenses decreased by \$13,434,000, from \$41,446,000 in the first six months of 2009 to \$28,012,000 in the first six months of 2010, due to a reduction in mortgage loan origination costs made by SecurityNational Mortgage, a decrease in sales at the cemetery operations, offset by an increase in life insurance renewal commissions during the first quarter of 2010.

Interest expense decreased by \$453,000, or 25.7%, to \$1,310,000 for the six months ended June 30, 2010, from \$1,763,000 for the comparable period in 2009. This reduction was primarily due to decreased borrowing from warehouse lines as a result of a reduction in mortgage loans originated.

Cost of goods and services sold of the mortuaries and cemeteries decreased by \$127,000, or 10.3%, to \$1,102,000 for the six months ended June 30, 2010, from \$1,229,000 for the comparable period in 2009. This decrease was primarily due to a reduction in at-need mortuary sales.

For the six months ended June 30, 2010 and 2009, total comprehensive income (loss) amounted to \$(1,166,000) and \$7,463,000, respectively. This decrease of \$8,629,000 was primarily the result of a \$931,000 decrease in derivative losses related to mortgage loans, a decrease in net income of \$6,855,000, and an \$843,000 decrease in unrealized gains in securities available for sale.

Income taxes for the insurance segment have a lower effective tax rate of 13.6% due to the deduction for small life companies. Cemetery, mortuary and mortgage segments have an effective tax rate of 34%.

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 six months ended June 30, 2010, the Company's operations used cash of \$31,583,000. This was due primarily to a \$31,492,000 increase in the first six months of 2010 in the balance of mortgage loans sold to investors. During the six months ended June 30, 2009, the Company's operations provided cash of \$22,303,000. This was due primarily to a \$3,558,000 increase in 2009 and a decrease of \$57,014,000 in 2008 in the balance of mortgage loans sold to investors.

The Company's liability for future life, annuity and other benefits is expected to be paid out over the 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; however, to date, that has not been necessary. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

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

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$117,001,000 as of June 30, 2010 compared to \$116,982,000 as of December 31, 2009. This represents 38.4% and 38.9% of the total investments as of June 30, 2010, and December 31, 2009, 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 June 30, 2010, 3.2% (or \$3,766,000) and at December 31, 2009, 6.9% (or \$7,930,000) 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.

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.

We utilize a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at June 30, 2010.

	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				
Investment in securities available for sale	\$ 6,316,274	\$ 6,316,274	\$ -	\$ -
Short-term investments	1,380,639	1,380,639	-	-
Restricted assets of cemeteries and mortuaries	1,934,291	1,934,291	-	-
Cemetery perpetual care trust investments	1,214,022	1,214,022	-	-
Derivatives - interest rate lock commitments	2,363,060	-	-	2,363,060
Total assets accounted for at fair value on a recurring basis	\$ 13,208,286	\$ 10,845,226	\$ -	\$ 2,363,060
Liabilities accounted for at fair value on a recurring basis				
Investment type insurance contracts	\$(115,165,994)	\$ -	\$ -	\$(115,165,994)
Derivatives - bank loan interest rate swaps	(132,431)	-	-	(132,431)
- call options	(36,572)	-	-	(36,572)
- interest rate lock commitments	(480,973)	-	-	(480,973)
Total liabilities accounted for at fair value on a recurring basis	\$(115,815,970)	\$ -	\$ -	\$(115,815,970)

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

	Investment Type Insurance Contracts	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps	Call Options
Balance - December 31, 2009	\$ (115,763,748)	\$ 1,554,711	\$ (101,251)	\$ (134,492)
Options sold	-	-	-	(216,751)
Total gains (losses):				
Included in earnings	597,754	-	-	314,671
Included in other comprehensive income (loss)	-	327,376	(31,180)	-
Balance - June 30, 2010	<u>\$ (115,165,994)</u>	<u>\$ 1,882,087</u>	<u>\$ (132,431)</u>	<u>\$ (36,572)</u>

The items shown under level one are valued as follows:

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.

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 items shown under level three 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 credit rates for interest-sensitive insurance products ranged from 4% to 6.5%.

Interest rate lock commitments. As discussed further in Note 11, 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.

Bank loan interest rate swaps. The fair value of the interest rate swap was derived from a proprietary hedges. The interest rate swaps are derivative financial instruments carried at their fair value.

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 June 30, 2010, and December 31, 2009, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable were \$83,756,000 as of June 30, 2010, as compared to \$68,745,000 as of December 31, 2009. Stockholders' equity as a percent of total capitalization was 70.6% and 87.0% as of June 30, 2010 and December 31, 2009, respectively. Bank debt and notes payable increased \$15,715,000 for the six months ended June 30, 2010 when compared to December 31, 2009, thus decreasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2009 was 8.4% as compared to a rate of 9.0% for 2008. The 2010 lapse rate to date has been approximately the same as 2009.

At June 30, 2010, \$20,389,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes since the annual report on Form 10-K filed for the year ended December 31, 2009.

Item 4. 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 June 30, 2010. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of June 30, 2010. Based on that assessment the Company believes that, at June 30, 2010, its internal control over financial reporting was effective.

(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred in the second quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings.

Florida Office of Insurance Regulation Proposed Consent Order

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

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

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

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

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

CitiMortgage Litigation and Settlement

On November 24, 2009, a complaint was filed in the United States District Court, Eastern District of Missouri, by CitiMortgage, Inc. against SecurityNational Mortgage Company. The complaint claimed that at various times since May 3, 2004 SecurityNational Mortgage sold mortgage loans to CitiMortgage that did not meet requirements under certain agreements between CitiMortgage and SecurityNational Mortgage, the complaint specifically addressing nineteen mortgage loans. The requirements that SecurityNational Mortgage did not meet, according to the allegations in the complaint, include delivering mortgage loans (i) that were underwritten or originated based upon materially inaccurate information or on material misrepresentations made by the borrower or by SecurityNational Mortgage or its officers, employees or agents; (ii) for which CitiMortgage discovered discrepancies concerning property ownership, income representations, prior undisclosed mortgage or other debts, and occupancy; (iii) for which applicable requirements or guidelines of CitiMortgage, SecurityNational Mortgage, the loan originator, Fannie Mae, Freddie Mac, FHA, VA and/or HUD were not followed; (iv) that were subject to early payment defaults; and/or (v) that have turned out to be otherwise defective or not in compliance with certain agreements between CitiMortgage and SecurityNational Mortgage.

The complaint further alleged that with respect to the nineteen mortgage loans, SecurityNational Mortgage refused to cure these alleged nonconforming mortgage loans or to repurchase such loans. Because of SecurityNational Mortgage's alleged failure to comply with its repurchase obligations in such agreements, the complaint contended that SecurityNational Mortgage owes CitiMortgage in excess of \$3,226,000. The complaint also requested an order requiring SecurityNational Mortgage to perform its obligations under the agreements with CitiMortgage, including to repurchase the defective mortgage loans and indemnify CitiMortgage for its costs and attorneys' fees in the lawsuit, interest, and such further relief as the court deems just and proper.

SecurityNational Mortgage disputed the claims that CitiMortgage asserted in the complaint. Prior to filing an answer to the complaint, SecurityNational Mortgage and CitiMortgage engaged in settlement discussions. As a result of the settlement discussions, a settlement was reached. The settlement covers the nineteen mortgage loans in the complaint and, in addition, other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage. On February 15, 2010, SecurityNational Mortgage and CitiMortgage entered into a written Settlement Agreement and Release encompassing the aforesaid settlement. Under the terms of the Settlement Agreement and Release, SecurityNational Mortgage paid a settlement amount to CitiMortgage. The Company reserved a sufficient amount to cover the settlement payment in its consolidated financial statements at December 31, 2009.

The Settlement Agreement and Release specifically provides that SecurityNational Mortgage and CitiMortgage fully release each other from any and all claims, liabilities and causes of action that each has or may have had against the other concerning the nineteen mortgage loans identified in the complaint and the other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage prior to the date of the agreement. The agreement does not extend to any mortgage loans purchased by CitiMortgage after the effective date of the settlement agreement nor to claims by borrowers. Moreover, the release does not take effect until 91 days have passed from the date in which SecurityNational Mortgage made payment to CitiMortgage under the Settlement Agreement and Release, provided there has been no bankruptcy petition filed by or against SecurityNational Mortgage during the 91-day period.

The Company is not a party to any other material 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 1A. Risk Factors.

The following is a description of the most significant risk facing the Company and how the Company mitigates this risk.

Mortgage Industry Risk - 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 industry is still experiencing substantial change due to higher than expected delinquencies from subprime loans and traditional and non-traditional products. The market for new subprime loans has been substantially reduced and several mortgage companies whose primary product consisted of subprime mortgage originations have ceased operations. The Company funded \$5,505,000 (0.14% of the Company's loan production) in subprime loans during the twelve months ending December 31, 2007 and eliminated subprime loans from its product offerings in August 2007. The Company believes that its potential losses from subprime loans are minimal.

The industry problem with subprime mortgages created a volatile secondary market for other products, especially alternative documentation (Alt A) loans. Alt A loans were typically offered to qualified borrowers who had relatively high credit scores but were not required to provide full documentation to support disclosure in the loan application of personal income and assets owned. Alt A loans could have a loan to value ratio as high as 100%. As a result of these changes, the Company discontinued offering these loans in September 2007.

The Company is exposed to the risk that certain third party purchasers could have claims against the Company requiring it to repurchase alleged defective mortgage loans or to indemnify such purchasers against any losses related to such loans. There have been assertions in third party purchaser 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. As a result of these claims, third party investors, including Bank of America – Countrywide Home Loans, Inc. ("Bank of America"), Wells Fargo Funding, Inc. ("Wells Fargo") and JP Morgan Chase Bank – EMC Mortgage Corp. ("JP Morgan Chase"), 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 number of these claims and demands has accelerated during the past several months.

As of June 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims representing actual demands against SecurityNational Mortgage with potential losses of approximately \$25,000,000 and potential claims representing claims that could be pending against SecurityNational Mortgage with additional potential losses of approximately \$25,000,000. Thus, as of June 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims and potential claims against SecurityNational Mortgage with total potential losses of approximately \$50,000,000. These claims are significantly greater than the net asset value of SecurityNational Mortgage, which was \$17,500,000 on June 30, 2010, and its reserve for mortgage loan loss, which was \$9,891,000 on June 30, 2010.

The Company disagrees with the claims and potential claims asserted by Bank of America, Wells Fargo and JP Morgan Chase against SecurityNational Mortgage and believes it has significant defenses to these claims. Notwithstanding, SecurityNational Mortgage has been engaged in recent settlement discussions with Bank of America and Wells Fargo in an attempt to settle their claims. Although SecurityNational Mortgage has in the past negotiated settlements of claims of this nature, there can be no assurance that SecurityNational Mortgage will be successful in negotiating settlement agreements with Bank of America or Wells Fargo on acceptable terms.

If SecurityNational Mortgage is unable to negotiate acceptable settlements with Bank of America, Wells Fargo and JP Morgan Chase, legal action may ensue relative to amounts that the banks claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against the claims asserted by these banks to the extent that a substantial judgment were entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations. Because the Company has not entered into any agreements or guarantees with Bank of America, Wells Fargo or JP Morgan Chase in regards to these claims, the Company believes these banks would only have claims against SecurityNational Mortgage and not against the Company or its subsidiaries other than SecurityNational Mortgage.

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account) and for mortgage loans sold to investors through the mortgage loan loss reserve (a liability account). The allowance for loan losses and doubtful accounts is an allowance for losses on the Company's mortgage loans held for investment. 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 is classified as real estate. The Company carries the foreclosed properties 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 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 the Company's historical experience. The amount accrued for the six months ended June 30, 2010 and 2009 was \$1,527,000 and \$5,053,000, 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 June 30, 2010 and 2009 the balance was \$9,891,000 and \$7,833,000, respectively.

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims and potential claims asserted by Bank of America, Wells Fargo and JP Morgan Chase if SecurityNational Mortgage is unable to negotiate acceptable settlement agreements with these banks, litigation ensues, and SecurityNational Mortgage is not successful in what it believes are its significant defenses to these claims. In such event, a substantial judgment could be entered against SecurityNational Mortgage that exceeds the amount of the loan loss reserve.

As of June 30, 2010, the Company's long term mortgage loan portfolio contained mortgage loans of \$19,591,000 in unpaid principal with delinquencies more than 90 days. Of this amount \$9,205,000 in mortgage loans were in foreclosure proceedings. The Company has not received nor recognized any interest income on the \$19,591,000 in mortgage loans with delinquencies more than 90 days. During the three and six months ended June 30, 2010, the Company has increased its allowance for mortgage loan losses by \$4,000 and \$171,000, respectively, which allowance was charged to loan loss expense and is included in other selling, general and administrative expenses for the period. The allowance for mortgage loan losses as of June 30, 2010 and December 31, 2009 was \$6,795,000 and \$6,809,000, respectively.

Also, at June 30, 2010, the Company had foreclosed on a total of \$51,662,000 in long term mortgage loans, of which \$7,411,000 in loans were foreclosed on and reclassified as real estate during the six months ended June 30, 2010. The Company carries the foreclosed properties 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.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreement at June 30, 2010 was \$55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of June 30, 2010, there were \$131,803,000 in mortgage loans in which settlements with third party investors were still pending. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on January 31, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

The following is a description of the most significant additional risks facing the Company and how the Company 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.

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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

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

None

Item 5. Other Information.

On May 24, 2010, Security National Life completed a stock purchase transaction with American Life and Security Corporation (“American Life”), a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the stock purchase agreement, American Life paid Security National Life, at closing, purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of \$1,692,576, plus additional consideration in the amount of \$105,000 for a total of \$1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate the Capital Reserve into Security National Life in the same manner as the liquidation described in Private Letter Ruling 98 47027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue code of 1986, as amended, and other applicable provisions described in such Letter Ruling. American Life did obtain approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, Security National Life entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Security National Life ceded to American Life 100% of a block of deferred annuities in the amount of \$2,678,931 and a block of whole life policies in the amount of \$1,048,134 along with the net due and deferred premiums in the amount of \$12,305, the advance premiums in the amount of \$353, the claims liability in the amount of \$14,486 and the net policy loans in the amount of \$128,487 for the said block of whole life as of January 1, 2010. The total initial consideration of \$3,601,112 cash was wired to Wells Fargo as Custodian of the assets. American Life has control of said assets subject to the terms of the Custodial Agreement. American Life agreed to pay Security National Life an initial ceding commission of \$350,000 and a management fee of \$3,500 per quarter to administer the policies. American Life agreed to indemnify Security National Life 100% for these contracts and risks. The initial term on this agreement shall be for a period of one year from the effective date of this agreement. Subsequent to the one year term, this agreement shall be automatically renewed unless American Life notifies Security National Life of its intention not to renew in writing, no less than one hundred eighty days prior to the expiration of the then current agreement. Each automatic renewal period of this agreement shall be for a term on one year. The accounting and settlement of this agreement will be on a calendar-quarter basis and calculated as per the Reinsurance Agreement.

Item 6. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

See “Table of Contents – Part I – Financial Information” under page 2 above

(a)(2) Financial Statement Schedules

None

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 (12)
- 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 Security National Life Insurance Company, Capital Reserve Life Insurance Company, and the shareholders of Capital Reserve Life Insurance Company (9)
- 10.9 Escrow Agreement among Security National Insurance Company, Capital Reserve Life Insurance Company, the shareholders of Capital Reserve Life Insurance Company, and Mackey Price Thompson & Ostler as Escrow Agent (9)
- 10.10 Reinsurance Agreement between Security National Life Insurance Company and Capital Reserve Life Insurance Company (9)
- 10.11 Stock Purchase Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, and the shareholders of Southern Security Life Insurance Company (10)
- 10.12 Reinsurance Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, and the shareholders of Southern Security Life Insurance Company (11)
- 10.13 Escrow Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, the shareholders of Southern Security Life Insurance Company, and Mackey Price Thompson & Ostler, as escrow agent (12)
- 10.14 Indemnification Agreement among Security National Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (13)
- 10.15 Agreement and Plan of Complete Liquidation of Security National Life Insurance Company of Louisiana into Security National Life Insurance Company (14)
- 10.16 Assumption Reinsurance Agreement between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (14)
- 10.17 Assignment between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (14)
- 10.18 Agreement and Plan of Complete Liquidation of Capital Reserve Life Insurance Company into Security National Life Insurance Company (14)
- 10.19 Assignment between Capital Reserve Life Insurance Company and Security National Life Insurance Company (14)
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on 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, 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 Report on Form 8-K, as filed on January 14, 2008
- (10) Incorporated by reference from Report on Form 8-K, as filed on August 25, 2008
- (11) Incorporated by reference from Report on Form 8-K/A, as filed on September 17, 2008
- (12) Incorporated by reference from Report on Form 8-K, as filed on January 7, 2009
- (13) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
- (14) Incorporated by reference from Report on Form 8-K, as filed on January 12, 2010

(b) Reports on Form 8-K:

Current report on Form 8-K, as filed on July 13, 2010.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION

Registrant

Dated: August 13, 2010

/s/ George R. Quist

George R. Quist

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

Dated: August 13, 2010

/s/ Stephen M. Sill

Stephen M. Sill

Vice President, Treasurer and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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

I, George R. Quist, certify that:

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2010

/s/ George R. Quist
George R. Quist
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

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

I, Stephen M. Sill, certify that:

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2010

/s/ Stephen M. Sill
Stephen M. Sill
Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George R. Quist, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Dated: August 13, 2010

/s/ George R. Quist
George R. Quist
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Dated: August 13, 2010

/s/ Stephen M. Sill
Stephen M. Sill
Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)